



SOUTHERN AGCREDIT
Financial Solutions for Agriculture

2010 Annual Report

December 31, 2010



Part of the Farm Credit System

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LETTER TO STOCKHOLDERS

Dear Stockholder:

I wonder what you think of when you look at the cover photo. Do you see a crop whose rising prices allowed you to grow profit margins as a corn producer? Do you see a crop whose high demand meant rising feed costs and therefore tighter profit margins? Or, do you just see a corn plant and a clear blue sky?

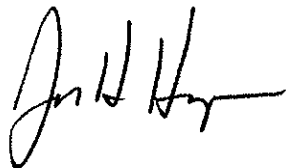
My point is that changes in commodity prices affect all of us differently, depending on our various operations. Our perspective influences what we see. When I look at the cover, I see something different: I see a picture of Southern AgCredit, your lending cooperative.

The soil in which the plant is growing represents the Association's current portfolio of strong assets. This asset base creates a fertile foundation, complete with the necessary nutrients — earnings and capital — from which Southern AgCredit can grow in the future. The furrow in which the plant is growing reminds me that the growth required preparation; in our case, that means maximizing stability and minimizing risk. The plant itself represents the Association's tremendous growth potential. Every day we are reaching for the sky and striving to be the most productive that we can be. It seems like a pretty accurate description of Southern AgCredit to me!

As I reflect on 2010 and introduce you to the enclosed report, I am reminded just how diversified, resilient and progressive our customers-owners are! 2010 will go down in the history books as the year in which Southern AgCredit and Louisiana Ag Credit joined forces. It will also be known as another volatile year for agriculture. However, despite a very challenging economic environment, we still accomplished some significant achievements. Because of the strength of the Association, we were able to add operations in Louisiana and declare a record level of patronage! That says a lot about you, our stockholders. We are fortunate to do business with you and are proud to say "YES...we have a profit-sharing plan for our customer-owners!" That is the Southern AgCredit difference.

On behalf of our entire staff across Mississippi and Louisiana, I assure you that our passion is providing the best agricultural financing in the marketplace. Thank you for all that you do to contribute to the success of your lending cooperative. As always, our lifeblood is the pipeline of new business, so please keep those referrals coming!

Sincerely,



Joe H. Hayman
President & Chief Executive Officer

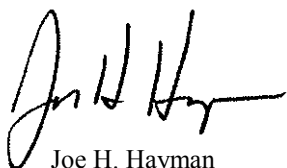
REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, 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.

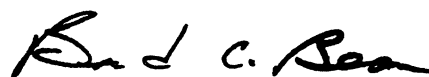
To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are 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 auditors, 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.

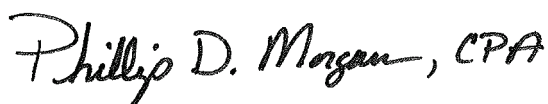
The undersigned certify that this annual report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his knowledge or belief.



Joe H. Hayman
President/Chief Executive Officer
March 4, 2011



Brad C. Bean
Chairman, Board of Directors
March 4, 2011



Philip D. Morgan, CPA, CITP, CISA
Vice President/Chief Financial Officer
March 4, 2011

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of Linda Staniszewski, chairperson, Jack H. Winstead and Emery D. Skelton. In 2010, six (6) committee meetings were held. The committee oversees the scope of Southern AgCredit, ACA'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 Southern AgCredit, ACA's website. The committee approved the appointment of PricewaterhouseCoopers LLP for 2010.

Management is responsible for Southern AgCredit, ACA'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 LLP is responsible for performing an independent audit of Southern AgCredit, ACA'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 Southern AgCredit, ACA's audited consolidated financial statements for the year ended December 31, 2010 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance), and both PricewaterhouseCoopers LLP's and Southern AgCredit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PricewaterhouseCoopers LLP its independence from Southern AgCredit, ACA. The committee also reviewed the non-audit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PricewaterhouseCoopers LLP 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 Southern AgCredit, ACA's Annual Report to Stockholders for the year ended December 31, 2010.

Audit Committee Members

Linda S. Staniszewski, CPA
Jack H. Winstead
Emery D. Skelton

March 4, 2011

SOUTHERN AGCREDIT, ACA

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

	2010	2009	2008	2007	2006
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 4	\$ 176	\$ 1,792	\$ 1,795	\$ 415
Investments	30,027	-	-	-	-
Loans	658,993	602,834	529,735	488,197	446,167
Less: allowance for loan losses	2,724	3,502	2,558	586	302
Net loans	656,269	599,332	527,177	487,611	445,865
Investment in and receivable from the bank	16,466	11,030	9,138	8,139	7,426
Other property owned, net	10,955	549	116	-	-
Other assets	11,629	8,680	9,255	9,849	8,163
Total assets	<u>\$ 725,350</u>	<u>\$ 619,767</u>	<u>\$ 547,478</u>	<u>\$ 507,394</u>	<u>\$ 461,869</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 11,822	\$ 5,932	\$ 6,763	\$ 3,333	\$ 3,399
Obligations with maturities greater than one year	613,557	532,688	464,241	430,371	386,861
Total liabilities	<u>625,379</u>	<u>538,620</u>	<u>471,004</u>	<u>433,704</u>	<u>390,260</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	3,458	2,495	2,406	2,316	2,192
Additional paid-in capital	10,311	-	-	-	-
Allocated retained earnings	12,801	4,711	-	-	-
Unallocated retained earnings	73,313	73,313	73,415	70,616	69,417
Accumulated other comprehensive income	88	628	653	758	-
Total members' equity	99,971	81,147	76,474	73,690	71,609
Total liabilities and members' equity	<u>\$ 725,350</u>	<u>\$ 619,767</u>	<u>\$ 547,478</u>	<u>\$ 507,394</u>	<u>\$ 461,869</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 15,775	\$ 14,354	\$ 13,018	\$ 13,406	\$ 12,722
(Provision for loan losses) or loan loss reversal	(650)	(1,423)	(2,950)	(6,106)	(148)
Income from the bank	3,326	2,248	1,832	1,741	1,609
Other noninterest income	1,186	1,277	1,422	1,174	1,313
Noninterest expense	(8,079)	(9,179)	(8,010)	(6,706)	(6,834)
Net income	<u>\$ 11,558</u>	<u>\$ 7,277</u>	<u>\$ 5,312</u>	<u>\$ 3,509</u>	<u>\$ 8,662</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	1.8%	1.3%	1.0%	0.7%	1.9%
Return on average members' equity	13.0%	9.3%	7.0%	4.8%	12.5%
Net interest income as a percentage of average earning assets	2.6%	2.6%	2.5%	2.9%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	0.2%	0.1%	0.2%	1.3%	0.0%

SOUTHERN AGCREDIT, 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>
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	13.8%	13.1%	14.0%	14.5%	15.5%
Debt as a percentage of members' equity	625.6%	663.8%	615.9%	588.5%	545.0%
Allowance for loan losses as a percentage of loans	0.4%	0.6%	0.5%	0.1%	0.1%
Permanent capital ratio	13.6%	12.9%	13.2%	13.0%	13.8%
Core surplus ratio	13.1%	12.5%	12.8%	12.5%	13.3%
Total surplus ratio	13.1%	12.5%	12.8%	12.5%	13.3%
<u>Net Income Distribution</u>					
Cash patronage paid	\$ 2,529	\$ 2,632	\$ -	\$ • 2,310	\$ 3,000
Cash patronage declared	3,468	2,668	2,500	2,310	3,000

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 Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (collectively the 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:

Effective December 1, 2010, Southern AgCredit, ACA merged with Louisiana Ag Credit, ACA through a business acquisition in accordance with authoritative accounting guidance. The acquisition completes an agreement of merger entered and agreed to by the boards of directors for both associations on August 1, 2009. Louisiana Ag Credit, ACA was previously headquartered in Arcadia, Louisiana, and served a territory including eleven (11) parishes in northwest Louisiana. Although the acquired territory is not contiguous with the Association's existing territory, the types of loans and commodities financed by Louisiana Ag Credit, ACA are very similar to those of the Association's. The Association's board of directors and management feel this acquisition has provided the Association with an opportunity to diversify its existing loan portfolio, strengthen capital position through higher earnings, increase its market share of agriculture financing and extend an overall improved quality of farm credit lending to its Louisiana stockholders.

In December 2010, the Association received a direct loan patronage of \$2,961,930 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 \$255,993 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 \$108,392 from the Bank, representing 65 basis points on the Association's average balance of participations in the Bank's patronage pool program.

On November 24, 2008, the Association stockholders approved the establishment of a Production Credit Association (PCA) and an Agriculture Credit Association (ACA) holding company. The PCA operates as a wholly-owned subsidiary of the ACA and will allow the Association an opportunity to provide short-term lending. Equity ownership in the existing Land Bank South, FLCA was transferred to the ACA and carries the name Southern AgCredit, FLCA (FLCA). This change in corporate structure became effective January 1, 2009.

The Association continues 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 one to 40 years, with annual operating 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 payment 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 of \$658,992,814, \$602,834,403 and \$529,734,802 as of December 31, 2010, 2009 and 2008, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

The Association did not hold any loans under the Rural America Bond Program at December 31, 2010 and 2009. In the fourth quarter of 2008, the Association recognized the nonperformance of one loan within the Rural America Bond Program. The balance of \$1,358,901 net of a charge-off of \$977,589 was moved to nonaccrual along with the establishment of \$15,000 in specific reserve. The net balance was liquidated and the remaining specific reserve charged off in January 2009.

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 \$45,124,580, \$39,313,185 and \$28,366,869, or 6.8 percent, 6.5 percent and 5.4 percent of loans, respectively. Included in these amounts for 2010 and 2009 are participations purchased from entities outside the district of \$3,365,856 and \$2,387,293, or 0.5 percent and 0.4 percent of loans, respectively. The Association held no loans purchased outside the district as of December 31, 2008. The Association has also sold participations of \$39,237,577, \$32,682,909 and \$42,173,775 as of December 31, 2010, 2009 and 2008, respectively.

In the third quarter of 2010, the Association placed an additional \$22,407,332 of loan volume with the Federal Agricultural Mortgage Corporation's (Farmer Mac) Long-Term Standby Commitment to Purchase Agreement. The agreement provides for a guarantee from Farmer Mac limiting the loss exposure on the loans included in the agreement. The loans included in the agreement remain as loan assets for the Association and are solely serviced by the Association.

During 2010, the Association exchanged loans totaling \$35,192,440 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions since the loans were at a market rate, guaranteed by Farmer Mac, and the servicing fee adequately compensates the Association for the cost to service the loans. These AMBS are included in the Association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$30,027,074 at December 31, 2010. The Association continues to service the loans included in those transactions.

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	\$ 18,121,092	62.3%	\$ 23,838,582	97.8%	\$ 18,393,248	99.4%
90 days past due and still accruing interest	-	0.0%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Other property owned, net	10,955,118	37.7%	548,591	2.2%	116,357	0.6%
Total	\$ 29,076,210	100.0%	\$ 24,387,173	100.0%	\$ 18,509,605	100.0%

At December 31, 2010, 2009 and 2008, loans that were considered impaired were \$18,121,092, \$23,838,582 and \$18,393,248, representing 2.7 percent, 4.0 percent and 3.5 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The decrease in nonaccrual loans for the 12 months ended December 31, 2010 is primarily due to the partial foreclosure in the amount of \$11,145,692 of a large complex of loans to several borrowers early in the first quarter of 2010. These loans were originated in 2006 and were recognized as not performing and moved to nonaccrual in the first quarter of 2008. The loans carried an established specific reserve of \$1,267,128 at December 31, 2009, subsequently charged against the loan value at foreclosure in 2010. The Association subsequently recognized an increase in acquired property related to the collateral for these loans in the amount of \$10,008,396. In the third quarter of 2010, the Association assumed the balance of one loan included in the above referenced complex of loans and previously participated with other lenders, increasing the nonaccrual balance by \$5,537,673.

The Association is one of 13 associations in the district that participated in loans purchased through the former Capital Markets of the South (CMS) joint venture. The increase in nonaccrual loans for the 12 months ended December 31, 2009 is primarily due to two loans purchased through the CMS group. At December 31, 2009, one loan to an ethanol facility had a remaining nonaccrual balance of \$2,870,729 and a specific reserve balance of \$1,378,944. In the third quarter of 2010, a portion of this ethanol loan was charged off and a balance of \$731,537 moved to acquired property. The loan has a remaining nonaccrual balance of \$1,379,044 as of December 31, 2010. A second loan for real estate and timber investment moved to nonaccrual in the fourth quarter 2009 had a remaining balance of \$2,185,890 as of December 31, 2010.

The increase in nonaccrual loans for the 12 months ended December 31, 2008 is primarily related to one loan to a single group of borrowers not performing and being moved to nonaccrual status during the first quarter of 2008. These loans were primarily foreclosed and collateral acquired in 2010 as presented above. In the fourth quarter of 2008, the Association also recognized the nonperformance of a loan within the Rural America Bond Program. The balance of \$1,358,901 net of a charge-off of \$977,589 was moved to nonaccrual along with the establishment of \$15,000 in specific reserves. The net balance was liquidated and the remaining specific reserve charged off in January 2009. There were no formally restructured loans in 2009, 2008 or 2007.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

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	\$ 2,724,195	\$ 3,502,320	\$ 2,557,906
Allowance for loan losses to total loans	0.4%	0.6%	0.5%
Allowance for loan losses to nonaccrual loans	15.0%	14.7%	13.9%
Allowance for loan losses to impaired loans	15.0%	14.7%	13.9%
Net charge-offs to average loans	0.2%	0.1%	0.2%

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 \$2,724,195, \$3,502,320 and \$2,557,906 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.

Results of Operations:

The Association's net income for the year ended December 31, 2010, was \$11,558,209 as compared to \$7,277,443 for the year ended December 31, 2009, reflecting an increase of \$4,280,766, or 58.8 percent. The Association's net income for the year ended December 31, 2008 was \$5,311,939. Net income increased \$1,965,504, or 37.0 percent, in 2009 versus 2008.

Net interest income for 2010, 2009 and 2008 was \$15,775,423, \$14,354,475 and \$13,017,880, reflecting increases of \$1,420,948, or 9.9 percent, for 2010 versus 2009 and \$1,336,595, or 10.3 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	\$ 583,219,130	\$ 28,069,546	\$ 561,268,796	\$ 29,326,226	\$ 516,610,830	\$ 32,697,367
Investments	28,081,725	1,368,910	-	-	-	-
Total interest-earning assets	611,300,855	29,438,456	561,268,796	29,326,226	516,610,830	32,697,367
Interest-bearing liabilities	537,541,916	13,663,033	494,471,233	14,971,751	453,794,163	19,679,487
Impact of capital	\$ 73,758,939		\$ 66,797,563		\$ 62,816,667	
Net interest income		\$ 15,775,423		\$ 14,354,475		\$ 13,017,880

	Average Yield	Average Yield	Average Yield
Yield on loans	4.81%	5.23%	6.33%
Yield on investments	4.87%	0.00%	0.00%
Total yield on interest-earning assets	4.82%	5.22%	6.33%
Cost of interest-bearing liabilities	2.54%	3.03%	4.34%
Interest rate spread	2.28%	2.19%	1.99%

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 1,146,905	\$ (2,403,585)	\$ (1,256,680)	\$ 2,826,492	\$ (6,197,633)	\$ (3,371,141)
Interest income - investments	-	1,368,910	1,368,910	-	-	-
Total interest income	1,146,905	(1,034,675)	112,230	2,826,492	(6,197,633)	(3,371,141)
Interest expense	1,304,094	(2,612,812)	(1,308,718)	1,764,042	(6,471,778)	(4,707,736)
Net interest income	\$ (157,189)	\$ 1,578,137	\$ 1,420,948	\$ 1,062,450	\$ 274,145	\$ 1,336,595

Interest income increased by \$112,230, or 0.4 percent, compared to 2009, primarily due to an increase in average loan volume offset by a decrease in interest rates. Interest expense for 2010 decreased by \$1,308,718, or 8.7 percent, compared to 2009 due to a decrease in interest rates partially offset by an increase in average interest-bearing liabilities. The interest rate spread increased by 9 basis points to 2.28 percent in 2010 from 2.19 percent in 2009, primarily because of the changes outlined above. The interest rate spread increased by 22 basis points to 2.19 percent in 2009 from 1.99 percent in 2008, due to similar circumstances as outlined above. The Association's interest rate program utilizes a credit-risk-based approach to pricing loan products and allows the Association some flexibility in controlling interest rate spreads. Since the Association relies on the Bank as its funding source, the Association has little control over its cost of funding although volatility in interest-rate risk is limited.

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 \$13,563 and resulted in a negligible impact to interest rate yield. The increase is related to the capitalization of excess loan origination costs over fee income.

Noninterest income for 2010 increased by \$987,100, or 28.0 percent, compared to 2009, due primarily to the increase in Bank patronage and FCSIC reserves offset by the capitalization of loan origination fees. As discussed above, authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010. For loans closed in 2010, the resulting capitalization was \$637,774 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 increased by \$270,921, or 8.3 percent, compared to 2008, due primarily to an increase in patronage income from the Bank. As previously mentioned, the increase in noninterest income for 2010 also included \$543,272 in refund distributions of excess reserves from prior years from the Farm Credit System Insurance Corporation (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.

Provisions for loan losses decreased by \$772,578, or 54.3 percent, compared to 2009, due primarily to the reversal of a provision in 2010 in the amount of \$731,537 recognized on a large ethanol loan moved to nonaccrual in 2009 as discussed above.

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. Operating expenses decreased by \$1,100,140 or 12.0 percent, for 2010 over 2009, due to a decrease in the Association's contribution to the Defined Benefit Pension Plan, the implementation of certain authoritative accounting guidance and a decrease in Insurance Fund premiums. The 2010 contribution to the Defined Benefit Pension Plan decreased by \$663,458 to \$509,814. 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 \$963,290 in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits related to the origination of loans. The \$1,100,140 decrease in operating expenses included a decrease of \$677,776 in premiums to the Insurance Fund, resulting from a decrease in the premium rates from 20 basis points in 2009 to 5 basis points in 2010.

Under the joint management agreement, certain operating expenses related to merger costs were shared with Louisiana Ag Credit, ACA, with allocation based upon the Association's pro rata share if determinable or shared equally. The Association's shared operating expenses were \$126,886 and \$2,601 for 2010 and 2009, respectively.

For the year ended December 31, 2010, the Association's return on average assets was 1.8 percent, as compared to 1.3 percent and 1.0 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 13.0 percent, as compared to 9.3 percent and 7.0 percent for the years ended December 31, 2009 and 2008, respectively. The increase in 2010 over 2009 is primarily related to the increase in patronage from the Bank, Insurance Fund distribution, the decrease in Insurance Fund premiums, a reduced contribution to the Defined Benefit Pension Plan and the capitalization of loan origination costs related to the implementation of authoritative accounting guidance.

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 \$603,696,554, \$521,500,253 and \$462,603,772 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 2.26 percent, 2.73 percent and 3.97 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 increase in note payable to the Bank and related accrued interest payable since December 31, 2009, is due to the acquisition of Louisiana Ag Credit, ACA and loan growth in 2010. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$75,582,520, \$68,856,028 and \$67,136,834 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was \$681,457,309 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 2010. 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 \$99,971,486, \$81,146,902 and \$76,473,496 at December 31, 2010, 2009 and 2008, respectively. The increase in total members' equity since December 31, 2009, is due primarily to the acquisition of Louisiana Ag Credit, ACA and strong earnings in 2010. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The 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 loss accounts. The Association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 13.6 percent, 12.9 percent and 13.2 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 13.1 percent, 12.5 percent and 12.8 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 13.1 percent, 12.5 percent and 12.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent. The increase in these capital ratios since December 31, 2009, is due primarily to the acquisition of Louisiana Ag Credit, ACA and strong earnings in 2010.

In 2010 and 2009 the Association paid patronage of \$2,528,901 and \$2,631,976. Prior to 2008, the Association declared patronage based on third quarter results and paid patronage in the fourth quarter. However, in 2008, in an effort to more efficiently manage the capital position of the Association, the board declared patronage of \$2,631,976 late in the fourth quarter and paid the patronage in the February of the following year. In December 2010, the board of directors approved a \$3,468,000 patronage distribution to be paid in February 2011. See Note 8 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Prior to the December 1, 2010 acquisition and merger of Louisiana Ag Credit, ACA, the board of Louisiana Ag Credit, ACA declared a final patronage of \$200,000 to its borrowers to be paid in February 2011, based on year-to-date results through November 30, 2010. As a result of the acquisition and merger, the Association assumed the responsibility of disbursing the patronage previously declared by the Louisiana Ag Credit, ACA Board.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 7 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 7 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:

For over 90 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
Southern AgCredit, 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 Southern AgCredit, 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.

As more fully described in Note 2 to the consolidated financial statements, on December 1, 2010, the Association acquired Louisiana Ag Credit, ACA.



March 4, 2011

SOUTHERN AGCREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2010	2009	2008
<u>Assets</u>			
Cash	\$ 4,345	\$ 176,313	\$ 1,792,400
Investments	30,027,074	-	-
Loans	658,992,814	602,834,403	529,734,802
Less: allowance for loan losses	2,724,195	3,502,320	2,557,906
Net loans	656,268,619	599,332,083	527,176,896
Accrued interest receivable	6,087,673	6,371,049	7,154,651
Investment in and receivable from the Bank:			
Capital stock	12,759,590	9,788,415	9,011,295
Other	3,706,559	1,241,416	126,651
Other property owned, net	10,955,118	548,591	116,357
Premises and equipment	4,833,705	1,836,472	1,906,558
Other assets	707,672	473,104	193,278
Total assets	<u>\$ 725,350,355</u>	<u>\$ 619,767,443</u>	<u>\$ 547,478,086</u>
<u>Liabilities</u>			
Note payable to the Bank	\$ 603,696,554	\$ 521,500,253	\$ 462,603,772
Note payable, other	8,670,439	9,994,922	
Advance conditional payments	919,732	-	-
Accrued interest payable	1,190,262	1,192,966	1,637,660
Drafts outstanding	1,467,775	247,831	1,942,594
Patronage distributions payable	3,668,000	2,528,901	2,500,000
Other liabilities	5,766,107	3,155,668	2,320,564
Total liabilities	<u>625,378,869</u>	<u>538,620,541</u>	<u>471,004,590</u>
<u>Members' Equity</u>			
Capital stock and participation certificates	3,457,615	2,494,760	2,405,615
Additional paid-in capital	10,311,491	-	-
Allocated retained earnings	12,800,820	4,710,611	-
Unallocated retained earnings	73,313,295	73,313,295	73,414,922
Accumulated other comprehensive income	88,265	628,236	652,959
Total members' equity	<u>99,971,486</u>	<u>81,146,902</u>	<u>76,473,496</u>
Total liabilities and members' equity	<u>\$ 725,350,355</u>	<u>\$ 619,767,443</u>	<u>\$ 547,478,086</u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2010	2009	2008
<u>Interest Income</u>			
Loans	\$ 28,028,847	\$ 29,326,226	\$ 32,697,367
Investments	1,368,910	-	-
Other	40,699	-	-
Total interest income	<u>29,438,456</u>	<u>29,326,226</u>	<u>32,697,367</u>
<u>Interest Expense</u>			
Note payable to the Bank	13,662,141	14,971,751	19,679,487
Advance conditional payments	892	-	-
Total interest expense	<u>13,663,033</u>	<u>14,971,751</u>	<u>19,679,487</u>
Net interest income	<u>15,775,423</u>	<u>14,354,475</u>	<u>13,017,880</u>
<u>Provision for Loan Losses</u>			
Net interest income after provision for losses	<u>650,320</u>	<u>1,422,898</u>	<u>2,949,623</u>
<u>Noninterest Income</u>			
Income from the Bank:			
Patronage income	3,326,492	2,247,867	1,831,943
Loan fees	356,491	1,076,274	1,247,158
Refunds from Farm Credit System			
Insurance Corporation	543,272	-	-
Financially related services income	171,444	86,794	3,410
Gain on sale of premises and equipment, net	(2,227)	-	65,915
Loss on sale of other property owned, net	(24,204)	-	-
Other noninterest income	140,761	113,994	105,582
Total noninterest income	<u>4,512,029</u>	<u>3,524,929</u>	<u>3,254,008</u>
<u>Noninterest Expenses</u>			
Salaries and employee benefits	4,994,228	5,526,758	4,573,027
Occupancy and equipment	378,642	343,081	302,239
Insurance Fund premiums	301,503	979,279	731,986
Merger-implementation and restructuring costs	126,886	2,601	-
Other noninterest expense	2,277,664	2,327,344	2,403,074
Total noninterest expenses	<u>8,078,923</u>	<u>9,179,063</u>	<u>8,010,326</u>
Income before income taxes	<u>11,558,209</u>	<u>7,277,443</u>	<u>5,311,939</u>
Benefit from income taxes	-	-	-
Net income	<u>\$ 11,558,209</u>	<u>\$ 7,277,443</u>	<u>\$ 5,311,939</u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 2,315,580	\$ -	\$ -	\$ 70,616,524	\$ 758,146	\$ 73,690,250
Adjustment to beginning balance due to the pension accounting change	-	-	-	(13,541)	-	(13,541)
Balance at January 1, 2008	2,315,580	-	-	70,602,983	758,146	73,676,709
Comprehensive income						
Net income	-	-	-	5,311,939	-	5,311,939
Amortization of costs in postretirement benefit plans	-	-	-	-	(105,187)	(105,187)
Total comprehensive income	-	-	-	5,311,939	(105,187)	5,206,752
Capital stock/participation certificates issued	427,125	-	-	-	-	427,125
Capital stock/participation certificates and allocated retained earnings retired	(337,090)	-	-	-	-	(337,090)
Patronage refunds:						
Cash	-	-	-	(2,500,000)	-	(2,500,000)
Balance at December 31, 2008	2,405,615	-	-	73,414,922	652,959	76,473,496
Comprehensive income						
Net income	-	-	-	7,277,443	-	7,277,443
Amortization of costs in postretirement benefit plans	-	-	-	-	(24,723)	(24,723)
Total comprehensive income	-	-	-	7,277,443	(24,723)	7,252,720
Capital stock/participation certificates issued	399,985	-	-	-	-	399,985
Capital stock/participation certificates and allocated retained earnings retired	(310,840)	-	-	-	-	(310,840)
Stock equalization	-	-	-	-	-	-
Patronage refunds:						
Cash	-	-	-	(2,668,459)	-	(2,668,459)
Capital stock/participation certificates and allocated retained earnings	-	-	4,710,611	(4,710,611)	-	-
Balance at December 31, 2009	2,494,760	-	4,710,611	73,313,295	628,236	81,146,902
Comprehensive income						
Net income	-	-	-	11,558,209	-	11,558,209
Amortization of costs in postretirement benefit plans	-	-	-	-	(539,971)	(539,971)
Total comprehensive income	-	-	-	11,558,209	(539,971)	11,018,238
Capital stock/participation certificates issued	1,328,125	-	-	-	-	1,328,125
Capital stock/participation certificates and allocated retained earnings retired	(365,270)	-	-	-	-	(365,270)
Stock equalization	-	-	-	-	-	-
Equity issued or re-characterized upon merger	-	10,311,491	-	-	-	10,311,491
Patronage refunds:						
Cash	-	-	-	(3,468,000)	-	(3,468,000)
Capital stock/participation certificates and allocated retained earnings	-	-	8,090,209	(8,090,209)	-	-
Balance at December 31, 2010	\$ 3,457,615	\$ 10,311,491	\$ 12,800,820	\$ 73,313,295	\$ 88,265	\$ 99,971,486

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 11,558,209	\$ 7,277,443	\$ 5,311,939
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	650,320	1,422,898	2,949,623
Provision for acquired property losses	26,964	5,337	16,029
Income on other property owned, net	(2,760)	-	-
Depreciation	168,547	190,569	180,748
Accretion of yield related to loans acquired in merger	(54,262)		
Loss (gain) on sale of premises and equipment, net	2,227	(781)	(65,915)
Decrease in accrued interest receivable	1,095,009	783,602	1,020,453
(Increase) decrease in other receivables from the Bank	(2,341,541)	(1,114,765)	3,316
Increase in other assets	(176,217)	(279,826)	(27,831)
Decrease in accrued interest payable	(132,596)	(444,694)	(249,549)
Increase in other liabilities	743,584	802,799	148,713
Net cash provided by operating activities	11,537,484	8,642,582	9,287,526
Cash flows from investing activities:			
Increase in loans, net	(35,470,872)	(64,128,411)	(42,648,778)
Cash recoveries of loans previously charged off	616,755	107,677	-
Proceeds from purchase of investment in the Bank	(817,810)	(777,120)	(1,001,950)
Unfunded disbursements acquired in merger	9,995		
Purchases of premises and equipment	(2,308,521)	(163,305)	(1,080,145)
Proceeds from sales of premises and equipment	60,424	43,603	567,058
Proceeds from sales of other property owned	570,678	-	-
Net cash used in investing activities	(37,339,351)	(64,917,556)	(44,163,815)

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31,

	2010	2009	2008
Cash flows from financing activities:			
Net draws on note payable to the Bank	26,539,210	58,896,481	34,120,586
Increase (decrease) in drafts outstanding	1,200,962	(1,694,763)	663,042
Increase in advance conditional payments	367,488	-	-
Issuance of capital stock and participation certificates	416,410	399,985	427,125
Retirement of capital stock and participation certificates	(365,270)	(310,840)	(337,090)
Patronage distributions paid	(2,528,901)	(2,631,976)	-
Net cash provided by financing activities	<u>25,629,899</u>	<u>54,658,887</u>	<u>34,873,663</u>
Net decrease in cash	(171,968)	(1,616,087)	(2,626)
Cash at the beginning of the year	<u>176,313</u>	<u>1,792,400</u>	<u>1,795,026</u>
Cash at the end of the year	<u>\$ 4,345</u>	<u>\$ 176,313</u>	<u>\$ 1,792,400</u>
Supplemental schedule of noncash investing and financing activities:			
Loans exchanged for agricultural mortgage-backed securities	\$ 30,027,074	\$ -	\$ -
Loans transferred to other property owned	10,917,724	437,571	246,357
Loans charged off	2,045,200	586,161	977,589
Patronage distributions declared	3,468,000	2,668,459	2,500,000
Transfer of surplus to additional paid-in-capital related to association merger	10,311,491	-	-
Acquisition-related transactions:			
Cash	(9,995)	-	-
Loans acquired	(65,015,443)	-	-
Accrued interest receivable	(811,633)	-	-
Investment in Farm Credit Bank	(2,276,967)	-	-
Deferred taxes, net	-	-	-
Other property owned, net	(16,000)	-	-
Premises and equipment	(919,911)	-	-
Other assets	58,351	-	-
Note payable to Bank	55,657,091	-	-
Advance conditional payments	552,244	-	-
Accrued interest receivable	129,892	-	-
Drafts outstanding	18,982	-	-
Patronage distributions payable	200,000	-	-
Other liabilities	1,515,102	-	-
Stock	911,715	-	-
Paid-in-capital	10,311,491	-	-
Additional paid-in-capital fair value adjustment	(188,218)	-	-
Supplemental cash information:			
Cash paid during the year for:			
Interest	\$ 13,665,737	\$ 15,416,429	\$ 19,929,036
Income taxes	-	-	-

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

SOUTHERN AGCREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION, MERGER AND OPERATIONS:

A. Organization: Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, 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 Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster, in the state of Louisiana.

B. 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 are collectively referred to as the “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 (1) FLCA and sixteen (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 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.

C. Intra-District Restructurings: Effective December 1, 2010, the Association merged with Louisiana Ag Credit, ACA. The primary reason for the merger was based on a determination that the combined organization would be financially and operationally stronger than either association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

Since the Association operates for the mutual benefit of our customer owners and other customers and not for the benefit of any other equity investors, capital stock provides no significant interest in corporate earnings or growth. Specifically, due to

restrictions in applicable regulations and their bylaws, the associations can issue stock only at its par value of \$5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of stock in one association that were converted to shares of another association had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Management believes that because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring association identified and estimated the acquisition date fair value of the equity interests of the acquired association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. The excess value received, by the acquiring association from the acquired association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed as of date of merger:

	Fair Value
Total assets acquired	\$ 69,108,300
Total liabilities assumed	58,073,311
Net assets acquired	<u>\$ 11,034,989</u>

The assets acquired included gross loans at fair value of \$65,015,443 with a contractual amount of \$69,229,751. As of December 1, 2010, the gross contractual amount of loans not expected to be collected was \$223,643.

- D. 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 Associations' 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 Southern AgCredit, PCA and Southern AgCredit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

- A. Effective December 1, 2010, the Association merged with Louisiana Ag Credit, ACA (Louisiana), a Farm Credit System association within the Farm Credit Bank of Texas district. The primary reason to merge was based on a determination that the combined organization should be financially and operationally stronger than either association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

As the accounting acquirer, the Association accounted for the transaction by using the Association's historical information and accounting policies and adding the identifiable assets and liabilities of Louisiana as of the acquisition date of December 1, 2010 at their respective fair values.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions inapplicable regulations and the bylaws, the associations can issue stock only at its par value of \$5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of Louisiana stock that were converted in the merger and the shares of the Association's stock to which they were converted had identical rights and attributes. For this reason, the conversion of Louisiana stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Louisiana share was converted into one share of the Association's stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Association's stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, The Association undertook a process to identify and estimate the acquisition date fair value of Louisiana's equity interests instead of the acquisition date fair value of the Association's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Louisiana, were measured based on various estimates using assumptions that the Association's management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed from Louisiana as of December 1, 2010:

	<u>Fair Value</u>	<u>Contractual Amount</u>	<u>Contractual Amounts Not Expected to be Collected</u>
Assets			
Loans receivable	\$ 65,015,443	\$ 69,229,751	\$ 223,643
Investments in Farm Credit Institutions	2,153,365		
Property and equipment, net	919,911		
Other assets	1,019,581		
Total Assets	<u>\$ 69,108,300</u>		
Liabilities			
Notes payable	\$ 55,657,091	\$ 55,203,484	\$ -
Interest payable	129,892		
Advance conditional payments	552,244		
Other liabilities	1,734,084		
Total Liabilities	<u>\$ 58,073,311</u>		
Net Assets Acquired	\$ 11,034,989		

The fair value of the impaired loans acquired as of December 31, 2010 is \$942,029. The gross contractual amount of these impaired loans is \$1,630,246. At December 31, 2010, the balance of these impaired loans was \$1,523,140. The amount of accretable yield relating to all loans acquired was \$3,990,665 at December 1, 2010 and \$3,936,403 at December 31, 2010. The amount of non-accretable yield relating to all loans acquired was \$223,643 at December 1, 2010 and December 31, 2010.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2010 and the balances of the Association only as previously presented for December 31, 2009 and 2008. The Consolidated Statement of Income reflects the results of operations for the Association as previously reported for the years 2009 and 2008. For 2010, the Consolidated Statement of Income reflects the results of operations for the Association for the period of January 1 to November 30 and the results of the merged entity for the period of December 1 to December 31. The Consolidated Statement of Changes in Members' Equity reflects the changes in equity for the Association as previously reported for the years 2009 and

2008. For 2010, the Consolidated Statement of Changes in Members' Equity reflects the changes in members' equity for the Association for the period of January 1 to November 30 and the results of the merged entity for the period of December 1 to December 31. The Consolidated Statement of Cash Flows reflects the cash flows for the Association as previously reported for the years 2009 and 2008. For 2010, the Consolidated Statement of Cash Flows reflects the cash flows for the Association for the period of January 1 to November 30 and the results of the merged entity for the period of December 1 to December 31. Information presented in the footnotes to the Consolidated Financial Statements reflects information for the Association as previously reported for 2009 and 2008, while information for 2010 reflects the balances of the merged Association as of December 31, 2010 or, in the case of transactional activity, of the Association for the period of January 1 to November 30 and the merged Association for the period of December 1 to December 31.

The capital position of the Association is measured by regulatory standards issued by the Farm Credit Administration (FCA). At December 31, 2010, the Association's Permanent Capital Ratio, as prescribed by regulation, was 13.6 percent. The impact of the merger on capital was to increase the Permanent Capital Ratio by approximately 27 basis points. Year-end capital ratio is also affected by annual net earnings, patronage dividends, asset size and other factors. There were no regulatory conditions affecting the use of capital as a result of the merger.

- B. 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 public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this standard did not have an impact on the Association's financial condition or results of operations, but did result in additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures 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. The impact of adoption on January 1, 2010, was immaterial to 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 that the impact of adoption on January 1, 2010, was immaterial to the Association's financial condition and results of operations.

- C. 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.
- D. Investment Securities: The Association's investments include mortgage-backed securities issued by Farmer Mac for which the Association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a credit loss). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings.
- E. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 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 \$637,774 in origination fees and \$963,290 in origination costs, primarily salaries and benefits related to the origination of loans. The net adjustment to yield on loans for 2010 was an decrease of \$13,563.

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).

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

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.

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.

- F. Capital Stock Investment in the Bank: The Association’s investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. 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 percent of the Association’s average borrowing from the Bank. This investment is carried at cost plus allocated equities 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.

- G. 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 fair value less estimated selling costs upon acquisition and is 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.
- H. 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.
- I. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower’s access to such funds is restricted, the advance conditional 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. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.

- J. Employee Benefit Plans: Employees of the Association participate in either the district defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan). All eligible employees may 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 eligible pay 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. For the DB Plan, the Association recognized pension costs of \$509,814, \$1,173,272 and \$674,811 for the years ended December 31, 2010, 2009 and 2008, respectively. The Association recognized pension costs for the DC Plan of \$127,687, \$108,833 and \$89,328 for the years ended December 31, 2010, 2009 and 2008, respectively.

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 eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association’s contributions to the 401(k) plan were \$127,195, \$106,837 and \$106,335 for the years ended December 31, 2010, 2009 and 2008, respectively.

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; therefore, the associated liabilities are included in the Association’s consolidated balance sheets in other liabilities. The expenses of the nonqualified plan included in the Association’s employee benefit costs were \$1,622, \$5,096 and \$4,296 for the years ended December 31, 2010, 2009 and 2008, respectively.

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.

- K. 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.

Deferred income taxes have not been provided by the Association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management’s intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash or (2) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. The Bank currently has no plans to distribute unallocated Bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

- L. Patronage Refunds From the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank on an accrual basis.
- M. 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.

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.

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."

- N. 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 — INVESTMENT SECURITIES:

The Association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. Effective September 1, 2010, \$22,407,332 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the exchange transactions since the loans were at a market rate, guaranteed by Farmer Mac, and the servicing fee adequately compensates the Association for the cost to service the loans. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac and for the Association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities as of December 31, 2010:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 30,027,074	\$ -	\$ 604,422	\$ 29,422,652	4.71 %

The Association's Farmer Mac agricultural mortgage-backed securities have a contractual maturity of 5 to 10 years.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage	\$ 581,327,013	88.2%	\$ 568,132,231	94.2%	\$ 518,790,160	98.0%
Production and intermediate term Agribusiness:						
Loans to cooperatives	56,770,704	8.6%	19,572,378	3.3%	1,833,205	0.3%
Processing and marketing	8,124,760	1.2%	4,809,000	0.8%	3,745,107	0.7%
Farm-related business	5,813,093	0.9%	2,514,983	0.4%	1,436,163	0.3%
Rural residential real estate	2,378,138	0.4%	1,953,808	0.3%	1,575,066	0.3%
Communication	3,453,597	0.5%	2,405,904	0.4%	1,764,958	0.3%
Energy	763,269	0.1%	-	0.0%	-	0.0%
International	362,240	0.1%	3,238,725	0.5%	-	0.0%
Total	-	0.0%	207,374	0.1%	590,143	0.1%
	\$ 658,992,814	100.0%	\$ 602,834,403	100.0%	\$ 529,734,802	100.0%

Geographic Distribution:

State	2010	2009	2008
Mississippi	82.90%	88.16%	90.30%
Louisiana	8.27%	0.80%	0.72%
Other States	8.83%	11.04%	8.98%

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.

Operation/Commodity	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Timber	\$ 288,713,465	43.7%	\$ 266,330,534	44.2%	\$ 236,602,429	44.6%
Poultry and eggs	114,874,613	17.4%	92,568,542	15.4%	84,691,969	16.0%
Livestock, except dairy and poultry	100,745,305	15.3%	98,156,814	16.3%	91,286,089	17.2%
Field crops except cash grains	51,763,748	7.9%	54,720,710	9.1%	50,181,407	9.5%
Cash grains	39,411,249	6.0%	36,138,928	6.0%	23,099,567	4.4%
General farms, primarily crops	21,777,634	3.3%	18,010,183	3.0%	9,712,782	1.8%
Warehousing, processing, other	11,009,019	1.7%	11,102,836	1.8%	11,515,187	2.2%
Animal specialties	8,510,406	1.3%	9,792,897	1.6%	10,381,309	2.0%
Farm machinery	7,771,717	1.2%	3,613,529	0.6%	-	0.0%
Dairy	6,596,703	1.0%	4,510,917	0.7%	3,256,598	0.6%
Chemical and allied products	3,917,563	0.6%	6,475,207	1.1%	7,564,667	1.4%
Rural home	3,901,392	0.6%	1,413,306	0.2%	1,442,798	0.3%
Total	\$ 658,992,814	100.0%	\$ 602,834,403	100.0%	\$ 529,734,802	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.

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2010, 2009 and 2008, loans totaling \$21,876,580, \$35,970,371 and \$19,874,705, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$160,874, \$168,547 and \$19,333 in 2010, 2009 and 2008, respectively, and are reflected in "other noninterest expense."

Asset Quality:

	2010	2009	2008
Acceptable	91.6%	94.1%	95.9%
Special mention	4.8%	1.4%	0.7%
Substandard	3.6%	4.5%	3.4%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

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	Percent	Amount	Percent	Amount	Percent
Nonaccrual loans						
Current as to principal and interest	\$ 4,419,256	24.4%	\$ 7,207,945	30.2%	\$ 3,927,902	21.4%
Past due	13,701,836	75.6%	16,630,637	69.8%	14,465,346	78.6%
Total nonaccrual loans	<u>18,121,092</u>	<u>100.0%</u>	<u>23,838,582</u>	<u>100.0%</u>	<u>18,393,248</u>	<u>100.0%</u>
Accrual loans						
90 days or more past due	-	0.0%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Total impaired accrual loans	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Total impaired loans	<u>\$ 18,121,092</u>	<u>100.0%</u>	<u>\$ 23,838,582</u>	<u>100.0%</u>	<u>\$ 18,393,248</u>	<u>100.0%</u>

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

	December 31, 2010	December 31, 2009	December 31, 2008
Nonaccrual loans:			
Real estate mortgage	\$ 17,610,124	\$ 23,838,582	\$ 17,034,347
Production and intermediate-term	496,499	-	-
Agribusiness	14,469	-	1,358,901
Total nonaccrual loans	<u>18,121,092</u>	<u>23,838,582</u>	<u>18,393,248</u>
Other property owned	10,955,118	548,591	116,357
Total nonperforming assets	<u>\$ 29,076,210</u>	<u>\$ 24,387,173</u>	<u>\$ 18,509,605</u>

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Real estate mortgage			
Acceptable	81.20%	88.24%	93.94%
OAEM	4.08%	1.34%	0.74%
Substandard/doubtful	3.05%	4.60%	3.25%
	<u>88.33%</u>	<u>94.17%</u>	<u>97.93%</u>
Production and intermediate term			
Acceptable	7.58%	3.28%	0.35%
OAEM	0.66%	0.01%	0.00%
Substandard/doubtful	0.29%	0.00%	0.00%
	<u>8.53%</u>	<u>3.29%</u>	<u>0.35%</u>
Loans to cooperatives			
Acceptable	1.21%	0.81%	0.00%
OAEM	0.00%	0.00%	0.00%
Substandard/doubtful	0.00%	0.00%	0.00%
	<u>1.21%</u>	<u>0.81%</u>	<u>0.00%</u>
Processing and marketing			
Acceptable	0.47%	0.42%	0.71%
OAEM	0.17%	0.00%	0.00%
Substandard/doubtful	0.24%	0.00%	0.00%
	<u>0.88%</u>	<u>0.42%</u>	<u>0.71%</u>
Farm-related business			
Acceptable	0.36%	0.33%	0.01%
OAEM	0.00%	0.00%	0.00%
Substandard/doubtful	0.00%	0.00%	0.26%
	<u>0.36%</u>	<u>0.33%</u>	<u>0.27%</u>
Energy and water/waste disposal			
Acceptable	0.06%	0.54%	0.30%
OAEM	0.00%	0.00%	0.00%
Substandard/doubtful	0.00%	0.00%	0.00%
	<u>0.06%</u>	<u>0.54%</u>	<u>0.30%</u>
Communication			
Acceptable	0.11%	0.00%	0.00%
OAEM	0.00%	0.00%	0.00%
Substandard/doubtful	0.00%	0.00%	0.00%
	<u>0.11%</u>	<u>0.00%</u>	<u>0.00%</u>
Rural residential real estate			
Acceptable	0.52%	0.40%	0.33%
OAEM	0.00%	0.00%	0.00%
Substandard/doubtful	0.00%	0.00%	0.00%
	<u>0.52%</u>	<u>0.40%</u>	<u>0.33%</u>
International			
Acceptable	0.00%	0.03%	0.11%
OAEM	0.00%	0.00%	0.00%
Substandard/doubtful	0.00%	0.00%	0.00%
	<u>0.00%</u>	<u>0.03%</u>	<u>0.11%</u>
Total Loans			
Acceptable	91.51%	94.05%	95.75%
OAEM	4.91%	1.35%	0.74%
Substandard/doubtful	3.58%	4.60%	3.51%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

The following table provides an age analysis of past due loans as of December 31, 2010:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 1,843,716	\$ 13,486,898	\$ 15,330,614	\$ 565,996,399	\$ 581,327,013
Production and intermediate-term	1,029,306	91,688	1,120,994	55,649,710	56,770,704
Loans to cooperatives	-	-	-	8,124,760	8,124,760
Processing and marketing	-	-	-	5,813,093	5,813,093
Farm-related business	-	-	-	2,378,138	2,378,138
Communication	-	-	-	763,269	763,269
Energy and water/waste disposal	-	-	-	362,240	362,240
Rural residential real estate	3,331	-	3,331	3,450,266	3,453,597
Total	\$ 2,876,353	\$ 13,578,586	\$ 16,454,939	\$ 642,537,875	\$ 658,992,814

The Association had no loans greater than 90 days past due and accruing interest as of December 31, 2010.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2010	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 3,648,799	\$ 3,709,232	\$ 1,768,424	\$ 2,648,957	\$ -
Total	\$ 3,648,799	\$ 3,709,232	\$ 1,768,424	\$ 2,648,957	\$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 13,960,408	\$ 14,004,657	\$ -	\$ 12,966,768	\$ 159,351
Production and intermediate-term	497,416	501,168	-	487,677	-
Farm-related business	14,469	14,469	-	10,047	-
Total	\$ 14,472,293	\$ 14,520,294	\$ -	\$ 13,464,492	\$ 159,351
Total impaired loans:					
Real estate mortgage	\$ 17,610,124	\$ 17,713,889	\$ 1,768,424	\$ 15,615,725	\$ 159,351
Production and intermediate-term	496,499	501,168	-	487,677	-
Farm-related business	14,469	14,469	-	10,047	-
Total	\$ 18,121,092	\$ 18,229,526	\$ 1,768,424	\$ 16,113,450	\$ 159,351

^a Unpaid principal balance represents the recorded principal balance of the loan.

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	\$ 159,351	\$ 531,550	\$ 461,359
Interest income recognized on impaired accrual loans	-	-	-
Interest income recognized on impaired loans	\$ 159,351	\$ 531,550	\$ 461,359

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	\$ 3,502,320	\$ 2,557,906	\$ 585,872
Charge-offs:			
Production agriculture:			
Real estate mortgage	(2,045,200)	(570,620)	-
Farm-related business	-	(15,541)	(977,589)
Total charge-offs	<u>\$ (2,045,200)</u>	<u>\$ (586,161)</u>	<u>\$ (977,589)</u>
Recoveries:			
Production agriculture:			
Real estate mortgage	\$ 616,755	\$ 107,677	\$ -
Total recoveries	<u>616,755</u>	<u>107,677</u>	<u>-</u>
Net charge-offs (recoveries)	<u>(1,428,445)</u>	<u>(478,484)</u>	<u>(977,589)</u>
Loan loss (reversal) or provision for loan losses	<u>650,320</u>	<u>1,422,898</u>	<u>2,949,623</u>
Balance at end of year	<u><u>\$ 2,724,195</u></u>	<u><u>\$ 3,502,320</u></u>	<u><u>\$ 2,557,906</u></u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.24%	0.09%	0.19%

The following table presents information concerning impaired loans as of December 31:

	2010	2009	2008
Impaired loans with related allowance	\$ 3,648,799	\$ 14,656,177	\$ 11,168,933
Impaired loans with no related allowance	<u>14,472,293</u>	<u>9,182,405</u>	<u>7,224,315</u>
Total impaired loans	<u><u>\$ 18,121,092</u></u>	<u><u>\$ 23,838,582</u></u>	<u><u>\$ 18,393,248</u></u>
Allowance on impaired loans	<u><u>\$ 1,768,424</u></u>	<u><u>\$ 2,990,167</u></u>	<u><u>\$ 1,609,816</u></u>
Average impaired loans	<u><u>\$ 16,113,450</u></u>	<u><u>\$ 17,638,942</u></u>	<u><u>\$ 14,205,328</u></u>

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

	2010	2009	2008
Interest income which would have been recognized under the original terms	\$ 688,936	\$ 1,645,266	\$ 2,503,004
Less: interest income recognized	<u>(159,351)</u>	<u>(531,550)</u>	<u>(461,359)</u>
Foregone interest income	<u><u>\$ 529,585</u></u>	<u><u>\$ 1,113,716</u></u>	<u><u>\$ 2,041,645</u></u>

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding are as follows:

	Real estate mortgage	Production and intermediate- term	Agribusiness	Energy and water/waste disposal	Rural residential real estate	Total
Allowance for Credit Losses:						
Balance at						
December 31, 2009	\$ 3,487,523	\$ 10,300	\$ 1,262	\$ 1,330	\$ 1,905	\$ 3,502,320
Charge-offs	(2,045,200)	-	-	-	-	(2,045,200)
Recoveries	616,755	-	-	-	-	616,755
Provision for loan losses	491,022	52,617	104,346	(1,330)	3,665	650,320
Adjustment due to merger	-	-	-	-	-	-
Other	-	-	-	-	-	-
Balance at						
December 31, 2010	<u>\$ 2,550,100</u>	<u>\$ 62,917</u>	<u>\$ 105,608</u>	<u>\$ -</u>	<u>\$ 5,570</u>	<u>\$ 2,724,195</u>
Ending balance: loans individually evaluated for impairment	<u>\$ 1,768,424</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,768,424</u>
Ending balance: loans collectively evaluated for impairment	<u>\$ 1,070,449</u>	<u>\$ 62,917</u>	<u>\$ 105,608</u>	<u>\$ -</u>	<u>\$ 5,570</u>	<u>\$ 1,244,544</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Recorded Investments in Loans Outstanding:						
Ending balance at						
December 31, 2010	<u>\$581,327,013</u>	<u>\$ 56,770,704</u>	<u>\$17,441,500</u>	<u>\$ -</u>	<u>\$ 3,453,597</u>	<u>\$658,992,814</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 17,610,124</u>	<u>\$ 496,499</u>	<u>\$ 14,469</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,121,092</u>
Ending balance for loans collectively evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance for loans acquired with deteriorated credit quality	<u>\$ 440,420</u>	<u>\$ 497,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 937,836</u>

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2010	2009	2008
Land and improvements	\$ 1,069,960	\$ 295,187	\$ 295,187
Building and improvements	3,188,765	1,191,814	1,189,036
Furniture and equipment	595,597	407,907	383,041
Computer equipment and software	262,445	215,119	160,629
Automobiles	607,065	570,200	571,667
Construction in progress	9,370	-	-
	<u>5,733,202</u>	<u>2,680,227</u>	<u>2,599,560</u>
Accumulated depreciation	<u>(899,497)</u>	<u>(843,755)</u>	<u>(693,002)</u>
Total	<u>\$ 4,833,705</u>	<u>\$ 1,836,472</u>	<u>\$ 1,906,558</u>

The Association leases office space in Brookhaven, Greenville, Greenwood, Grenada and Lucedale, Mississippi. The Association also has various other leases for small equipment and storage. Lease expense was \$75,424, \$140,175 and \$126,793 for 2010, 2009 and 2008, respectively. Minimum annual lease payments for the next five years are as follows:

	<u>Operating</u>
2011	\$ 80,261
2012	43,142
2013	15,894
Thereafter	-
Total	<u>\$ 139,297</u>

NOTE 6 – 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 (loss) on sale, net	\$ 70,443	\$ -	\$ (10,000)
Carrying value adjustments	(26,964)	-	-
Operating income (expense), net	(67,683)	(5,337)	(6,029)
Net gain (loss) on other property owned	<u>\$ (24,204)</u>	<u>\$ (5,337)</u>	<u>\$ (16,029)</u>

NOTE 7 — 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 \$603,696,554 at 2.26 percent, \$521,500,253 at 2.73 percent and \$462,603,772 at 3.97 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 \$681,457,309, 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 8 — MEMBERS’ EQUITY:

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

Capital Stock

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. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to

October 6, 1988. 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 the 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) is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. 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 11 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, Class C 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.

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:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Class A stock	680,164	494,996	478,690
Participation certificates	11,359	3,956	2,433
Total	<u>691,523</u>	<u>498,952</u>	<u>481,123</u>

Dividends and Patronage

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:

<u>Date Declared</u>	<u>Date Paid or Payable</u>	<u>Patronage</u>
December 2010	February 2011	\$3,468,000
December 2009	February 2010	\$2,528,901
February 2009	February 2009	\$ 131,965
December 2008	February 2009	\$2,500,000

Additional Paid In Capital

As a result of the merger, the Association recognized \$10,311,491 in additional paid in capital (APIC). The APIC represents the excess value received over the par value of capital stock and participation certificates issued and arose from the issuance of the Association's capital stock and participation certificates in connection with the acquisition of Louisiana Ag Credit, ACA.

Capital Adequacy

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 13.6 percent, 13.1 percent and 13.1 percent, respectively.

The Association's board of directors has established Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institutions capital adequacy goals as well as the minimum permanent capital standard. The Plan monitors projected dividends, patronage distribution equity retirements and other actions that may decrease the Association's permanent capital, in addition to factors that must be considered in meeting the 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 and the lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance sheet liabilities other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

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.

NOTE 9 — INCOME TAXES:

The provision for (benefit from) income taxes follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current:			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Total current	<u>-</u>	<u>-</u>	<u>-</u>
Deferred:			
Federal	-	-	-
State	-	-	-
Total deferred	<u>-</u>	<u>-</u>	<u>-</u>
Total provision for (benefit from) income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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	\$ 3,932,674	\$ 2,474,331	\$ -
State tax, net	-	-	-
Effect of nontaxable FLCA subsidiary	(4,077,634)	(2,805,183)	-
Change in valuation allowance	264,875	320,875	-
Premium on direct note	(154,226)	-	-
Discount on acquired loans	(209,297)	-	-
Net operating loss acquired	(109,965)	-	-
Deferred tax liability acquired	345,035	-	-
Other	8,538	9,977	-
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	\$ 22,175	\$ 3,502	\$ -
Discount on acquired loans	209,297	-	-
Premium on direct note	154,226	-	-
Loss carryforwards	548,452	317,373	-
Gross deferred tax assets	<u>934,150</u>	<u>320,875</u>	<u>-</u>
Deferred tax asset valuation allowance	<u>(585,750)</u>	<u>(320,875)</u>	<u>-</u>
<u>Deferred Tax Liabilities</u>			
Loan fees net of deferred cost	(3,365)	-	-
Investment in bank stock redemption	<u>(345,035)</u>	<u>-</u>	<u>-</u>
Gross deferred tax liabilities	<u>(348,400)</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 carry-forward of \$1,613,096 available to offset against future taxable income that will expire in 2030.

The Association recorded valuation allowances of \$585,750 and \$320,875 during 2010 and 2009, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

NOTE 10 — EMPLOYEE BENEFIT PLANS:

Employee Retirement 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. These plans are described more fully in section G of Note 2, “Summary of Significant Accounting Policies.”

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.

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 \$13,541, net of taxes and increased the pension and other postretirement benefit liabilities by \$13,541.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2010	2009	2008
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 2,559,948	\$ 1,178,838	\$ 1,030,719
Service cost	58,473	36,983	41,561
Interest cost	153,043	73,547	82,814
Plan participants' contributions	-	9,455	4,703
Plan amendments	295,267	-	-
Special termination benefits	28,587	-	-
Actuarial loss (gain)	(126,884)	(39,473)	48,519
Benefits paid	-	(39,673)	(29,478)
Accumulated postretirement benefit obligation, end of year	\$ 2,968,434	\$ 1,219,677	\$ 1,178,838
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	98,297	30,218	24,775
Plan participants' contributions	28,587	9,455	4,703
Benefits paid	(126,884)	(39,673)	(29,478)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (2,968,434)	\$ (1,219,677)	\$ (1,178,838)
Amounts Recognized in Statement of Financial Position			
Other liabilities	\$ (2,968,434)	\$ (1,219,677)	\$ (1,178,838)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	-	(339,244)	(318,918)
Prior service cost (credit)	(277,435)	(288,992)	(334,041)
Net transition obligation (asset)	189,170	-	-
Total	(88,265)	(628,236)	(652,959)
Additional Information			
Increase in minimum liability included in other comprehensive income	\$ 351,753	\$ 24,723	\$ 105,187
Weighted-Average Assumptions Used to Determine Obligations at Year-end			
Measurement date	5.70%	12/31/2009	12/31/2008
Discount rate	7.5%/6.5%	6.05%	6.30%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	10.00%	8.0%/7.0%	8.5%/6.25%
Health care cost trend rate assumed for next year - Rx	5.00%	10.50%	12.00%
Ultimate health care cost trend rate	2017	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	12/31/2010	2017	2015

Total Cost	2010	2009	2008
Service cost	\$ 58,473	\$ 36,983	\$ 33,249
Interest cost	153,043	73,547	66,251
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(43,845)	(45,049)	(45,983)
Unrecognized net loss (gain)	(12,641)	(19,146)	649
Net postretirement benefit cost	155,030	46,335	54,166
Adjustment to retained earnings for 2008 due to change in measurement date	N/A	N/A	\$ -
Accounting for settlements/curtailments/special termination benefits	\$ -	\$ -	\$ -
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	\$ 295,267	\$ (39,473)	\$ 48,519
Amortization of net actuarial loss (gain)	12,641	19,147	(811)
Prior service cost (credit)	-	-	-
Amortization of prior service cost	-	-	-
Recognition of prior service cost	43,845	45,049	57,479
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 351,753	\$ 24,723	\$ 105,187
AOCI Amounts Expected to be Amortized into Expense in 2011			
Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(41,125)	(45,049)	45,049
Unrecognized net loss (gain)	11,685	(20,932)	19,146
Total	\$ (29,440)	\$ (65,981)	\$ 64,195
Weighted-Average Assumptions Used to Determine Benefit Cost			
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	\$ 105,080
Fiscal 2012	126,537
Fiscal 2013	137,349
Fiscal 2014	155,252
Fiscal 2015	166,224
Fiscal 2016–2020	895,138

Expected Contributions

Fiscal 2011	\$ 105,080
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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 \$15,442,174, \$10,041,317 and \$12,034,103 at December 31, 2010, 2009 and 2008, respectively. During 2010, \$9,133,585 of new loans were made and repayments totaled \$5,244,873. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectability.

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 \$820,272, \$586,529 and \$715,133 in 2010, 2009 and 2008, respectively.

The Association received patronage payments from the Bank totaling \$3,326,492, \$2,247,867 and \$1,831,943 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, "Summary of Significant Accounting Policies," for additional information.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2010, and December 31, 2009, for each of the fair value hierarchy values are summarized below:

December 31, 2010	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale*	\$ -	\$ -	\$ -	\$ -
Assets held in non-qualified benefit trusts	55,804	-	-	55,804
Total assets	55,804	-	-	55,804
Liabilities:				
Standby letters of credit		-	-	-
Total liabilities	\$ -	\$ -	\$ -	\$ -
December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale*	\$ -	\$ -	\$ -	\$ -
Assets held in non-qualified benefit trusts	28,076	-	-	28,076
Total assets	28,076	-	-	28,076
Liabilities:				
Standby letters of credit	-	-	-	-
Total liabilities	\$ -	\$ -	\$ -	\$ -

*Accounting guidance requires that the fair value measurement for investments be broken out by the different types of investments held.

Assets and liabilities measured at fair value on a nonrecurring basis other than those initially acquired from Louisiana Ag Credit, ACA at December 31, 2010 for each of the fair value hierarchy values are summarized below:

	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans	\$ -	\$ -	\$ 18,121,092	\$ 18,121,092
Other property owned	-	-	10,955,118	10,955,118

Valuation Techniques

As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” 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:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-based securities and certain mortgage-backed securities, including private label-FHA/VA securities and those issued by Farmer Mac.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

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, “Summary of Significant Accounting Policies,” 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.

In the first quarter of 2008, the Association identified several loans to a single group of borrowers as nonperforming and subsequently moved the loans to a nonaccrual status. The Association foreclosed and acquired the collateral in 2010 for all but one of these loans. The net carrying value of the remaining loan at December 31, 2010 was \$8,564,039, and was subsequently foreclosed and collateral acquired in January of 2011. A continuous evaluation of the collateral securing the loan resulted in no specific loss reserve being recognized at December 31, 2010. The collection of prior charge-off amounts and uncollected interest remains in litigation at year end.

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, \$41,856,481 of commitments and \$266,919 of 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.

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	\$ 4,345	\$ 4,345	\$ 176,313	\$ 176,313	\$ 1,792,400	\$ 1,792,400
Investments	30,027,074	29,422,652	-	-	-	-
Loans, net	656,268,619	649,095,026	599,332,083	592,486,462	527,176,896	542,380,677
Assets held in non-qualified benefits trust	55,804	55,804	28,076	28,076	8,486	8,486
Financial liabilities						
Note payable to the Bank	\$ 603,696,554	\$ 594,798,846	\$ 521,500,253	\$ 509,554,434	\$ 462,603,772	\$ 475,945,265

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, Federal Funds Sold and Securities Purchased Under Resale Agreements:

For cash and overnight investments, the carrying amount is a reasonable estimate of fair value. The fair value of term federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. Investment Securities:

Includes available-for-sale investments for liquidity, mission-related and other purposes, as well as held-to-maturity investments. See Note 12, "Fair Value Measurements," for the valuation technique used to determine the fair value of investments.

C. Loans:

Because no active market exists for associations' 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.

D. 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 5.6 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 million. The Bank's earnings were \$168.5 million during 2010.

E. Assets held in nonqualified benefits trusts: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 12, "Fair Value Measurements," the fair value of these assets is quoted net asset values.**F. 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.

G. 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:

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,920	\$ 3,825	\$ 3,863	\$ 4,166	\$ 15,774
(Provision for) reversal of loan losses	(10)	(1,077)	715	(306)	(678)
Noninterest income (expense), net	(1,212)	(305)	(1,036)	(985)	(3,538)
Net income	\$ 2,698	\$ 2,443	\$ 3,542	\$ 2,875	\$ 11,558

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,489	\$ 3,478	\$ 3,652	\$ 3,735	\$ 14,354
(Provision for) reversal of loan losses	(252)	(1,697)	-	526	(1,423)
Noninterest income (expense), net	(1,602)	(1,427)	(1,347)	(1,328)	(5,704)
Net income	\$ 1,635	\$ 354	\$ 2,305	\$ 2,933	\$ 7,227

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,212	\$ 3,288	\$ 3,335	\$ 3,183	\$ 13,018
(Provision for) reversal of loan losses	(1,423)	(81)	(252)	(1,194)	(2,950)
Noninterest income (expense), net	(1,115)	(1,073)	(1,423)	(1,145)	(4,756)
Net income	\$ 674	\$ 2,134	\$ 1,660	\$ 844	\$ 5,312

NOTE 16 — SUBSEQUENT EVENTS:

The associations have evaluated subsequent events through March 4, 2011, which is the date the financial statements were issued or available to be issued.

On January 20, 2011, the Association foreclosed on a large loan to several borrowers originated in 2006. The result of the foreclosure was the acquisition of real estate with a recorded value of \$8,577,222. No additional impairment has been determined as of the financial statement issuance date or at the date of foreclosure. The Association has developed a plan to actively market the total acquired property for disposal over the next two to four years.

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, Merger 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 Southern AgCredit, ACA (Association) serves its 50-county territory in the state of Mississippi and its 11-parish territory in the state of Louisiana through its main administrative and lending office at 402 West Parkway Place, Ridgeland, Mississippi, 39157. Additionally, there are 11 full-time and one part-time branch lending offices located throughout the territory. The Association owns the Mississippi office buildings in Hattiesburg, Newton, Poplarville and Ridgeland, and the Louisiana office buildings in Arcadia, Farmerville and Shreveport, free of debt. The Association leases Mississippi office buildings in Brookhaven, Greenville, Greenwood and Grenada. In 2007, the Association acquired a lot and began construction of a new office building for the Newton, Mississippi branch that was occupied in mid-2008. The former Newton building was sold. In January 2010, the Association acquired a building in Ridgeland, Mississippi that was occupied in August 2010. The Flowood office lease was terminated due to the relocation to Ridgeland.

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 8 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, Merger 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 Association's (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 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. The district's annual and quarterly stockholder reports are also available on its website at 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 Southern AgCredit, ACA, 402 West Parkway Place, Ridgeland, Mississippi 39157 or calling (601) 499-2820. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing dlsouthernagcreditadmin@farmcreditbank.com. The Association's annual stockholder report is available on its website at www.southernagcredit.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 as of December 31, 2010 are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Brad C. Bean	Chairman	1993	2011
Jack H. Winstead	Vice Chairman	1997	2012
Glen Herrin	Director	2009	2012
Clark Carter*	Director	2010	2011
Larry Killebrew	Director	2010	2013
Kevin Rhodes	Director	1998	2013
John Van Bennett	Director	2010	2011
Thomas C. Hall	Director	2010	2011
Charles Allen Eubanks	Director	2007	2013
Emery D. Skelton	Director (Director-Elected)	2001	2013
Linda S. Staniszewski, CPA	Director (Director-Elected)	2005	2011
Joe H. Hayman	Chief Executive Officer	2008	-
Phillip D. Morgan, CPA, CITP, CISA	Chief Financial Officer	2008	-
Ted R. Murkerson	Chief Credit Officer	2008	-
Ken D. Hobart	Chief Appraiser	1989	-
Donald G. Barlow	Senior VP & General Counsel	2003	-
Ben E. Elliott	Vice President Loan Operations	2000	-
W. Glen Sowell	Regional Vice President	1983	-
Gary A. Blair	Branch Manager	1989	-
Andy Noah	Branch Manager	1988	-
Steve Lazenby	Branch Manager	1984	-
Clayton Davis	Branch Manager	1997	-
John Ishee	Assistant VP/Lending	2010	-
Cecil Oliver	Branch Manager	1979	-
Sam Cooper	Branch Manager	1997	-

* Clark Carter was appointed by the Association board of directors to serve the remaining term of James R. Carter, who retired in 2010.

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

Brad C. Bean of Liberty, Mississippi, age 50, owns Bean Holstein Farm, a 260 cow-dairy operation. Production interests include timber, corn, grass and hay. Mr. Bean is a director of the Mississippi American Dairy Association, Amite County Farm Bureau and Amite County Co-op. He is a member of Gillsburg Baptist Church.

Jack H. Winstead of Lawrence, Mississippi, age 73, operates a cattle and timber farm and also works as an environmental/conservation consultant. He retired in 1992 from the USDA Soil Conservation Service (now Natural Resource Conservation Service) as deputy state conservationist. Mr. Winstead is active in numerous organizations. He is chairman of the Mississippi Soil and Water Conservation Commission and president of the board of the Pearl River Valley Water Supply District. He is a member of the Mississippi Commission on Environmental Quality, Keep Mississippi Beautiful and Central Mississippi Market Board (Farmers’ Market). He serves as vice chairman of the board of trustees of East Central Community College and as

past president of the Mississippi Association of Conservation Districts. He is an active member of Clarke-Venable Baptist Church in Decatur.

Glen Herrin of Purvis, Mississippi, age 57, received his B.S. degree in business administration from the University of Southern Mississippi. He is a manager/vice president of Southgate Timber Company in Purvis where he manages 15 employees and approximately 75 contractors in timber/land sales. He was previously employed by the International Paper Company. He is on the Board of Trustees of the MS Forestry Foundation and serves on the board of directors of the Mississippi Forestry Association, Forrest/Lamar CFA, Community Bank for Lamar County and BankCorp South. He served on the governor's Recovery Task Force after Hurricane Katrina. He has been a member of the state implementation committee for Sustainable Forestry Initiative since 1996. He received the Meritorious Service Award in 2004 from the Mississippi Forestry Association. He is married with three children and is a member of Purvis United Methodist Church where he serves on various committees.

William "Clark" Carter of Glen Allan, Mississippi, age 50, is involved with production agriculture through Carter Plantation Limited, with crops consisting of cotton, corn, beans and rice. He is also the manager of Associated Producers and oversees the cotton ginning operations. Mr. Carter is on the board of directors of the Bank of Anguilla. He is a stockholder in CWC Farms, Inc., Cross Bayou Farms, Inc., Carter Brothers Farms, Inc., and Carter Brothers, Inc. He is the owner of WCC Trucking, LLC. He is a partner with Carter Plantation Limited and CCA Properties, LLC. He is past president of Mississippi Cotton Ginners and Southern Cotton Ginners. He is on the board of directors of Issaquena County Farm Bureau and is a commissioner of Deer Creek Drainage District. He is married and has two children. He is a member of First Baptist Church of Rolling Fork. Mr. Carter was appointed by the Association board of directors to serve the remaining term of James R. Carter who retired during 2010.

Larry W. Killebrew of Lexington, Mississippi, age 57, is the owner/manager of Larry Killebrew Farms, a 2,100-acre farming operation consisting of row crops — cotton, corn and soybeans — and cattle. He has been farming for 39 years. Both of his sons are involved in the family business and have loans with the Association. He serves as a director for Holmes County Gin and is a Holmes County FSA director. He is a deacon at Oregon Memorial Church in Lexington, Mississippi.

Kevin Rhodes of Pelahatchie, Mississippi, age 48, owns 245 acres, consisting of a 100-head beef cattle operation and two, six-house poultry farms. He serves as a director on the Rankin County Farm Bureau, the ACL Water Association and the East Rankin Academy School Board. He is a member of Shiloh United Methodist Church where he serves on the Administrative Board and is chairman of the Board of Trustees.

John Van Bennett of Spearsville, Louisiana, age 60, and his family own a 300-acre cattle and timber farm. Mr. Bennett graduated from Louisiana Tech University in 1972 with a B.S. in agriculture education. He retired from Louisiana Ag Credit in 2006 after 30 years of service. Mr. Bennett and his wife publish a monthly agricultural magazine, Ag Trader USA, which has a circulation in North Louisiana, South Arkansas and on the internet at www.agtraderusa.com. Mr. Bennett was elected to serve on the Louisiana Ag Credit, ACA board of directors in 2008. He has been and continues to be active in agricultural and civic organizations. He helped establish Union Cattlemen's Association, Inc. in 1980 and continues to serve on the board. He also serves on the Louisiana Poultry Task Force. He serves as a director of the Union Parish 4-H Foundation Board, Union Parish Farm Bureau, and is on both the Louisiana Farm Bureau Poultry and Livestock Advisory boards. He also serves on the Sparta Ground Water Commission and was recently appointed as a supervisor for the D'Arbonne Soil and Water Conservation District. He is married and has six children. He is a member of Antioch Church of Christ in Spearsville.

Thomas C. Hall of Gloster, Louisiana, age 58, owns a 600-acre farm with 150 head of commercial beef cattle and 92 acres of pine timber. He was previously elected to serve on the board and as board chairman for Louisiana Ag Credit, ACA. He is a former dairy farmer who also manages a family-owned property corporation which includes the development of a residential subdivision and the leasing of family row crop property.

Charles "Allen" Eubanks of Lucedale, Mississippi, age 40, is the owner/operator of Eubanks Produce, Inc., a vegetable growing and shipping operation. His company was started in 1992 upon graduation from Mississippi State University where he majored in agribusiness. He is on the board of directors of George County Co-op, the Society of St. Andrew (a nonprofit food bank network), and Mississippi State FSA Committee. He is an active member of First United Methodist Church in Lucedale where he is a 4-H Club leader.

Emery D. Skelton of Winterville, Mississippi, age 68, owns and operates Huntington Plantation, farming approximately 3,000 acres of cotton, corn and soybeans. Mr. Skelton is active in numerous civic clubs and professional organizations and is an elder in his Presbyterian church.

Linda Staniszewski, CPA, of Hattiesburg, Mississippi, age 66, is a certified public accountant who retired from the University of Southern Mississippi in 2002 where she served many years as an accounting instructor. Mrs. Staniszewski is a member of several professional and academic organizations — the American Institute of Certified Public Accountants, Mississippi Society of Certified Public Accountants, Southeast Chapter of Mississippi Society of CPAs and Phi Kappa Phi Honor Society where she served as treasurer. She holds a bachelor's degree in business administration and a master's degree in professional accountancy from the University of Southern Mississippi. She and her husband are active members of The Church of the Ascension in Hattiesburg, Mississippi.

Joe H. Hayman, President & Chief Executive Officer, of Madison, Mississippi, age 39, has been with the Farm Credit System since 1994. He has worked in various capacities within the System and was most recently the chief operating officer of Texas AgFinance, FCS. He is a graduate of Texas A&M University with a degree in agricultural economics and serves on the Development Council of the TAMU College of Agriculture and Life Sciences. He is married and is a native of Hattiesburg, Mississippi.

Phillip D. Morgan, CPA, CITP, CISA, VP/Chief Financial Officer, of Madison Mississippi, age 37, joined the Association in September 2008. He is a graduate of the University of Southern Mississippi with a bachelor of science and business administration and a master's in professional accountancy. Mr. Morgan was previously employed as a senior manager in public accounting providing audit and consulting services to commercial and primarily Farm Credit System institutions throughout the U.S. Mr. Morgan is a member of numerous professional organizations including state and national public accounting and information technology societies. He and his wife are members of Broadmoor Baptist Church in Madison, Mississippi.

Ted R. Murkerson, SVP/Chief Credit Officer, of Brandon, Mississippi, age 43, began his Farm Credit career in 1998 working for Northwest Florida Farm Credit and later joined Southwest Georgia Farm Credit both within the AgFirst District. He was formerly employed as a relationship manager at the Farm Credit Bank of Texas. Ted joined the Association in June 2008. He is married and attends Pinelake Baptist Church. He is a graduate of Troy State University where he received bachelor's and master's degrees in business administration. He is a native of Bainbridge, Georgia.

Ken D. Hobart, Chief Appraiser, of Holandale, Mississippi, age 47, began working for Farm Credit in 1985 and this Association in 1989. He serves as a regional vice president primarily overseeing the western and delta portions of the Association's territory. He is a graduate of Mississippi State University with a BS degree in ag economics. He is married and a member of First Baptist Church in Greenville, MS. He continues to assist with the family farming operation near Avon, Mississippi.

Donald G. Barlow, Senior VP & General Counsel of Austin, Texas, age 59, began his Farm Credit career in 1989 working for the Farm Credit Bank of Texas in the legal department. In 2003, he joined the Association in a shared arrangement with the Land Bank of North Mississippi, FLCA to serve as senior vice president/general counsel. He is married and a deacon at Highland Park Baptist Church. He is a graduate of Mississippi State University and the Jackson School of Law. He was admitted to the Mississippi Bar in 1979 and the Texas Bar in 1989. He is a native of Tylertown, Mississippi.

Ben Elliott, Vice President Loan Operations, of Pearl, Mississippi, age 33, began employment with the Association in 2000. Ben graduated Auburn University in December 1999, with a degree in business administration – finance. Ben is a native of Poplarville, Mississippi. He and his wife are members of Pinelake Baptist Church in Brandon, Mississippi.

W. Glen Sowell, Regional Vice President, of Ridgeland, Mississippi, age 52, began working for the Land Bank in 1983 and has handled many roles in his Farm Credit career since that time. He has served the Association since 1989 and works as a regional vice president primarily overseeing the eastern portion of the Association's territory and poultry lending. He is a native of Pelahatchie, Mississippi, married, owns and operates a family timber farm and is active in Crossgates United Methodist Church.

Gary A. Blair, Branch Manager, of Brookhaven, Mississippi, age 51, began working for the Land Bank Association of Starkville in 1981 and has worked in many capacities since that time. He has served the Association since 1989 serving for a number of years as a senior vice president focusing on larger credit transactions and marketing. Blair, a 1981 college of agriculture and college of business graduate of Mississippi State University, is a native of Carrollton where he assists with his family timber and cattle farm. He is married and is active in First Baptist Church of Brookhaven.

Andy Noah, Branch Manager, of Greenwood, Mississippi, age 46, is a graduate of Mississippi State University with a degree in agriculture economics. He has 23 years of Farm Credit experience.

Steve Lazenby, Branch Manager, of Hattiesburg, Mississippi, age 51, began employment with Farm Credit in 1984. He is a graduate of the University of Southern Mississippi with a BS degree in business administration. He is married and is active in the Purvis United Methodist Church.

Clayton Davis, Branch Manager, of Greenville, Mississippi, age 28, is a graduate of Mississippi State University with a degree in business administration. He began his farm credit career with the Association in July of 2006.

John Ishee, Assistant VP/Lending, of Newton, Mississippi, age 33, began employment with the Association in June of 2010. He is a graduate of Mississippi State University with a degree in agriculture. John has a career background in both poultry science and investment banking. John and his family serve at Highland Baptist Church in Meridian, Mississippi. He is a native of Quitman, Mississippi.

Cecil Oliver, Branch Manager, of Shreveport, Louisiana, serves as the Association life insurance agent and supervises the crop insurance program in Louisiana. Cecil is a 1977 graduate of Texas A&M University. He began his farm credit career in 1979 in the Shreveport office.

Sam C. Cooper, Branch Manager, of Arcadia and Farmerville, Louisiana, age 35, began his Farm Credit career in 1997 working for South Louisiana Land Bank. Sam joined the Association in March 2010. He is married and a native of Harrisonburg Louisiana. He is a graduate of University of Louisiana at Lafayette where he received a bachelor's degree in agribusiness.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$1,000 per month, the board chairman at the rate of \$1,667 per month, and the audit committee chairman at the rate of \$2,000 per month. In addition, directors were compensated for their service to the Association in the form of an honorarium at the rate of \$250 per day for director meetings and committee meetings, and a rate of \$150 if committee meetings were the same day as scheduled board meetings. Directors were also reimbursed for certain expenses incurred while representing the Association in an official capacity. 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		Total Compensation in 2010
	Board Meetings	Other Official Activities	
Brad Bean	14	25	\$ 29,900
Jack Winstead	10	20	19,500
Glenn Herrin	11	3	15,500
James Carter	6	-	10,500
Clark Carter	4	-	4,000
Larry Killebrew	7	1	8,000
Kevin Rhodes	12	15	18,750
John Van Bennett	1	-	1,250
Thomas C. Hall	1	-	1,250
Charles Allen EuBanks	11	5	16,000
Emery Skelton	12	17	19,400
Linda Staniszewski	12	19	31,900
Ronnie Kerr	4	3	7,750
			<u>\$ 183,700</u>

The aggregate compensation paid to directors in 2010, 2009 and 2008 was \$183,700, \$190,143 and \$182,500, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

Director	Committee		
	Audit	Compensation	Other Meetings and Committees, if Any
Brad C. Bean	\$ 900	\$ 250	\$ 9,000
Jack H. Winstead	750	-	6,750
Glenn Herrin	-	-	3,500
James R. Carter	-	-	1,500
Clark Carter	-	-	1,000
Larry Killebrew	-	-	2,000
Kevin Rhodes	-	250	6,750
John Van Bennett	-	-	250
Thomas C. Hall	-	-	250
Charles Allen Eubanks	-	250	3,750
Emery D. Skelton	900	-	6,500
Linda S. Staniszewski, CPA	900	-	7,000
Ronald D. Kerr	-	-	1,750
	<u>\$ 3,450</u>	<u>\$ 750</u>	<u>\$ 50,000</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$60,200, \$53,586 and \$51,912 in 2010, 2009 and 2008, respectively.

COMPENSATION OF SENIOR OFFICERS

Chief Executive Officer (CEO) Compensation Table and Policy

Compensation for the CEO includes a base salary and participation in the Association's Employee Incentive Plan (EIP). The CEO of the Association also participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of the Participating Employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the Administrative Agreement) and their eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing Pension Plan.

The following table summarizes the compensation earned by the CEO of the Association during 2010, 2009 and 2008. The reporting requirement of amount earned is a change from previous reporting requirements to include only compensation paid. The total compensation paid to the CEO for 2010, 2009 and 2008 was \$325,412, \$234,865 and \$240,682, respectively.

Name of Individual	Year	Salary	Bonus	Change in Pension Value	Deferred/Perquisite	Other*	Total
Joe H. Hayman, CEO	2010	\$ 218,000	\$ 96,875	\$ -	\$ -	\$ 76,099	\$ 390,974
	2009	208,000	31,313	-	-	26,865	266,178
	2008	191,674	32,000	-	-	15,000	238,674

*Amounts in the "Other" column include compensation under the joint management agreement with Louisiana Ag Credit, ACA and moving/relocation expenses. Louisiana Ag Credit, ACA reimbursed the Association for compensation paid to Association employees involved in the daily management of Louisiana Ag Credit, ACA in accordance with the joint management agreement in place for 2010 and 2009.

Compensation of Other Senior Officers

The Association strives to be a progressive employer and desires to attract and retain superior employees to provide quality service at a profit for the benefit of all stockholders. The board of directors believes market based salaries coupled with pay for performance or incentive compensation programs are critical to the success of the Association. It is the desire of the board to provide a comprehensive plan that rewards profitability while insuring the safety and soundness of the institution over a long period

of time. Annually, the Compensation Committee and board obtain market data for similar financial institutions and approve the salary plan for all employees. This includes establishing salary ranges based on each employee's level of responsibility and job description. Base salaries for all employees, including the CEO and senior officers, are determined based upon position, performance and market compensation data.

The following table summarizes the compensation earned by the five highest paid officers of the Association during 2010, 2009 and 2008. The reporting requirement of amount earned is a change from previous reporting requirements to include only compensation paid. The total compensation paid to the five highest paid officers for 2010, 2009 and 2008 was \$984,882, \$697,344 and \$611,241, respectively.

<u>Name of Group</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Deferred/ Perquisite</u>	<u>Other*</u>	<u>Total</u>
Aggregate No. of Highest Paid Officers in Year						
5	2010	\$ 672,338	\$ 325,510	\$ -	\$ 204,746	\$ 1,202,594
5	2009	651,400	107,798	-	45,944	805,142
5	2008	550,073	55,960	-	5,208	611,241

*Amounts in the "Other" column include compensation under the joint management agreement with Louisiana Ag Credit, ACA and moving/relocation expenses. Louisiana Ag Credit, ACA reimbursed the Association for compensation paid to Association employees involved in the daily management of Louisiana Ag Credit, ACA in accordance with the joint management agreement in place for 2010 and 2009.

Employee Incentive Plan (EIP)

Employee bonus amounts are based on an Employee Incentive Plan (Plan) approved by the board of directors and include all full-time employees actively employed on December 31. Association financial goals and objectives are updated and approved by the board of directors at the beginning of each fiscal year. Minimum and target performance levels are established in an effort to incentivize exceptional performance by all employees. Such performance measurements include but are not limited to net income and acceptable credit quality. Employees must receive a satisfactory performance evaluation in order to participate in the Plan. The total bonus pool is established prior to year end by the board of directors, considering the overall performance of the Association. The pool determination also considers the critical success factors outlined in the annual Business Plan approved by the directors. Payment of incentive bonuses are made on the last day of the fiscal year. Any material amendments to the Plan during the year are approved by the directors.

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.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobile for business purposes were reimbursed during 2010 at the IRS-approved rate of 50 cents per mile.

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

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.

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

In November 2007, a senior officer of the Association was terminated. A criminal referral was made as required by FCA statutes and regulations. Otherwise, during the past five years, none of the Association's officers or directors have been involved in legal proceedings that are material to an evaluation of the ability of any person who served as director or senior officer on January 1, 2010 or at any time during the fiscal year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITOR

Audit fees related to the 2010 audit of the Association’s consolidated financial statements amounted to \$45,000 compared to \$35,000 for the 2009 audit. In addition, fees related to the acquisition transaction of Southern AgCredit, ACA amounted to \$42,000.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 4, 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 farmers and ranchers (YBS) 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.

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

The 2002 USDA Census of Agriculture for the Association territory indicates that 4.5 percent of farm operators are “young,” 32.6 percent are “beginning” and 91.1 percent of the farms are “small.” The Association’s 2010 goals for YBS lending are:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	>20%	>10%
Beginning	>45%	>45%
Small	>75%	>60%

The Association’s YBS loans, as a percentage of total loans outstanding on December 31, 2008, 2009 and 2010, respectively, are reflected in the table below for the past three years.

	2008		2009		2010	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
Young	24.56%	18.25%	23.72%	16.19%	22.65%	16.04%
Beginning	53.32%	52.72%	53.04%	50.66%	48.10%	48.36%
Small	82.61%	69.60%	79.96%	65.28%	76.00%	60.50%

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.

	2008		2009		2010	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
Young	23.48%	19.85%	20.50%	11.61%	19.11%	13.63%
Beginning	55.59%	53.78%	47.38%	45.46%	36.20%	40.90%
Small	78.10%	61.47%	65.38%	47.16%	62.63%	42.38%

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.