



Growing With You

2010 Annual Report

December 31, 2010



Part of the Farm Credit System



Alabama Ag Credit's Pledge to Our Borrowers

Alabama Ag Credit pledges to continue to provide superior customer service to all of our borrowers. Our loan specialists and staff understand the needs of recreational property owners, agribusiness, farmers and rural homeowners, because we live and work in the areas we serve.

We also know that agriculture is not an 8 to 5 job. That's why our loan specialists are often out on the road, meeting with our borrowers at their fields, homes or offices. Be assured that if our office hours are not convenient for you we'll go out of our way to meet you at your convenience.

We are committed to making tomorrow better than today, and have a deep appreciation for those who help to preserve rural America.



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Five-Year Summary of Selected Consolidated Financial Data

(unaudited)
(dollars in thousands)

	2010	2009	2008	2007	2006
Balance Sheet Data					
<u>Assets</u>					
Cash	\$ 11	\$ 17	\$ 2,115	\$ 1,251	\$ 1,699
Loans	654,209	637,803	593,982	542,069	500,257
Less: allowance for loan losses	3,598	3,437	960	552	456
Net loans	650,611	634,366	593,022	541,517	499,801
Investment in and receivable from the Bank	11,898	11,721	9,934	9,088	8,047
Other property owned, net	3,168	2,724	263	92	-
Other assets	9,618	10,015	10,069	11,250	10,510
Total assets	<u>\$ 675,306</u>	<u>\$ 658,843</u>	<u>\$ 615,403</u>	<u>\$ 563,198</u>	<u>\$ 520,057</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 9,443	\$ 7,101	\$ 4,594	\$ 2,796	\$ 3,994
Obligations with maturities greater than one year	552,241	546,931	507,997	465,255	425,524
Total liabilities	<u>561,684</u>	<u>554,032</u>	<u>512,591</u>	<u>468,051</u>	<u>429,518</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	3,875	3,661	3,494	3,326	3,151
Unallocated retained earnings	109,811	101,029	99,134	91,539	87,388
Accumulated other comprehensive (loss) income	(64)	121	184	282	-
Total members' equity	<u>113,622</u>	<u>104,811</u>	<u>102,812</u>	<u>95,147</u>	<u>90,539</u>
Total liabilities and members' equity	<u>\$ 675,306</u>	<u>\$ 658,843</u>	<u>\$ 615,403</u>	<u>\$ 563,198</u>	<u>\$ 520,057</u>
Statement of Income Data					
Net interest income	\$ 18,468	\$ 16,797	\$ 15,903	\$ 15,849	\$ 14,865
Provision for loan losses	(2,615)	(3,763)	(560)	(5,397)	(1,020)
Income from the Bank	3,329	2,755	2,191	2,108	1,907
Other noninterest income	1,357	1,294	1,381	1,243	1,293
Noninterest expense	(6,658)	(8,687)	(8,102)	(6,668)	(5,755)
Net income	<u>\$ 13,881</u>	<u>\$ 8,396</u>	<u>\$ 10,813</u>	<u>\$ 7,135</u>	<u>\$ 11,290</u>

Loans in Thousands

2010	654,209
2009	637,803
2008	593,982
2007	542,069
2006	500,257

Credit Quality

2010	96.5%
2009	96.3%
2008	98.1%
2007	99.4%
2006	99.3%

Return on Shareholders' Equity

2010	12.5%
2009	8.1%
2008	11.0%
2007	7.8%
2006	13.4%

	2010	2009	2008	2007	2006
<u>Key Financial Ratios for the Year</u>					
Return on average assets	2.1%	1.3%	1.8%	1.3%	2.3%
Return on average members' equity	12.5%	8.1%	11.0%	7.8%	13.4%
Net interest income as a percentage of average earning assets	2.8%	2.7%	2.8%	3.1%	3.1%
Net charge-offs (recoveries) as a percentage of average loans	0.4%	0.2%	0.0%	1.0%	0.2%
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	16.8%	15.9%	16.7%	16.9%	17.4%
Debt as a percentage of members' equity	494.3%	528.6%	498.6%	491.9%	474.4%
Allowance for loan losses as a percentage of loans	0.5%	0.5%	0.2%	0.1%	0.1%
Permanent capital ratio	16.2%	15.2%	15.9%	15.8%	15.9%
Core surplus ratio	15.6%	14.6%	15.3%	15.2%	15.3%
Total surplus ratio	15.6%	14.6%	15.3%	15.2%	15.3%
Credit quality	96.5%	96.3%	98.1%	99.4%	99.3%
<u>Net Income Distribution</u>					
Patronage refunds:					
Cash	\$3,000	\$3,500	\$3,200	\$3,000	\$1,185

Net Income in Thousands

2010	13,881
2009	8,396
2008	10,813
2007	7,135
2006	11,290

Patronage Distribution in Thousands

2010	3,000
2009	3,500
2008	3,200
2007	3,000
2006	1,185

Permanent Capital Ratio

2010	16.2%
2009	15.2%
2008	15.9%
2007	15.8%
2006	15.9%

Growing Your Money

From Wall Street to Main Street:

Where Your Loan Money Comes From

Alabama Ag Credit is part of the nationwide cooperatively structured Farm Credit System which raises funds by selling bonds to investors on Wall Street. We lend the money that is raised, and as our borrowers repay their loans, we repay the investors.

However, Alabama Ag Credit doesn't have to go straight to Wall Street to sell our own bonds. We get our money directly from a wholesale bank, the Farm Credit Bank of Texas, of which Alabama Ag Credit is a part owner. It is one of five banks in the nationwide Farm Credit System.

All of the banks in the Farm Credit System work through the Federal Farm Credit Banks Funding Corporation, which sells bonds on their behalf. Because the Farm Credit System has such a long history of good performance, the investment community has a lot of faith in us.

Ultimately you, the member-stockholder, reap the benefits of this highly efficient structure.

Our Loan Products:

Recreational Land Loans

Timber Loans

Farm Loans (Operating, Equipment and Livestock)

Rural Home Loans

Agribusiness Loans

Young Beginning and Small Farmer Loans



Our Patronage Program

Record Patronage Declared in 2010!

When Alabama Ag Credit does well financially, you benefit. That's the basic philosophy behind our **ALL CASH** patronage program. Every year the board of directors may choose to return a portion of the cooperative's earnings to our borrowers. This year we had record earnings, with net income of \$13.8 million. In turn the board approved a record patronage of \$5.1 million!

Because we are a cooperative, we are owned by the borrowers we serve, which means every borrower receives part of the earnings.

One of the most important benefits of our **ALL CASH** patronage program is that it lowers the borrower's overall cost of borrowing. Patronage refunds are usually issued by check in the spring following the year in which the patronage was declared by the board of directors.

Total Returned to
Stockholders Since 1996:
\$35,823,878

Referrals Keep Business Growing

At Alabama Ag Credit we recognize that our success depends on you. Our mission is to serve you well by providing the financing and cash management tools you need to be successful. And when you are successful, we are accomplishing our mission.

A good part of our success has been word-of-mouth referrals by customers like you. These referrals are

invaluable in making the Association effective. The more new business we generate, the greater our earnings, and the more we can return in patronage. It's a win-win situation!



Growing Together – A Message From Our Leadership



W. Thomas Dozier, III



Douglas Thiessen

Dear Stockholder:

2010 was a landmark year for Alabama Ag Credit.

Not only did we enter the year with a new name and new lending authorities as an agricultural credit association, but we generated strong earnings, and continued to grow our business during a very challenging year.

As a result of this success, your board of directors approved a record \$5.1 million all-cash patronage distribution based on 2010 earnings to be paid to stockholders in March 2011. We are extremely pleased to be able to continue our long history of returning part of our earnings to our stockholders, and celebrate the strength of our cooperative efforts as we continue to grow together.

In our first year as an agricultural credit association, we broadened our lending scope to offer loans for equipment and operating expenses, while continuing to finance rural real estate, timberland and recreational properties. And, despite the nation's negative economic environment of the past few years, we remain a financially strong and stable lending institution. In 2010 we continued to see loan growth, with an outstanding loan volume of more than \$650 million, and our net income was \$13.8 million. Credit quality was high, at 96.5 percent, and the Association's capital levels remained strong.

We are proud to have been able to fulfill our mission and to further enhance the quality of life for our member-stockholders in rural America and the agricultural community.

On behalf of the board of directors and all Alabama Ag Credit employees, we thank you for your business and for your contribution to the success of the Association. We look forward to growing our business for your benefit in the years to come.

A handwritten signature in black ink that reads "W. Thomas Dozier, III".

W. Thomas Dozier, III
Chairman of the Board

A handwritten signature in black ink that reads "Douglas Thiessen".

Douglas Thiessen
President/Chief Executive Officer

Our Leadership



Board of Directors: Standing: from left to right, Bobby D. Reeder, Ray Petty, Larry H. Gibson, Jr., Timothy D. Tucker and Lyman W. Ramsay, Jr. Seated: from left to right, Vice Chairman James L. Bassett, J.K. Love and Chairman W. Thomas Dozier, III



Senior Management: From left to right, Chief Financial Officer M. Scott Sellers, Regional President J. Scott McCall, Chief Executive Officer Douglas Thiessen, Chief Credit Officer J. Robert Monk and Regional President Ed L. Boyd

REPORT OF MANAGEMENT

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

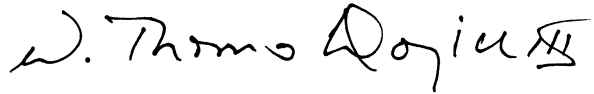
To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are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



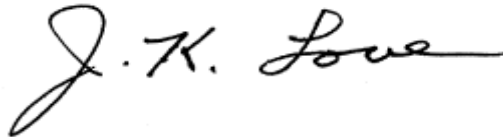
Douglas Thiessen, President/Chief Executive Officer
March 1, 2011



W. Thomas Dozier, III, Chairman, Board of Directors
March 1, 2011



M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
March 1, 2011



J.K. Love, CPA, Chairman, Audit Committee
March 1, 2011

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of four directors of Alabama Ag Credit, ACA (Association). In 2010, six committee meetings, including conference calls, were held. The Committee oversees the scope of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the Association's website at www.AlabamaAgCredit.com. The Committee approved the appointment of PricewaterhouseCoopers LLP as auditors for 2010.

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

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

The Committee discussed with PricewaterhouseCoopers LLP its independence from the Association. The Committee also reviewed the non-audit services provided by PricewaterhouseCoopers 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 the Association's Annual Report to Stockholders for the year ended December 31, 2010.

Audit Committee Members

J.K. Love, CPA, Chairman
James L. Bassett, Vice Chairman
Ray Petty
Timothy Tucker

March 1, 2011

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 financial condition and results of operations of Alabama Ag Credit, ACA (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 consolidated financial statements were prepared under the oversight of the Association's audit committee.

On September 21, 2009, the Association's stockholders approved the establishment of a Production Credit Association (PCA) and an Agricultural Credit Association (ACA) holding company. The PCA operates as a wholly-owned subsidiary of the ACA and allows the Association an opportunity to provide short-term and intermediate-term lending. Equity ownership in the existing Federal Land Bank Association of South Alabama, FLCA was transferred to the ACA. Concurrent with the change in corporate structure, the Association's name changed from Federal Land Bank Association of South Alabama, FLCA, to Alabama Ag Credit, FLCA. Likewise, the new ACA holding company operates under the name Alabama Ag Credit, ACA, and the PCA operates under the name Alabama Ag Credit, PCA. This change in corporate structure was approved by the Farm Credit Administration (FCA) and became effective on January 4, 2010.

The Farm Credit Bank of Texas (Bank) and its related associations (including the Association) are collectively referred to as the Tenth Farm Credit District (District). The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2010, the District consisted of the Bank, one Federal Land Credit Association (FLCA) and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Forward-Looking Information:

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

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

Significant Events:

In March 2010, the Association paid a patronage of \$2,997,911 in cash from 2009 earnings to the Association's stockholders and in December 2010 declared another patronage of \$5,100,000 from 2010 earnings to be paid in March 2011. In December 2010, the Association received a direct loan patronage of \$2,765,061 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 \$299,310 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also during 2010, the Association received a capital markets patronage of \$264,952 from the Bank, representing 65 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

During 2010, an increased number of Association borrowers experienced financial hardships that resulted in an increased number of impaired loans, recognition of increased allowances for loan losses, as well as an increased number of foreclosures compared to 2009 while overall credit quality remained stable during the year. Each of these aspects of the Association's operations is discussed

in more detail in the “Risk Exposure” and “Allowance for Loan Losses” sections below, as well as in Note 3 to the financial statements, “Loans and Allowance for Loan Losses,” included in this annual report.

In April 2009, the Association paid a patronage of \$3,499,991 in cash from 2008 earnings to the Association’s stockholders. In December 2009, the Association received a direct loan patronage of \$2,117,237 from the Bank, representing 40 basis points on the average daily balance of the Association’s direct loan with the Bank. During 2009, the Association received \$302,647 in interest credit patronage payments from the Bank, based on the Association’s stock investment in the Bank. Also, the Association received a capital markets patronage of \$334,959 from the Bank, representing 65 basis points on the year’s average daily balance of participations in capital markets loans with patronage commitments.

On March 19, 2009, a lawsuit brought by the Association against the parties responsible for defrauding it was resolved. The lawsuit was filed as part of collection efforts on a large loan originated through the Capital Markets of the South (CMS) joint venture and participated out to 13 other Farm Credit associations. The loan was subsequently determined to be fraudulent. The original funded balance of the loan was \$68.5 million, of which the Association retained 5.56 percent of the loan. The court rendered judgment in favor of the Association against all parties, jointly and severally, on all counts for \$41,549,236 in actual damages. On April 23, 2009, the court trebled the judgment to \$124,647,710. During 2010 recoveries totaling \$616,754 were recorded related to this judgment; however, no further recoveries are expected and no legal action remains in connection with this case. The CMS joint venture is discussed further in Note 8, “Capital Markets,” to the financial statements included in this annual report.

In April 2008, the Association paid a patronage of \$3,199,944 in cash from 2007 earnings to the Association’s stockholders. In December 2008, the Association received a direct loan patronage of \$1,445,655 from the Bank, representing 30 basis points on the average daily balance of the Association’s direct loan with the Bank. During 2008, the Association received \$379,802 in interest credit patronage payments from the Bank, based on the Association’s stock investment in the Bank. Also, the Association received a capital markets patronage of \$365,171 from the Bank, representing 65 basis points on the year’s average daily balance of participations in capital markets loans with patronage commitments.

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

Loan Portfolio:

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

The Association’s loan portfolio is stated at recorded investment (principal less funds held) and consisted of 4,260 loans at December 31, 2010. Total loan volume as of December 31, 2010, 2009 and 2008 was \$654,208,651, \$637,803,081 and \$593,982,063, respectively. The principal commodities comprising the Association’s loan portfolio are timber, poultry, cattle and field crops. The composition of the Association’s loan portfolio, including borrower profile, geographic distribution, commodity concentrations and asset quality, is described more fully in detailed tables in Note 3 to the financial statements, “Loans and Allowance for Loan Losses,” included in this annual report.

Purchase and Sale 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 \$34,760,541, \$35,365,977 and \$42,061,986, or 5.3 percent, 5.5 percent and 7.1 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$12,789,550, \$17,733,943 and \$20,833,042, or 2.0 percent, 2.8 percent and 3.5 percent of loans, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table illustrates the Association’s components and trends of high-risk assets serviced for the prior three years as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 11,310,269	76.1%	\$ 9,943,379	77.8%	\$ 4,231,385	91.5%
90 days past due and still accruing interest	207,892	1.4%	120,087	0.9%	129,691	2.8%
Formally restructured	183,696	1.2%	-	0.0%	-	0.0%
Other property owned, net	3,167,851	21.3%	2,724,225	21.3%	262,784	5.7%
Total	\$ 14,869,708	100.0%	\$ 12,787,691	100.0%	\$ 4,623,860	100.0%

At December 31, 2010, 2009 and 2008, loans that were considered impaired were \$11,701,857, \$10,063,466 and \$4,361,076, representing 1.8 percent, 1.6 percent and 0.7 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. High-risk assets increased compared to December 31, 2009, due primarily to general economic factors that caused deterioration in a number of loans, which in turn caused the Association to classify them as nonaccrual and/or foreclose and take the collateral in as other property owned, net.

The number of nonaccrual loans increased from 2009 to 2010 due primarily to general adverse economic factors. As of December 31, 2009, 29 loans were classified as nonaccrual, with the average size of approximately \$342,000. However, three large credits comprised 73 percent of the total. By contrast, as of December 31, 2010, 53 loans with an average balance of approximately \$213,000 were classified as nonaccrual. Approximately 30 percent of the total nonaccrual loans was comprised of three large credits.

Other property owned, net increased from eight properties owned as of December 31, 2009 to twelve properties owned as of December 31, 2010 as a result of foreclosures caused by economic deterioration of the borrowers. Of the twelve properties owned, four properties comprise 70 percent of the total outstanding balance of other property owned, net.

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. To help mitigate and diversify credit risk, the Association has employed practices including obtaining credit guarantees and engaging in loan participations. The Association also has the option of securitizing loans if considered prudent to manage risk.

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:

	2010	2009	2008
Allowance for loan losses	\$ 3,597,455	\$ 3,437,322	\$ 959,718
Allowance for loan losses to total loans	0.5%	0.5%	0.2%
Allowance for loan losses to nonaccrual loans	31.8%	34.6%	22.7%
Allowance for loan losses to impaired loans	30.7%	34.2%	22.0%
Net charge-offs to average loans	0.4%	0.2%	0.0%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition (including commodity and geographic concentrations), credit administration and the portfolio's prior loan loss experience. Management conducts quarterly studies of risk factors that could impact the allowance for loan losses, and additional allowances are recognized as considered necessary to reflect potential loss exposures. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$3,597,455, \$3,437,322 and \$959,718 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 \$13,881,060 as compared to \$8,395,713 for the year ended December 31, 2009, reflecting an increase of \$5,485,347, or 65.3 percent. The Association's net income for the year ended December 31, 2008 was \$10,813,307. Net income decreased \$2,417,594, or 22.4 percent, in 2009 versus 2008.

Net interest income for 2010, 2009 and 2008 was \$18,467,885, \$16,797,240 and \$15,903,406, reflecting increases of \$1,670,645, or 10.0 percent, for 2010 versus 2009 and \$893,834, or 5.6 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	\$ 649,211,598	\$ 34,496,512	\$618,157,510	\$33,835,868	\$564,979,253	\$36,934,153
Interest-bearing liabilities	553,002,559	16,028,627	529,381,029	17,038,628	481,967,853	21,030,747
Impact of capital	\$ 96,209,039		\$ 88,776,481		\$ 83,011,400	
Net interest income		\$ 18,467,885		\$16,797,240		\$15,903,406

	2010		2009		2008	
	Average Yield		Average Yield		Average Yield	
Yield on loans	5.31%		5.47%		6.53%	
Cost of interest-bearing liabilities	2.90%		3.22%		4.36%	
Interest rate spread	2.41%		2.26%		2.17%	
Impact of capital	0.43%		0.46%		0.64%	
Net Interest income/ average earning assets	2.84%		2.72%		2.81%	

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income	\$ 1,699,808	\$ (1,039,164)	\$ 660,644	\$ 3,476,422	\$ (6,574,707)	\$ (3,098,285)
Interest expense	760,283	(1,770,284)	(1,010,001)	2,068,874	(6,060,993)	(3,992,119)
Net interest income	\$ 939,525	\$ 731,120	\$ 1,670,645	\$ 1,407,548	\$ (513,714)	\$ 893,834

Interest income increased by \$660,644, or 2.0 percent, compared to 2009, primarily due to an increase in average loan volume despite a decrease in yields on earning assets. Interest expense for 2010 decreased by \$1,010,001, or 5.9 percent, compared to 2009 due to a decrease in the cost of interest-bearing liabilities, offset in part by an increase in the average balance in those interest-bearing liabilities. The interest rate spread increased by 15 basis points to 2.41 percent in 2010 from 2.26 percent in 2009, as a result of continued focus on pricing loans "to market" in a low-rate lending environment. However, the same low rates resulted in decreased cost of funds, which adversely impacted the value added to net interest income by the Association's own funds; hence, the 3-basis-point decrease in impact of capital, from 0.46 percent in 2009 to 0.43 percent in 2010. Loan volume and accordingly, the direct note to the Bank, increased during the reporting period, in spite of volatile financial markets, as a result of increased and focused marketing efforts by the Association and retention of a highly experienced credit staff. 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 \$27,888. From 2008 to 2009, the interest rate spread increased by 9 basis points, from 2.17 percent to 2.26 percent, respectively, as a result of focused efforts to price loans "to market" in a low-rate environment. The declining interest rate environment also contributed to the 18-basis-point decline in earnings from capital, from 0.64 percent to 0.46 percent.

Provision for loan losses decreased in 2010 as compared to 2009. This is partially due to recoveries of \$634,616 recognized during 2010 on loans previously charged off. In addition, even though more charge-offs were incurred in 2010 as compared to 2009, a large portion of the charge-offs was related to specific allowances set up in 2009, and therefore did not impact provisions for 2010.

Noninterest income for 2010 increased by \$703,706, or 17.7 percent, compared to 2009, due primarily to an increase in patronage income received from the Bank coupled with a Farm Credit System Insurance Corporation (FCSIC) distribution and gains

recognized from sales of foreclosed properties. As noted in the “Significant Events” section above, the Bank paid a patronage of 50 basis points on the average daily balance (ADB) of the Association’s direct note to the Bank, which was an increase over the 40-basis-point patronage paid in 2009. This, coupled with a higher direct note ADB in 2010 than in 2009, resulted in increased direct note patronage in 2010. The increase in noninterest income also included \$588,365 in refund distributions of excess reserves from prior years from the FCSIC’s 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. In addition, the Association realized significant gains on the sales of two foreclosed properties in 2010, whereas sales of foreclosed properties in 2009 resulted in net losses. These increases in noninterest income were partially offset by the effect of the implementation in 2010 of the authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs for loans closed in 2010, resulting in the capitalization of \$881,950 in origination fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The FCSIC and the Insurance Fund are discussed further in Note 1 to the consolidated financial statements, “Organization and Operations,” included in this annual report.

Noninterest income for 2009 increased by \$482,592, or 13.5 percent, compared to 2008, due primarily to an increase in patronage income received from the Bank. As noted in the “Significant Events” section above, the Bank paid a patronage of 40 basis points on the average daily balance (ADB) of the Association’s direct note to the Bank, which was an increase over the 30-basis-point patronage paid in 2008 and 2007. This, along with the fact that the ADB of the direct note was higher in 2009 than in 2008, resulted in increased direct note patronage in 2009. The increase in direct note patronage was offset partially by a decrease in the stock credit patronage from the Bank in 2009 as compared to 2008. While the Association’s average equity ownership in the Bank was higher in 2009 than in 2008, the yield on that equity ownership decreased during the year, resulting in a lower stock credit patronage.

Operating expenses consist primarily of salaries and employee benefits, purchased services and Insurance Fund premiums. Operating expenses decreased by \$1,962,291, or 22.8 percent, from 2009 to 2010, primarily due to decreases in salaries and employee benefits and Insurance Fund premiums. Salaries and employee benefits decreased as a result of a large decrease in the required contributions to the Association’s defined benefit pension plan (DB plan) and as a result of the implementation of the 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 in net interest income. The amount of salaries and benefits related to the origination of loans that was capitalized was \$1,226,793. For further detail on the Association’s employee benefit plans, see Note 2, “Summary of Significant Accounting Policies,” and Note 10, “Employee Benefit Plans,” to the consolidated financial statements included in this annual report. Insurance Fund premiums are charged by the FCSIC to the Bank, which then allocates the premiums to its associations on a pro rata basis. In 2010, the FCSIC board of directors voted to reduce the insurance premium assessment rate for Farm Credit System banks on their adjusted insured debt, and consequently less Insurance Fund premiums were allocated to the Association in 2010 compared to 2009. Insurance Fund premiums are discussed further in Note 1 to the consolidated financial statements, “Organization and Operations,” included in this annual report. Purchased services also decreased as legal and consulting fees incurred in 2009 relative to litigation were largely completed in 2009, with only minor “wrap up” activities in 2010.

Operating expenses increased by \$590,367, or 7.3 percent, from 2008 to 2009, primarily due to increases in salaries and employee benefits and Insurance Fund premiums. Salaries and employee benefits increased as a result of a large increase in the required contributions to the DB plan, and also due to normal increases in compensation rates. In 2009, more Insurance Fund premiums were allocated to the Association due to the recognition of a higher level of growth relative to other District associations.

For the year ended December 31, 2010, the Association’s return on average assets (ROA) was 2.1 percent, as compared to 1.3 percent and 1.8 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 (ROE) was 12.5 percent, as compared to 8.1 percent and 11.0 percent for the years ended December 31, 2009 and 2008, respectively. The decreases in the ROA and ROE from 2008 to 2009 were a result of additional charge-offs caused by the deterioration of the economy. However, in 2010 the Association realized an increase of the ROA and ROE ratios as compared to 2009, as a result of the events discussed above: increased net interest income, the additional patronage dollars received from the Bank, the FCSIC distribution, gains that were recognized on the sale of acquired properties, and recoveries realized on loans previously charged off.

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 \$550,975,385, \$545,536,104 and \$506,309,605 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 2.65 percent, 2.99 percent and 3.88 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 general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2009, is due to increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$102,947,977, \$91,973,456 and \$87,672,458 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the Association may borrow from the Bank is recalculated monthly using the formula as defined by the general financing agreement. As of December 31, 2010, the maximum amount the Association could borrow from the Bank was \$654,159,848.

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

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$113,621,989, \$104,811,559 and \$102,811,900 at December 31, 2010, 2009 and 2008, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA.

The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 16.2 percent, 15.2 percent and 15.9 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 15.6 percent, 14.6 percent and 15.3 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 15.6 percent, 14.6 percent and 15.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2010, 2009 and 2008, the Association paid patronage of \$2,997,911, \$3,499,991 and \$3,199,944, respectively, from the previous year's earnings. In December 2010, the board of directors approved a \$5,100,000 patronage distribution from 2010 earnings to be paid in March 2011. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

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

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

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

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

Summary:

Regardless of the state of the agricultural and general economies, your Association's board of directors and management are committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

Report of Independent Auditors

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

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



March 1, 2011

ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2010	2009	2008
<u>Assets</u>			
Cash	\$ 10,550	\$ 16,683	\$ 2,115,315
Loans	654,208,651	637,803,081	593,982,063
Less: allowance for loan losses	3,597,455	3,437,322	959,718
Net loans	650,611,196	634,365,759	593,022,345
Accrued interest receivable	6,751,262	7,738,470	8,069,442
Investment in and receivable from the Bank:			
Capital stock	11,050,455	10,512,930	9,567,900
Accrued patronage receivable	264,972	335,034	365,891
Other	582,689	873,568	-
Other property owned, net	3,167,851	2,724,225	262,784
Premises and equipment	2,627,020	2,026,448	1,794,341
Other assets	240,084	249,851	205,034
Total assets	\$ 675,306,079	\$ 658,842,968	\$ 615,403,052
<u>Liabilities</u>			
Note payable to the Bank	\$ 550,975,385	\$ 545,536,104	\$ 506,309,605
Accrued interest payable	1,265,927	1,394,506	1,687,429
Drafts outstanding	1,227,576	908,418	1,172,178
Patronage distributions payable	5,102,148	3,000,059	50
Other liabilities	3,113,054	3,192,322	3,421,890
Total liabilities	561,684,090	554,031,409	512,591,152
<u>Members' Equity</u>			
Capital stock and participation certificates	3,875,435	3,661,325	3,494,180
Unallocated retained earnings	109,810,440	101,029,380	99,133,667
Accumulated other comprehensive (loss) income	(63,886)	120,854	184,053
Total members' equity	113,621,989	104,811,559	102,811,900
Total liabilities and members' equity	\$ 675,306,079	\$ 658,842,968	\$ 615,403,052

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2010	2009	2008
<u>Interest Income</u>			
Loans	\$ 34,496,512	\$ 33,835,868	\$ 36,934,153
<u>Interest Expense</u>			
Note payable to the Bank	16,028,627	17,038,628	21,030,747
Net interest income	18,467,885	16,797,240	15,903,406
<u>Provision for Losses</u>			
Provision for loan losses	2,598,812	3,681,192	534,554
Provision for acquired property losses	16,065	82,390	25,375
Net interest income after provision for losses	15,853,008	13,033,658	15,343,477
<u>Noninterest Income</u>			
Patronage income from the Bank	3,329,323	2,754,843	2,190,629
Loan fees	389,917	1,240,557	1,316,248
Refunds from Farm Credit System Insurance Corporation	588,365	-	-
Financially related services income	5,764	6,327	6,373
Gain (loss) on other property owned, net	299,811	(63,346)	(64,167)
Gain (loss) on sale of premises and equipment, net	43,877	(3,145)	5,684
Other noninterest income	29,254	47,369	53,254
Total noninterest income	4,686,311	3,982,605	3,508,021
<u>Noninterest Expenses</u>			
Salaries and employee benefits	4,040,703	5,279,738	4,752,656
Directors' expense	238,924	235,939	219,152
Purchased services	953,681	1,567,591	2,552,910
Travel	365,522	319,745	362,293
Occupancy and equipment	361,737	322,338	291,966
Communications	107,518	107,506	94,340
Advertising	322,850	188,234	216,202
Public and member relations	184,672	156,313	151,508
Supervisory and exam expense	222,551	215,639	219,908
Insurance Fund premiums	355,329	1,051,013	833,680
Other noninterest expense	134,703	120,798	104,898
CMS expense reimbursements	(629,931)	(944,304)	(1,761,322)
Total noninterest expenses	6,658,259	8,620,550	8,038,191
Net income	\$ 13,881,060	\$ 8,395,713	\$ 10,813,307

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2007	\$ 3,326,230	\$ 91,538,558	\$ 282,547	\$ 95,147,335
Adjustment to beginning balance due to the new pension accounting principle	-	(18,492)	-	(18,492)
Balance at January 1, 2008	3,326,230	91,520,066	282,547	95,128,843
Comprehensive income				
Net income	-	10,813,307	-	10,813,307
Change in postretirement benefit plans	-	-	(98,494)	(98,494)
Total comprehensive income	-	10,813,307	(98,494)	10,714,813
Capital stock/participation certificates issued	606,400	-	-	606,400
Capital stock/participation certificates retired	(438,450)	-	-	(438,450)
Patronage refunds:				
Cash	-	(3,200,000)	-	(3,200,000)
Change in patronage declared and paid	-	294	-	294
Balance at December 31, 2008	3,494,180	99,133,667	184,053	102,811,900
Comprehensive income				
Net income	-	8,395,713	-	8,395,713
Change in postretirement benefit plans	-	-	(63,199)	(63,199)
Total comprehensive income	-	8,395,713	(63,199)	8,332,514
Capital stock/participation certificates issued	526,935	-	-	526,935
Capital stock/participation certificates retired	(359,790)	-	-	(359,790)
Patronage refunds:				
Cash	-	(6,500,000)	-	(6,500,000)
Balance at December 31, 2009	3,661,325	101,029,380	120,854	104,811,559
Comprehensive income				
Net income	-	13,881,060	-	13,881,060
Change in postretirement benefit plans	-	-	(184,740)	(184,740)
Total comprehensive income	-	13,881,060	(184,740)	13,696,320
Capital stock/participation certificates issued	563,080	-	-	563,080
Capital stock/participation certificates retired	(348,970)	-	-	(348,970)
Patronage refunds:				
Cash	-	(5,100,000)	-	(5,100,000)
Balance at December 31, 2010	\$ 3,875,435	\$ 109,810,440	\$ (63,886)	\$ 113,621,989

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 13,881,060	\$ 8,395,713	\$ 10,813,307
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,598,812	3,681,192	534,554
Provision for acquired property losses	16,065	82,390	25,375
(Gain) loss on other property owned, net	(417,485)	31,125	25,790
Depreciation	200,876	166,906	175,622
(Gain) loss on sale of premises and equipment, net	(43,877)	3,145	(5,684)
Decrease in accrued interest receivable	987,208	330,972	1,291,700
Decrease (increase) in receivable from the Bank	70,062	(842,711)	(14,582)
Decrease (increase) in other assets	300,647	(44,817)	17,395
Decrease in accrued interest payable	(128,580)	(292,923)	(377,865)
(Decrease) increase in other liabilities	(264,008)	(292,767)	834,243
Net cash provided by operating activities	<u>17,200,780</u>	<u>11,218,225</u>	<u>13,319,855</u>
Cash flows from investing activities:			
Increase in loans, net	(22,584,000)	(48,457,052)	(52,315,786)
Cash recoveries of loans previously charged off	634,616	107,679	-
Purchase of capital stock in the Bank	(537,525)	(945,030)	(831,275)
Purchases of premises and equipment	(876,148)	(450,258)	(338,108)
Proceeds from sales of premises and equipment	118,578	48,100	40,656
Proceeds from sales of other property owned	3,062,928	749,811	53,810
Net cash used in investing activities	<u>(20,181,551)</u>	<u>(48,946,750)</u>	<u>(53,390,703)</u>

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

ALABAMA AG CREDIT, 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	5,439,281	39,226,499	43,120,217
Increase (decrease) in drafts outstanding	319,158	(263,760)	847,211
Issuance of capital stock and participation certificates	563,080	526,935	606,400
Retirement of capital stock and participation certificates	(348,970)	(359,790)	(438,450)
Patronage distributions paid	(2,997,911)	(3,499,991)	(3,199,944)
Net cash provided by financing activities	2,974,638	35,629,893	40,935,434
Net (decrease) increase in cash	(6,133)	(2,098,632)	864,586
Cash at the beginning of the year	16,683	2,115,315	1,250,729
Cash at the end of the year	\$ 10,550	\$ 16,683	\$ 2,115,315

Supplemental schedule of noncash investing and financing activities:

Loans charged off	3,073,295	1,311,267	127,400
Loans transferred to other property owned	3,105,134	3,229,477	275,684
Patronage distributions declared	5,100,000	3,000,000	-
Change in AOCI	(184,740)	(63,199)	(98,494)

Supplemental cash information:

Cash paid during the year for:			
Interest	\$ 16,157,206	\$ 17,331,551	\$ 21,408,612

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

ALABAMA AG CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Alabama Ag Credit, ACA (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 primarily in the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama.

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

On September 21, 2009, the Association's stockholders approved the establishment of a Production Credit Association (PCA) and an Agricultural Credit Association (ACA) holding company. The PCA operates as a wholly-owned subsidiary of the ACA and allows the Association an opportunity to provide short-term and intermediate-term lending. Equity ownership in the existing Federal Land Bank Association of South Alabama, FLCA was transferred to the ACA. Concurrent with the change in corporate structure, the Association's name changed from Federal Land Bank Association of South Alabama, FLCA, to Alabama Ag Credit, FLCA. Likewise, the new ACA holding company operates under the name Alabama Ag Credit, ACA, and the PCA operates under the name Alabama Ag Credit, PCA. This change in corporate structure was approved by the Farm Credit Administration (FCA) and became effective on January 4, 2010.

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

The FCA is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the 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 associations, into the Insurance Fund, based on its annual average outstanding insured debt, until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as two 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 two percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

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

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

The Association also serves as an intermediary in offering credit life insurance to borrowers.

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' investment in the Association. Upon request, stockholders of the Association will be provided with the District's Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

- B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 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 \$881,950 in origination fees and \$1,226,793 in origination costs, primarily salaries and benefits related to the origination of loans. The net adjustment to yield on loans for 2010 was a decrease of \$27,888.

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

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

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to

fulfill the contractual repayment terms is fully expected, and the loan is not classified as “doubtful” or “loss.” If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

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.

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.

- D. Capital Stock Investment in the Bank: The Association’s investment in the Bank is in the form of Class A voting capital stock. The Bank requires a minimum stock investment of two percent of the Association’s average borrowing from the Bank. This investment is carried at cost in the accompanying consolidated balance sheet.

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

- E. Other Property Owned, Net: Other property owned, net, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to fair value of the collateral received is charged to allowance for loan loss. 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 gains (losses) on other property owned, net in the Statement of Income.
- F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation expense is calculated using the straight line method over the 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.
- G. 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. At December 31, 2010, the Association had no unrestricted advance conditional payments.

- H. **Employee Benefit Plans:** Employees of the Association participate in either the District’s defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 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 (five percent of salaries for the year ended December 31, 2010) made on their behalf into various investment alternatives. Association DC Plan costs are expensed as incurred.

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

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan which requires the associations to match 100 percent of employee contributions up to three percent of base salary and to match 50 percent of employee contributions for the next two percent of employee contributions, up to a maximum employer contribution of four percent of base salary. Association 401(k) plan costs are expensed as incurred.

In addition to the DB Plan, the DC Plan, and the Farm Credit Benefits Alliance 401(k) Plan above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; however, to date no contributions to the plan have been made. Therefore, there are no associated liabilities included in the Association’s consolidated balance sheet. Likewise, there have been no employee benefit costs related to the nonqualified plan included in the Association’s consolidated statement of income.

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. For further information on the Association’s employee benefit plans, see Note 10, “Employee Benefit Plans.”

- I. **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. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (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.
- J. **Patronage Refunds From the Farm Credit Bank of Texas:** The Association accrues income for a portion of expected patronage refunds from the Bank on a monthly basis, and the remaining patronage refund from the Bank is recorded at year end.
- K. **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.

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.

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 and certain loans and other property owned.

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

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

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 637,733,800	97.5%	\$ 624,730,224	98.0%	\$ 581,729,885	97.9%
Production and intermediate term	908,015	0.2%	-	0.0%	-	0.0%
Agribusiness:						
Loans to cooperatives	512,000	0.1%	960,000	0.1%	785,340	0.1%
Processing and marketing	5,519,684	0.8%	1,922,185	0.3%	3,433,887	0.6%
Farm-related business	81,803	0.0%	73,377	0.0%	78,991	0.0%
Energy	-	0.0%	1,447,614	0.2%	1,575,067	0.3%
Rural residential real estate	9,453,349	1.4%	8,669,681	1.4%	6,378,893	1.1%
Total	<u>\$ 654,208,651</u>	<u>100.0%</u>	<u>\$ 637,803,081</u>	<u>100.0%</u>	<u>\$ 593,982,063</u>	<u>100.0%</u>

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

	Participations Purchased	Participations Sold
Real estate mortgage	\$ 13,813,221	\$ 145,243,448
Agribusiness	4,957,515	-
Total	<u>\$ 18,770,736</u>	<u>\$ 145,243,448</u>

Geographic Distribution

County	2010	2009	2008
Dallas	5.2%	5.4%	5.2%
Montgomery	4.8%	5.8%	5.6%
Coffee	4.3%	4.0%	4.3%
Macon	4.2%	4.5%	3.8%
Monroe	4.1%	4.2%	4.2%
Lowndes	3.9%	3.9%	3.4%
Henry	3.9%	4.0%	4.2%
Houston	3.8%	3.7%	3.3%
Crenshaw	3.8%	3.9%	3.8%
Dale	3.7%	3.3%	3.7%
Pike	3.5%	3.5%	3.7%
Baldwin	3.4%	3.4%	3.0%
Bullock	3.2%	3.0%	3.3%
Barbour	3.1%	3.4%	3.8%
Geneva	3.0%	2.9%	3.2%
Mobile	2.9%	3.1%	2.0%
Autauga	2.6%	2.5%	2.3%
Elmore	2.2%	2.4%	2.4%
Tuscaloosa	2.2%	1.1%	1.0%
Washington	2.1%	2.0%	2.0%
Perry	1.8%	1.9%	1.8%
Butler	1.7%	1.7%	1.9%
Russell	1.6%	1.4%	1.6%
Clarke	1.6%	1.4%	1.4%
Covington	1.6%	1.8%	2.0%
Chilton	1.6%	1.2%	1.3%
Chambers	1.6%	1.6%	1.8%
Wilcox	1.5%	1.6%	1.6%
Escambia	1.4%	1.4%	1.3%
Sumter	1.4%	1.4%	1.1%
Coosa	1.4%	1.5%	1.3%
Tallapoosa	1.3%	1.2%	1.3%
Greene	1.2%	0.8%	0.9%
Choctaw	1.1%	0.9%	0.9%
Marengo	1.1%	1.0%	1.0%
Conecuh	1.0%	1.1%	1.4%
Lee	1.0%	1.0%	1.1%
Other Counties	2.2%	2.1%	2.2%
Other States	4.0%	5.0%	5.9%
Totals	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

Operation/Commodity	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Timber	\$ 395,494,902	60.5%	\$ 378,179,448	59.3%	\$ 338,247,334	56.9%
Poultry and eggs	73,896,921	11.3%	73,823,676	11.6%	75,470,521	12.7%
Livestock, except dairy and poultry	72,666,572	11.1%	76,392,043	12.0%	70,366,417	11.8%
Field crops except cash grains	58,589,214	9.0%	55,313,263	8.7%	55,050,064	9.3%
Rural home loans	12,043,369	1.8%	10,461,227	1.6%	7,677,859	1.3%
Cotton	11,444,929	1.7%	11,726,660	1.8%	12,364,714	2.1%
Animal specialties	7,195,953	1.1%	7,454,397	1.2%	7,968,584	1.3%
Industrial organic	3,917,563	0.6%	6,473,948	1.0%	7,564,663	1.3%
Fruit and tree nuts	1,784,660	0.3%	2,506,417	0.4%	3,988,289	0.7%
Electric utilities	-	0.0%	1,447,614	0.2%	1,575,067	0.3%
Other	17,174,568	2.6%	14,024,388	2.2%	13,708,551	2.3%
Total	\$ 654,208,651	100.0%	\$ 637,803,081	100.0%	\$ 593,982,063	100.0%

The amount of collateral obtained upon extension of credit is based on regulatory requirements and management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property. 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 loan-to-value ratios in excess of the regulatory maximum.

Asset Quality:

The following table reflects the credit quality of the Association's loan volume as of December 31:

	2010	2009	2008
Acceptable	95.2%	94.5%	96.2%
Special mention	1.3%	1.8%	1.9%
Substandard	3.5%	3.7%	1.9%
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 table presents information relating to impaired loans as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	\$ 6,638,539	56.7%	\$ 7,055,584	70.1%	\$ 2,850,453	65.3%
Past due	4,671,730	39.9%	2,887,795	28.7%	1,380,932	31.7%
Total nonaccrual loans	<u>11,310,269</u>	<u>96.6%</u>	<u>9,943,379</u>	<u>98.8%</u>	<u>4,231,385</u>	<u>97.0%</u>
Accrual loans						
90 days or more past due	207,892	1.8%	120,087	1.2%	129,691	3.0%
Formally restructured	183,696	1.6%	-	0.0%	-	0.0%
Total impaired accrual loans	<u>391,588</u>	<u>3.4%</u>	<u>120,087</u>	<u>1.2%</u>	<u>129,691</u>	<u>3.0%</u>
Total impaired loans	<u>\$ 11,701,857</u>	<u>100.0%</u>	<u>\$ 10,063,466</u>	<u>100.0%</u>	<u>\$ 4,361,076</u>	<u>100.0%</u>

The number of nonaccrual loans increased from 2009 to 2010 due primarily to general adverse economic factors. As of December 31, 2009, 29 loans were classified as nonaccrual, with the average size of approximately \$342,000. However, three large credits comprised 73 percent of the total. By contrast, as of December 31, 2010, 53 loans with an average balance of approximately \$213,000 were classified as nonaccrual. Approximately 30 percent of the total nonaccrual loans was comprised of three large credits.

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	\$ 139,061	\$ 89,895	\$ 25,752
Interest income recognized on impaired accrual loans	12,713	1,653	2,750
Interest income recognized on impaired loans	<u>\$ 151,774</u>	<u>\$ 91,548</u>	<u>\$ 28,502</u>

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

	Year Ended December 31,		
	2010	2009	2008
Balance at beginning of year	\$ 3,437,322	\$ 959,718	\$ 552,564
Charge-offs:			
Production agriculture:			
Real estate mortgage	(2,730,055)	(1,311,267)	(127,400)
Agribusiness			
Farm-related business	(336,920)	-	-
Rural residential real estate	(6,320)	-	-
Total charge-offs	<u>(3,073,295)</u>	<u>(1,311,267)</u>	<u>(127,400)</u>
Recoveries:			
Production agriculture:			
Real estate mortgage	634,616	107,679	-
Total recoveries	<u>634,616</u>	<u>107,679</u>	<u>-</u>
Net charge-offs	<u>(2,438,679)</u>	<u>(1,203,588)</u>	<u>(127,400)</u>
Provision for loan losses	2,598,812	3,681,192	534,554
Balance at end of year	<u>\$ 3,597,455</u>	<u>\$ 3,437,322</u>	<u>\$ 959,718</u>
Percentage of net charge-offs during the period to average loans outstanding during the period	0.4%	0.2%	0.0%

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Impaired loans with related allowance	\$ 4,188,443	\$ 5,917,238	\$ 1,836,071
Impaired loans with no related allowance	7,513,414	4,146,228	2,525,005
Total impaired loans	<u>\$ 11,701,857</u>	<u>\$ 10,063,466</u>	<u>\$ 4,361,076</u>
Allowance on impaired loans	<u>\$ 522,354</u>	<u>\$ 1,677,264</u>	<u>\$ 377,879</u>
Average impaired loans	<u>\$ 11,506,245</u>	<u>\$ 6,806,607</u>	<u>\$ 3,482,776</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest income which would have been recognized under the original terms	\$ 495,197	\$ 788,969	\$ 847,456
Less: interest income recognized	(151,774)	(89,895)	(25,752)
Foregone interest income	<u>\$ 343,423</u>	<u>\$ 699,074</u>	<u>\$ 821,704</u>

NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 593,247	\$ 593,247	\$ 593,247
Building and improvements	1,693,020	944,123	940,623
Furniture and equipment	278,975	229,724	231,152
Computer equipment and software	257,304	254,678	240,178
Automobiles	639,382	590,943	560,548
Construction in progress	-	230,773	5,070
	<u>3,461,928</u>	<u>2,843,488</u>	<u>2,570,818</u>
Accumulated depreciation	(834,908)	(817,040)	(776,477)
Total	<u>\$ 2,627,020</u>	<u>\$ 2,026,448</u>	<u>\$ 1,794,341</u>

The Association owns its office space in Montgomery, Dothan and Monroeville. The Association leases office space in Demopolis, Enterprise, Loxley, Opelika, Selma and Tuscaloosa, all in Alabama. The Association also leases office space in Austin, Texas. Lease expense was \$130,623, \$132,980 and \$113,098 for 2010, 2009 and 2008, respectively. Minimum annual lease payments for the next five years are as follows:

	<u>Operating</u>
2011	\$94,016
2012	63,866
2013	48,346
2014	0
2015	0
Thereafter	0
Total	<u>\$206,228</u>

NOTE 5 – OTHER PROPERTY OWNED, 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	\$ 385,819	\$ (31,125)	\$ (25,790)
Operating expense, net	(86,008)	(32,221)	(38,377)
Net gain (loss) on other property owned	<u>\$ 299,811</u>	<u>\$ (63,346)</u>	<u>\$ (64,167)</u>

NOTE 6 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association’s loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association’s indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association’s assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank’s cost of funding the loans the Association has outstanding to its borrowers.

The total amount and the weighted average interest rate of the Association’s direct loan from the Bank at December 31, 2010, 2009 and 2008, was \$550,975,385 at 2.65 percent, \$545,536,104 at 2.99 percent and \$506,309,605 at 3.88 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 is recalculated monthly using a formula defined by the general financing agreement. As of December 31, 2010, the maximum amount the Association could borrow from the Bank was \$654,159,848.

In addition to borrowing limits, the general 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 general 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 general financing agreement.

NOTE 7 — MEMBERS’ EQUITY:

A description of the Association’s capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below. Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. 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.

The Association’s capital bylaws authorize the Association to issue Class A, C and P Common Stock and Participation Certificates. Each share of stock and unit of participation certificates has a par or face value of \$5. All transfers, exchanges, conversions and retirements of stock and participation certificates are recorded at book value, not to exceed par.

In accordance with the Act and the Association’s capital 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 two 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 ten 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 capital stock 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. Ownership of Class C stock does not entitle holders to any patronage distributions, but the stock does carry an equal right to any dividends on common stock declared by the board of directors. 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 capital stock.

Class P stock may be issued only for allocated surplus distributions, stock dividends and patronage distributions to borrowers eligible to hold Class A stock. Class P 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. Ownership of Class P stock does not entitle holders to any patronage distributions, but the stock does carry an equal right to any dividends on common stock declared by the board of directors. Redemption of Class P 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 P capital stock.

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

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

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>
December 2010	March 2011	\$5,100,000
December 2009	March 2010	2,997,911
January 2009	April 2009	3,499,991
March 2008	April 2008	3,199,944

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 16.2 percent, 15.6 percent and 15.6 percent, respectively.

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

As mentioned in Note 2, "Summary of Significant Accounting Policies," the Association is required to purchase stock in the Bank. The level of stock required is calculated annually based on the average borrowings of the Association from the Bank. The required

level is currently two percent of the average borrowing from the previous 12 months. This stock investment in the Bank reduces the amount of Association capital available for inclusion in the Association's capital adequacy calculations.

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Class A stock	742,596	703,780	678,586
Participation certificates	32,491	28,485	20,250
Total	<u>775,087</u>	<u>732,265</u>	<u>698,836</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Nonpension postretirement benefits	(63,886)	120,854	184,053
Total	<u>(63,886)</u>	<u>120,854</u>	<u>184,053</u>

NOTE 8 — CAPITAL MARKETS:

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

Pursuant to the terms of the alliance, each of the five CMS participating associations generally share equally in the costs of operating the venture. All CMS noninterest expenses are recorded gross on the Association's books and then reimbursed 80 percent by the other four associations. The total amount of reimbursements is included on the statement of income in the line item entitled "CMS expense reimbursements." The Association's pro rata share of income from CMS operations is recorded in the statement of income in their respective line items.

At December 31, 2010, 2009 and 2008, the Association had CMS-related loan volume outstanding of \$15,590,747, \$20,109,998 and \$22,727,100 respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$4,571,187 as of December 31, 2010.

NOTE 9 — INCOME TAXES:

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>			
Loss carryforwards	\$ 117,317	\$ -	\$ -
Gross deferred tax assets	<u>117,317</u>	<u>-</u>	<u>-</u>
Deferred tax asset valuation allowance	<u>(117,317)</u>	<u>-</u>	<u>-</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The calculation of tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings.

The Association recorded a valuation allowance of \$117,317 during 2010. No such deferred tax assets or valuation allowances were needed in 2009 and 2008, as the Association's operations in those years were all conducted in the tax-exempt FLCA. 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: As discussed in Note 2, "Summary of Significant Accounting Policies," employees of the Association participate in either the District's DB Plan or the District's DC Plan. For the DB Plan, the Association recognized pension costs of \$666,853, \$1,051,559 and \$742,969 for the years ended December 31, 2010, 2009 and 2008, respectively. The Association recognized pension costs for the DC Plan of \$115,334, \$118,049 and \$88,767 for the years ended December 31, 2010, 2009 and 2008, respectively.

Employees of the Association are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. The Association's contributions to the 401(k) plan were \$137,775, \$145,336 and \$115,652 for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition, the Association sponsors a nonqualified defined contribution 401(k) plan; however, to date no contributions have been made to this plan.

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 on the consolidated balance sheet. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost-sharing basis, predicated on length of employment service. Employees hired before this date who have reached the age requirement and have 25 years of service will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004 will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premium.

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 requires 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 provides 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 by \$18,492, and increased the pension and other postretirement benefit liabilities by the same amount.

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

Disclosure Information Related to Retirement Benefits	2010	2009	2008
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,385,228	\$ 1,255,878	\$ 1,087,341
Service cost	46,557	48,625	53,839
Interest cost	83,078	78,404	87,430
Plan participants' contributions	17,520	15,873	19,878
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	145,718	24,177	49,687
Benefits paid	<u>(43,649)</u>	<u>(37,729)</u>	<u>(42,297)</u>
Accumulated postretirement benefit obligation, end of year	\$ 1,634,452	\$ 1,385,228	\$ 1,255,878
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	26,129	21,856	22,419
Plan participants' contributions	17,520	15,873	19,878
Benefits paid	<u>(43,649)</u>	<u>(37,729)</u>	<u>(42,297)</u>
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (1,634,452)	\$ (1,385,228)	\$ (1,255,878)
Amounts Recognized in Statement of Financial Position			
Other liabilities	\$ (1,634,452)	\$ (1,385,228)	\$ (1,255,878)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	\$ -	\$ -	\$ 103,307
Prior service cost (credit)	(209,316)	(248,338)	(287,360)
Net transition obligation (asset)	<u>273,202</u>	<u>127,484</u>	<u>-</u>
Total	\$ 63,886	\$ (120,854)	\$ (184,053)
Additional Information			
Increase in minimum liability included in other comprehensive income	\$ 184,740	\$ 63,199	\$ 98,494
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2010	12/31/2009	12/31/2008
Discount rate	5.70%	6.05%	6.30%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.5%/6.5%	8.0%/7.0%	8.5%/6.5%
Health care cost trend rate assumed for next year - Rx	10.00%	10.50%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2017	2015

Total Cost	2010	2009	2008
Service cost	\$ 46,557	\$ 48,625	\$ 43,071
Interest cost	83,078	78,404	69,944
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(39,022)	(39,022)	(39,654)
Unrecognized net loss (gain)	-	-	609
Net postretirement benefit cost	\$ 90,613	\$ 88,007	\$ 73,970
Adjustment to retained earnings for 2008 due to change in measurement date	N/A	N/A	\$ 18,492
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)	\$ 145,718	\$ 24,177	\$ 49,687
Amortization of net actuarial loss (gain)	-	-	(761)
Prior service cost (credit)	39,022	39,022	-
Amortization of prior service cost	-	-	49,568
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 184,740	\$ 63,199	\$ 98,494

AOCI Amounts Expected to be Amortized into Expense in 2011

Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(37,846)	(39,022)	(39,022)
Unrecognized net loss (gain)	9,870	-	-
Total	\$ (27,976)	\$ (39,022)	\$ (39,022)

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	\$ 25,694
Fiscal 2012	31,985
Fiscal 2013	40,059
Fiscal 2014	42,744
Fiscal 2015	57,394
Fiscal 2016–2020	520,174

Expected Contributions

Fiscal 2011	\$ 25,694
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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 (related parties). Such related party 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 related parties for the Association amounted to \$4,250,635, \$3,220,893 and \$3,282,404 at December 31, 2010, 2009 and 2008, respectively. During 2010, \$1,612,383 of new loans were made and repayments totaled \$1,513,949. In addition, \$931,308 was reclassified between related-party loans and non-related party loans due to turnover among employees and directors during the year. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectibility.

Expenses included in purchased services may include 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 Insurance Fund premiums. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$654,669, \$1,354,148 and \$1,142,475 in 2010, 2009 and 2008, respectively.

The Association received patronage payments from the bank totaling \$3,329,323, \$2,754,843 and \$2,190,629 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 nonrecurring basis 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	\$ -	\$ -	\$ 6,953,843	\$ 6,953,843
Other property owned	-	-	3,612,044	3,612,044

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:

Loans

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

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals and 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. As of December 31, 2010, other property owned, net is reported at \$3,167,851 in the consolidated balance sheet.

NOTE 13 — COMMITMENTS AND CONTINGENCIES:

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.

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, the Association had outstanding unfunded commitments totaling \$15,728,631. Included in that total were, through participations, letters of credit of \$409,869.

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 upon extension of credit is based on regulatory requirements and 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	\$ 10,550	\$ 10,550	\$ 16,683	\$ 16,683	\$ 2,115,315	\$ 2,115,315
Loans, net	650,611,196	649,309,974	634,365,759	628,212,411	593,022,345	615,035,640
Note payable to the Bank	550,975,385	549,873,434	545,536,104	540,244,404	506,309,605	525,104,078

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:

The carrying value is a reasonable estimate of fair value.

B. Loans:

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

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

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

The carrying value of accrued interest approximates its fair value.

C. Investment in the Bank:

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost in the accompanying consolidated balance sheet. The Association owns 4.8 percent of the issued common stock of the bank as of December 31, 2010. As of that date, the Bank's assets totaled \$14.1 billion and members' equity totaled \$1.2 billion. The Bank's earnings were \$168.5 million during 2010.

D. Note payable to the Bank:

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

E. Commitments to extend credit:

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	\$ 4,504	\$ 4,552	\$ 4,657	\$ 4,755	\$ 18,468
Provision for losses	(108)	(794)	(750)	(963)	(2,615)
Noninterest (expense) income, net	(1,071)	(770)	(1,293)	1,162	(1,972)
Net income	<u>\$ 3,325</u>	<u>\$ 2,988</u>	<u>\$ 2,614</u>	<u>\$ 4,954</u>	<u>\$ 13,881</u>

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,090	\$ 4,108	\$ 4,224	\$ 4,375	\$ 16,797
Provision for losses	(903)	(1,687)	(243)	(930)	(3,763)
Noninterest expense, net	(1,524)	(1,555)	(1,513)	(46)	(4,638)
Net income	<u>\$ 1,663</u>	<u>\$ 866</u>	<u>\$ 2,468</u>	<u>\$ 3,399</u>	<u>\$ 8,396</u>

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,994	\$ 3,971	\$ 3,959	\$ 3,979	\$ 15,903
Reversal of (provision for) losses	21	(19)	(41)	(521)	(560)
Noninterest expense, net	(1,065)	(1,088)	(1,331)	(1,046)	(4,530)
Net income	<u>\$ 2,950</u>	<u>\$ 2,864</u>	<u>\$ 2,587</u>	<u>\$ 2,412</u>	<u>\$ 10,813</u>

In December 2010, the Association received from the Bank a direct loan patronage of \$2,765,061 and a capital markets patronage of \$264,952.

In December 2009, the Association received from the Bank a direct loan patronage of \$2,117,237 and a capital markets patronage of \$334,959.

In December 2008, the Association received from the Bank a direct loan patronage of \$1,455,655 and a capital markets patronage of \$365,171.

NOTE 16 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 1, 2011, which is the date the financial statements were available to be issued. There are no subsequent events to report.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

Alabama Ag Credit, ACA (Association) serves its 40-county territory through its main administrative and lending office at 7602 Halcyon Summit Drive, Montgomery, Alabama, 36117. Additionally, there are eight other branch lending offices located throughout the territory. The Association owns the office buildings in Montgomery, Dothan and Monroeville, free of debt. The Association leases the office space in Demopolis, Enterprise, Loxley, Opelika, Selma and Tuscaloosa.

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 to Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

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

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing fcb@farmcreditbank.com. The District's annual and quarterly stockholder reports are also available on its website at www.farmcreditbank.com.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Ag Credit, ACA, P.O. Box 241687, Montgomery, Alabama 36124-1687, or calling (334) 270-8687. Copies of the Association's annual and quarterly stockholder reports can also be requested by e-mailing Andra.Wolf@AlabamaAgCredit.com. The Association's quarterly stockholder reports are available on its website at www.AlabamaAgCredit.com approximately 40 days after quarter end, and the annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the 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 financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

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

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
W. Thomas Dozier, III	Chairman	August 1990	2011
James L. Bassett	Vice Chairman	December 2008	2012
Bobby D. Reeder	Director	August 1990	2012
Timothy D. Tucker	Director	April 2005	2011
Lyman W. Ramsay, Jr.	Director	April 2010	2013
Larry H. Gibson, Jr.	Director	April 2010	2013
Benjamin Philip Martin	Director	August 1990	2010
William H. Coaker, Jr.	Director	August 1990	2010
J.K. Love	Director-Elected Director	April 2006	2012
Ray Petty	Director-Elected Director	April 2007	2013
Douglas Thiessen	President/Chief Executive Officer	February 2007	-
Gregory M. Cunningham	Sr. VP/Chief Credit Officer	April 2008	September 2010
J. Robert Monk	Sr. VP/Chief Credit Officer	January 2011	-
M. Scott Sellers	Sr. VP/Chief Financial Officer	September 2003	-
Ed L. Boyd	Regional President	May 1992	-
J. Scott McCall	Regional President	January 2011	-

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

W. Thomas Dozier, III, age 70. Mr. Dozier has been farming for 43 years. Principal commodities produced are cotton, grain, cattle and hay. He obtained his bachelor of science in agricultural economics from Auburn University. After college, Mr. Dozier served three years as an infantry officer in the Marine Corps. Mr. Dozier is a member of the Tenth District Stockholders Advisory Committee and serves as chairman of the board of directors of the Association. Mr. Dozier is also a director on the board of Milstead Farm Group, Inc., a cotton ginning operation.

James L. Bassett, age 50. Mr. Bassett resides in Fort Davis, Alabama, and has been a full-time farmer for 17 years. Mr. Bassett operates approximately 2,400 acres in turf and timber in Bullock, Lee and Macon counties. He also operates a nursery business. Prior to going into farming, Mr. Bassett spent eight years as a commercial banker in Union Springs, Alabama. Mr. Bassett was past president and currently serves as a board member of the Macon County Farmers Federation, and he is also a member of the Macon County Soil and Water Board. Mr. Bassett is a graduate of the LSU Graduate School of Banking, and he also has a bachelor of science in business administration from Auburn University Montgomery. Mr. Bassett serves as vice chairman of the Association’s board of directors, and also serves on the Association’s audit committee.

Bobby D. Reeder, age 64. Mr. Reeder has been farming full-time for 31 years and operates approximately 600 acres. Principal commodities produced are peanuts, nursery stock and live bait. He obtained a bachelor of science in agriculture and a master of science in horticulture from Auburn University. He received his Ph.D. in horticulture from Texas A&M University. Mr. Reeder is a Mason and serves on a local hospital board. He is a member of the Alabama Nurserymen Association and the Southern Nurserymen Association. Mr. Reeder serves as the chairman of the Association’s compensation committee.

Timothy D. Tucker, age 51. Mr. Tucker resides in Uriah, Alabama, and has been farming full-time all of his adult life. Mr. Tucker's farming operation consists primarily of cotton and cattle. Mr. Tucker serves on the boards of the Monroe County Gin, Monroe County Soil and Water Conservation District, Monroe County Cattlemen's Association, Monroe County Farmers Federation, Alabama Farmers Federation State Beef Committee, and is president of the Alabama Farm Analysis Association. Mr. Tucker formerly served on the Association's compensation committee and currently serves on the Association's audit committee.

Lyman W. Ramsay, Jr., age 67. Mr. Ramsay resides in Grand Bay, Alabama, and is the owner and manager of Gulf Equipment Corporation, a general contracting company specializing in telecommunications and civil infrastructure. His timber operation consists of 1,100 acres and he owns 400 acres of rented pasture land. He serves on the board of directors of Gulf Equipment Corporation, Crowder-Gulf, Manning Trucking and Manning Construction companies. Crowder-Gulf is a company that specializes in disaster response and environmental contracting, Manning Trucking provides general transportation services, and Manning Construction is an industrial maintenance contractor. He is a former supervisor of the Mobile County Soil and Water Conservation District and a member of the Alabama Farmers Federation and Mobile County Cattlemen's Association. Mr. Ramsay obtained his bachelor of science in agronomy and soils from Auburn University. Mr. Ramsay serves on the Association's compensation committee.

Larry H. Gibson, Jr., age 38. Mr. Gibson resides in Aliceville, Alabama, and is president of Gibson Forest Management, a forestry consulting firm. A graduate of Mississippi State University with a bachelor degree in forest management, he owns approximately 1,100 acres of timberland where timber and wildlife are the primary commodities. He manages approximately 50,000 acres of timberland for clients in west Alabama and east Mississippi where he provides complete forest management services. He is a former board member of the Alabama Forestry Association, past state chair of the Society of American Foresters and was a participant in the Farm Credit Young Leaders Program. He serves on the board of Alabama Farmers Federation for Pickens County and on the board of Pickens Academy. He is a member of the Association of Consulting Foresters and Rotary International, and is a trustee at Hebron United Methodist Church. Mr. Gibson serves on the Association's compensation committee.

Benjamin Philip Martin, age 76. Mr. Martin resides in Enterprise, Alabama, and is retired from the U.S. Postal Service. He obtained a bachelor of science in dairy science from the University of Tennessee and has been involved in the farming and dairy business all of his adult life. Mr. Martin owns and leases out approximately 500 acres of farmland. His present and former affiliations include service as director on the boards of the Alabama Farmers Federation and ALFA Insurance, the Coffee County Farmers Federation and the American Dairy Association of Alabama. Mr. Martin is also a member of the Coffee County Cattlemen's Association and the Coffee County Extension Council. He served as vice chairman of the Association and also served on the Association's audit and compensation committees until his term as director ended in April 2010.

William H. Coaker, Jr., age 57. Mr. Coaker resides in Citronelle, Alabama, where he has been farming approximately 600 acres full-time for the past 24 years, raising cattle and producing hay. Mr. Coaker obtained his bachelor of science from the University of South Alabama. He is a member of the Mississippi Pork Producers Association and the Alabama and Mississippi Cattlemen's Association. Mr. Coaker served 11 years in the U.S. military as a naval petty officer and was formerly employed as a chemist with Alabama Power Company. Mr. Coaker served on the Association's compensation committee until his term as director ended in April 2010.

J.K. Love, age 69. Mr. Love resides in Montgomery, Alabama, and is a CPA. Mr. Love retired after 30 years in public accounting and served four years as the CFO for Hudson Industries, Inc., a Troy, Alabama-based business which specializes in manufacturing, packaging and distribution of food condiments. Mr. Love is actively involved in the restaurant industry, having ownership interests in a Marco's Pizza franchise in Montgomery and in a franchising business for Subway brand restaurants in parts of Alabama, Georgia and Florida. Mr. Love serves as the chairman of the Association's audit committee and also serves on the board of directors of Whitfield Foods, Inc., a Montgomery-based business which specializes in manufacturing and packaging of syrup, hot sauce and other food products. Mr. Love is a graduate of Auburn University with a bachelor of science in accounting.

Ray Petty, age 60. Mr. Petty resides in Montgomery, Alabama, and is the chief development officer for an independent commercial bank, ServisFirst Bank, based in Birmingham, Alabama. Mr. Petty was serving on the board of directors of ServisFirst at the time of his appointment as chief development officer. Previously, Mr. Petty was retired after a 34-year career in commercial banking with SouthTrust Bank. Mr. Petty served 27 years in Montgomery, the last 20 of which as the Montgomery area president. During the last nine years of his Montgomery tenure, Mr. Petty also served as South Alabama/Mississippi regional president. In addition, he taught commercial lending for 15 years at University of South Alabama's banking school. Mr. Petty is a graduate of Auburn University with a bachelor of arts in history. Mr. Petty serves on the Association's audit and compensation committees.

Douglas Thiessen, age 46, President/Chief Executive Officer. Mr. Thiessen has been with the Association since February 2007. Prior to joining the Association, Mr. Thiessen served for four years as senior vice president/chief financial officer of First Ag Credit, FCS, based in Lubbock, Texas. In addition, he held various financial positions with computer manufacturer Dell, Inc. and the Farm Credit Bank of Texas, and also served as a commissioned examiner with the Farm Credit Administration. Mr. Thiessen has a total of 13 years of service within the Farm Credit System. Mr. Thiessen serves on the boards of the Alabama Future Farmers of America Foundation and the Alabama Agribusiness Council. Mr. Thiessen is a graduate of the LSU Graduate School of Banking, and he also has a bachelor of science in agricultural economics from Texas Tech University and an executive master of business administration degree from Troy University.

J. Robert Monk, age 58, Senior Vice President/Chief Credit Officer. Mr. Monk has been with the Association since January 2011. Mr. Monk has 33 years of Farm Credit experience. Prior to joining the Association, he held various management positions with Farm Credit Services of Mid-America, most recently serving for 14 years in the position of regional vice president. Mr. Monk is a graduate of Virginia Polytechnic Institute and State University with a bachelor of science in animal science and agricultural education. Prior to his Farm Credit career, he also taught agricultural education at a high school in Virginia.

M. Scott Sellers, age 42, Senior Vice President/Chief Financial Officer. Mr. Sellers has been with the Association since September 2003. Mr. Sellers is a CPA with more than 10 years' experience in public accounting. Prior to joining the Association, Mr. Sellers worked for four years in a family-owned forestry consulting and rural real estate brokerage firm. He is a graduate of Auburn University with a bachelor of science in accounting and he also has a master in business administration degree with an emphasis in finance from Auburn University Montgomery.

Ed L. Boyd, age 51, Regional President. Mr. Boyd grew up in Livingston, Alabama, where he attended Livingston University, majoring in business administration with emphasis in accounting. Mr. Boyd has been with the Association since May of 1992; in total he has 28 years of Farm Credit experience, working in various positions with Farm Credit institutions in South Carolina, Louisiana and Mississippi. Prior to being named as regional president in January 2011, Mr. Boyd served as regional vice president for two years. In addition, Mr. Boyd continues to serve as the Monroeville branch manager, a position he has held for 18 years. Mr. Boyd is past president of the Alabama Cooperatives Council and serves on the board of Monroe Academy and the Monroe County Heritage Museum Foundation, and is chairman of deacons for Monroeville Presbyterian Church.

J. Scott McCall, age 46, Regional President. Mr. McCall has been with the Association since January 2011. Prior to joining the Association, Mr. McCall was employed by Sterling Bank in Montgomery, Alabama for 22 years, most recently serving as executive vice president/commercial banking lead for 5 years. Mr. McCall serves as secretary/treasurer on the board and executive committee of the Baptist Health Care Foundation. Mr. McCall is a graduate of the Southwestern Graduate School of Banking in Dallas, Texas and also has a bachelor of science in business administration from Auburn University Montgomery.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors were compensated for their service to the Association in the form of an honorarium at a base rate of \$700 per day for directors traveling less than 100 miles. For directors traveling over 100 miles but less than 200 miles, the base rate increases by 25 percent to \$875, and for directors traveling over 200 miles, the base rate increases by 50 percent to \$1,050. For multi-day meetings, the increased base rate applies to the first day only; the normal base rate of \$700 applies thereafter. In addition, this rule applies to meetings held at the Association administrative office only; for meetings held elsewhere the honorarium is set at the base rate of \$700 per day. The directors are also compensated for scheduled conference calls at the base rate of \$200 per day. Additionally, they were 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 prevailing at the time. A copy of the travel policy is available to stockholders of the Association upon request.

<u>Director</u>	<u>Number of Days Served Associated With</u>		<u>Total Compensation in 2010</u>
	<u>Board Meetings</u>	<u>Other Official Activities</u>	
W. Thomas Dozier, III	12	28	\$ 27,000
James L. Bassett	12	21	22,100
Bobby D. Reeder	12	17	21,375
Timothy D. Tucker	11	14	18,225
Lyman W. Ramsay, Jr.	10	7	14,000
Larry H. Gibson, Jr.	10	7	12,950
Benjamin Philip Martin	4	10	8,800
William H. Coaker, Jr.	4	6	7,550
J.K. Love	12	18	20,000
Ray Petty	9	18	17,900
Total			<u>\$ 169,900</u>

The aggregate compensation paid to directors in 2010, 2009 and 2008 was \$169,900, \$176,900 and \$150,200, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

<u>Director</u>	<u>Committee</u>		
	<u>Audit</u>	<u>Compensation</u>	<u>Other Committees</u>
W. Thomas Dozier, III	\$ 2,300	\$ 3,500	\$ 7,000
James L. Bassett	4,400	--	--
Bobby D. Reeder	--	4,550	--
Timothy D. Tucker	3,850	875	--
Lyman W. Ramsay, Jr.	--	3,150	--
Larry H. Gibson, Jr.	--	2,975	--
Benjamin Philip Martin	200	700	--
William H. Coaker, Jr.	--	1,050	--
J.K. Love	4,400	--	--
Ray Petty	4,400	3,500	--
Total	<u>\$ 19,550</u>	<u>\$ 20,300</u>	<u>\$ 7,000</u>

As noted earlier, Association Board Chairman W. Thomas Dozier, III also serves on the Tenth District Stockholders Advisory Committee, compensation for which is included in the "Other Committees" column, above.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$69,024, \$59,339 and \$68,952 in 2010, 2009 and 2008, respectively.

The Association's board of directors, through its Compensation Committee, has adopted a compensation philosophy to ensure that the Association hires, retains and develops competent employees based on market data, performance of the individual and the achievement of financial goals for the Association. The Association's compensation plans are annually reviewed and adjusted as necessary by the board's Compensation Committee and approved by the full board of directors.

The following table discloses total compensation for the Association's chief executive officer (CEO) and aggregate total compensation for the Association's five most highly compensated officers. As explained below, amounts reported in the "Perquisite" and "Other" columns represent value of benefits provided but are not necessarily indicative of cash outlay from the Association directly to the respective employees.

Name of Individual or Group	Year	Salary	Bonus	Deferred / Perquisite	Other	Total	
Douglas Thiessen, CEO	2010	\$230,009	\$51,233	\$3,213	\$738	\$285,193	
Douglas Thiessen, CEO	2009	217,508	43,915	4,179	695	266,297	
Douglas Thiessen, CEO	2008	200,008	37,620	1,846	420	239,534	
<hr/>							
Aggregate of five highest paid officers	*	2010	591,162	114,272	33,316	3,271	742,021
	*	2009	632,801	100,608	33,483	7,945	774,837
	*	2008	561,857	110,318	30,841	30,726	733,382

* excludes CEO

Following is a brief description of the items included in respective columns in the above table:

Salary – Salary includes base salary compensation earned and paid during the respective year.

Bonus – Bonus includes incentive compensation earned and accrued in the current year, pursuant to the Association’s Employee Success-Sharing and Incentive Plan provisions (Incentive Plan). Over and above base salary, incentive compensation is available to all full-time, permanent employees and is based upon the achievement of predetermined performance goals pertaining to the Association’s profitability, credit quality and loan growth. The Incentive Plan has two major programs – the Branch Program and the Administrative Program. The Branch Program includes all loan officers and branch managers and the Administrative Program includes all other employees. The Administrative Program also contains a Success Sharing provision for certain qualifying employees. Additional detail regarding each of the major Incentive Plan programs follows.

- Branch Program – Incentive compensation for loan officers and branch managers is based on their respective branch’s actual results in four key performance areas, with each area receiving equal weight. The four key performance areas are: 1) accrual loan growth, 2) return on equity (ROE) ratio, 3) adverse assets ratio and 4) delinquencies. Branch performance against these criteria is measured on a calendar year basis. Incentive compensation, if any, is accrued prior to December 31 of the given year, with payout being made generally by the end of the following January.
- Administrative Program – Incentive compensation for all other employees is based on the Association’s total actual results in four key performance areas, with each area receiving equal weight. The four key performance areas are: 1) accrual loan growth, 2) ROE, 3) adverse assets ratio and 4) efficiency ratio. Performance against these criteria is measured on a calendar year basis. Incentive compensation, if any, is accrued prior to December 31 of the given year, with payout being made generally by the end of the following January.
- Success Sharing – Certain employees qualify for participation in the Success Sharing component of the Administrative Program, as defined in the Incentive Plan. Success Sharing employees may qualify to receive incentive compensation on a quarterly basis, provided the Association meets two minimum criteria. In each quarter in which the Association achieved at least \$1.5 million of net income, and average delinquencies were less than 2.5 percent of total loan volume, employees in the Success Sharing plan received two percent of their base salary in a cash bonus paid out by the end of the first month following the end of the quarter. Total incentive payouts under the Success Sharing provision cannot exceed the total incentive payouts for Administrative Program employees who do not participate in the Success Sharing plan.

Certain criteria must be met by the Association before any incentive compensation can be paid at year end, as detailed below.

- All of the Association’s minimum goals, as defined in the Incentive Plan, must be met.
- The Association must not be in default of its general financing agreement with the Bank.
- The Association must receive an overall rating of “satisfactory” on credit administration from internal credit review and FCA examinations.
- For the Branch Program, a respective employee’s branch office must receive a “satisfactory” rating on credit administration.
- Individual employees must achieve a rating of “does meet” the standard of good competent performance on his/her individual annual performance evaluation.

The Association’s Incentive Plan and total incentive compensation dollars are approved annually by the compensation committee and are at the full discretion of the board of directors.

In addition to the bonus accrued under the Association's Incentive Plan, in December 2009 the Association's CEO was awarded an additional bonus at the discretion of the Association's board of directors, in concert with and approved by the boards of directors of the four other former-CMS associations, in recognition of his work in dealing with CMS-related matters. In total, the CEO received bonus compensation of \$43,915, of which \$27,122 was accrued under the Incentive Plan and paid in January 2010, and \$16,793 was paid in December 2009 at the discretion of the boards of directors for the CMS-related work. In accordance with the terms of the CMS alliance, the other four associations reimbursed the Association for 80 percent of the \$16,793 discretionary bonus. For further discussion of the CMS alliance, see Note 8, "Capital Markets," to the financial statements included in this annual report.

Deferred – These are costs accrued in the current year pursuant to a specific nonqualified deferred compensation agreement with an Association officer and approved by the board of directors.

Perquisite – Perquisites includes benefits derived from personal use of Association-owned vehicles. The Association provides certain employees use of Association-owned vehicles. Personal use of these vehicles is governed by the Association's board-approved travel and vehicle policy as well as IRS rules. Employees assigned an Association vehicle are required to maintain a business mileage log, and the calculated value of personal use of the vehicles is included in respective employees' taxable earnings, in accordance with IRS regulations. Likewise, employees who use their personal vehicle for business purposes were reimbursed during 2010 at the IRS-approved rate prevailing at the time.

Other – Other includes miscellaneous benefits derived from one or more of the following:

- Relocation expenses reimbursed to or paid on behalf of certain employees in 2008.
- Value of group term life insurance provided by the Association on behalf of its employees. According to IRS guidelines, value of insurance provided in excess of \$50,000 must be added to the employees' taxable earnings.
- Cost of tuition and related education expenses reimbursed to respective employees. Association policy allows for reimbursement of such expenses incurred in connection with approved undergraduate and/or graduate level coursework, and is available to all full-time, permanent employees.
- Commissions earned by certain employees. The Association participates in a program with an outside insurance company to provide borrowers the opportunity to purchase credit life insurance. Association employees receive a portion of the commissions received by the Association.

A copy of the Incentive Plan and information on the total compensation paid during the last fiscal year to any senior officers or any other officers included in the aggregate are available and will be disclosed to stockholders of the Association 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 to Note 11 to the financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

FCA regulations require disclosure in this section of any events occurring within the last five years (bankruptcy, conviction or naming in a criminal proceeding, or judgment or finding limiting a right to engage in a business) that are material to the evaluation of the ability or integrity of any person who served as a director or senior officer. The Association has no directors or senior officers with any involvement in such legal proceedings as described in the FCA regulations.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association's audit committee engaged the independent accounting firm of PricewaterhouseCoopers LLP (PwC) to perform the annual audit of the Association's financial statements included in this annual report. The fees for professional services rendered for the Association by PwC during 2010 were \$37,000 for audit services. No other services were performed by PwC during the reporting period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 1, 2011, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

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

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

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: Ten years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than \$250,000.00 in annual gross sales of agricultural products

The 2007 USDA Census of Agriculture for Alabama (Census) indicates that in our territory 4.7% of farm operators are “young,” 27.3% are “beginning” and 93.8% of the farms are “small.”

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

- The Census shows young farmers in a group up to age 34, whereas the Association’s YBS information shows young farmers up to age 35.
- The Census shows years on present farm in a class up to 9 years, whereas the Association’s YBS information shows 10 years or less for a beginning farmer.
- USDA data is based on the number of farms, whereas the Association’s data is based on the number of loans.

The Association’s minimum standards for YBS lending require the following:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	>10%	>10%
Beginning	>10%	>10%
Small	>40%	>40%

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

	Young	Beginning	Small
2008	18.62%	53.83%	79.31%
2009	17.90%	54.51%	79.64%
2010	17.74%	55.86%	81.43%

The Association’s goals over the succeeding three-year period is to reach the percentages of its number of loans outstanding in young, beginning and small farmer loans as shown below.

	Young	Beginning	Small
2011	18.00%	56.50%	82.50%
2012	18.50%	57.50%	83.00%
2013	19.00%	58.50%	84.00%

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.