

ALABAMA AG CREDIT, ACA

2010 Quarterly Report 1st Quarter



For the Quarter Ended March 31, 2010



Part of the Farm Credit System

REPORT OF MANAGEMENT

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

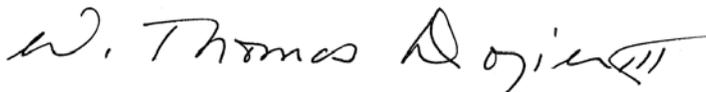
To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions 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 annual 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 generally accepted auditing standards. The Association is also examined by the Farm Credit Administration.

The audit committee of the board of directors has oversight responsibility for the Association's system of internal controls and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditor to review the scope and results of their work. The independent auditors and internal auditor have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Alabama Ag Credit, ACA and the results of its operations for the periods shown.



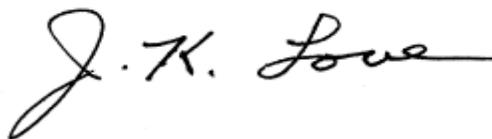
Douglas Thiessen, President/Chief Executive Officer
April 28, 2010



W. Thomas Dozier, III, Chairman, Board of Directors
April 28, 2010



M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
April 28, 2010



J.K. Love, CPA, Chairman, Audit Committee
April 28, 2010

ALABAMA AG CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2010. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2009 Annual Report of the Association.

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

Significant Events:

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.

Results of Operations:

The Association had net income of \$3,324,944 for the three months ended March 31, 2010, as compared to net income of \$1,663,154 for the same period in 2009 reflecting an increase of 99.9 percent. Net interest income was \$4,504,439 for the three months ended March 31, 2010, compared to \$4,090,239 for the same period in 2009. Interest income for the first three months of 2010 increased by \$238,407 or 2.9 percent from the first three months of 2009, primarily due to an increase in yields on earning assets and an increase in average loan volume. Interest expense for the first three months of 2010 decreased by \$175,793, or 4.1 percent, from the same period of 2009 due to a decrease in interest rates, offset partially by an increase in average debt volume.

Noninterest income for the three months ended March 31, 2010 increased by \$318,535, or 54.0 percent, over the same period of 2009. This is due primarily to gains that were recorded on sales of acquired properties. These gains were offset somewhat by a decrease in loans fees in the first three months of 2010, compared to the first three months of 2009.

Noninterest expenses for the three months ended March 31, 2010 decreased by \$134,384, or 6.4 percent, as compared to the same period in 2009. The decrease is due primarily to a decrease in salaries and employee benefits costs and Insurance Fund premium expense. The decrease in salaries and employee benefits is primarily due to a decrease in contributions to the defined benefit (DB) retirement plan, as well as the retirement of one employee. For more information on the DB plan, refer to the 2009 Annual Report and Note 7, "Employee Benefit Plans," to the financial statements, included in this quarterly report. Insurance Fund premiums decreased due to the fact that the Farm Credit System Insurance Corporation (FCSIC) board decreased the insurance premium assessment rate for Farm Credit System banks from 20 basis points to 10 basis points on adjusted insured debt.

The Association's provision for loan loss was \$107,935 for the quarter ending March 31, 2010 as compared to \$834,728 for the same period in 2009. This decrease was due primarily to a large charge-off related to a loan in the ethanol industry incurred in the prior year; such charge-offs were not repeated in the current reporting period. The Association recorded \$74,803 in recoveries and \$79,861 in charge-offs for the quarter ending March 31, 2010, and no recoveries and \$722,029 in charge-offs for the same period in 2009. The Association's allowance for loan losses was 0.5 percent and 0.2 percent of total loans outstanding as of March 31, 2010, and 2009, respectively.

The Association's return on average assets for the three months ended March 31, 2010, was 2.00 percent compared to 1.07 percent for the same period in 2009. The Association's return on average equity for the three months ended March 31, 2010, was 12.49 percent, compared to 6.46 percent for the same period in 2009.

Loan Portfolio:

The Association makes and services loans to farmer, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive 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.

Total loans outstanding at March 31, 2010, stated at recorded investment (principle less funds held), were \$653,063,078 compared to \$637,803,081 at December 31, 2009, reflecting an increase of 2.4 percent. The major commodities within the Association's loan portfolio are timber, cattle, poultry and field crops.

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

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Acceptable	94.2 %	94.5 %
Special Mention	1.3 %	1.8 %
Substandard	4.5 %	3.7 %
Total	<u>100.0 %</u>	<u>100.0 %</u>

Risk Exposure:

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

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 12,109,970	97.0%	\$ 9,943,379	77.8%
90 days past due and still accruing interest	-	0.0%	120,087	0.9%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	375,807	3.0%	2,724,225	21.3%
Total	<u>\$ 12,485,777</u>	<u>100.0%</u>	<u>\$ 12,787,691</u>	<u>100.0%</u>

At March 31, 2010 loans that were considered impaired were \$12,109,970, compared to \$10,063,466 at December 31, 2009. This represents 1.9 percent and 1.6 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. Total nonaccrual loans as of March 31, 2010 increased compared to December 31, 2009 as economic deterioration resulted in several more loans being classified as nonaccrual, due to management's belief that the Association will not receive all principal and interest according to the original terms of the loans. However, almost 90% of the increase is attributable to only four borrowers with large credits.

Regarding the decrease to other property owned, net, the Association owned eight foreclosed properties as of December 31, 2009. During the first quarter of 2010, the Association sold five of the properties (including the three highest-value properties), and one small property was added through foreclosure, leaving four properties remaining on the books as of March 31, 2010.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations. The following schedule summarizes the Association's borrowings.

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Note payable to the Bank	\$ 558,338,877	\$ 545,536,104
Accrued interest on note payable	1,371,028	1,394,506
Total	<u>\$ 559,709,905</u>	<u>\$ 546,930,610</u>

Capital Resources:

The Association's capital position increased by \$3,382,143 at March 31, 2010, compared to December 31, 2009. The Association's debt as a ratio to members' equity was 5.21:1 as of March 31, 2010, compared to 5.29:1 as of December 31, 2009.

In December 2009, the board declared a \$3,000,000 cash patronage to be paid to stockholders from the Association's 2009 earnings. The patronage distribution was completed in March 2010.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2010, was 14.8 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2010, were 14.2 and 14.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In 2009, the Financial Accounting Standards Board (FASB) issued guidance on several issues, including fair value measurements and accounting for transfers of financial assets. This guidance is discussed in detail in Note 1, "Organization and Significant Accounting Policies," to the financial statements included in this quarterly report.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2009 Annual Report of Alabama Ag Credit, ACA more fully describe the Association's relationship with the Bank.

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, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcb@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site 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 by calling (334) 270-8687. Copies of the reports can also be requested by e-mailing awolf@AlabamaAgCredit.com. The Association's quarterly stockholder reports are available on its website at www.AlabamaAgCredit.com approximately 40 days after each 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 fiscal year end.

ALABAMA AG CREDIT, ACA
CONSOLIDATED BALANCE SHEET

	March 31, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
Cash	\$ 13,399	\$ 16,683
Loans	653,063,078	637,803,081
Less: allowance for loan losses	<u>3,540,199</u>	<u>3,437,322</u>
Net loans	649,522,879	634,365,759
Accrued interest receivable	8,072,188	7,738,470
Investment in and receivable from the Bank:		
Capital stock	10,512,930	10,512,930
Accrued patronage receivable	136,500	335,034
Other	399,697	873,568
Other property owned, net	375,807	2,724,225
Premises and equipment	2,186,775	2,026,448
Other assets	<u>789,636</u>	<u>249,851</u>
Total assets	<u><u>\$ 672,009,811</u></u>	<u><u>\$ 658,842,968</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 558,338,877	\$ 545,536,104
Accrued interest payable	1,371,028	1,394,506
Drafts outstanding	1,184,097	908,418
Patronage distributions payable	10,303	3,000,059
Other liabilities	<u>2,911,804</u>	<u>3,192,322</u>
Total liabilities	<u><u>563,816,109</u></u>	<u><u>554,031,409</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,728,280	3,661,325
Unallocated retained earnings	104,354,324	101,029,380
Accumulated other comprehensive income	<u>111,098</u>	<u>120,854</u>
Total members' equity	<u>108,193,702</u>	<u>104,811,559</u>
Total liabilities and members' equity	<u><u>\$ 672,009,811</u></u>	<u><u>\$ 658,842,968</u></u>

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended	
	March 31,	
	2010	2009
<u>INTEREST INCOME</u>		
Loans	\$ 8,611,193	\$ 8,372,786
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	4,106,754	4,282,547
Net interest income	4,504,439	4,090,239
<u>PROVISION FOR LOSSES</u>		
Provision for loan losses	107,935	834,728
Provision for acquired property losses	-	67,878
Net income after provision for losses	4,396,504	3,187,633
<u>NONINTEREST INCOME</u>		
Patronage income from the Bank	213,551	205,974
Loan fees	339,645	347,943
Financially related services income	1,272	1,707
Gain (Loss) on sale of other property owned, net	325,618	(12,162)
Gain (Loss) on sale of premises and equipment, net	1,063	(369)
Other noninterest income	27,848	47,369
Total noninterest income	908,997	590,462
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,274,003	1,301,856
Directors' expense	80,868	92,541
Purchased services	249,234	538,470
Travel	45,479	56,580
Occupancy and equipment	83,022	78,014
Communications	31,430	26,193
Advertising	74,520	18,187
Public and member relations	44,598	36,588
Supervisory and exam expense	52,251	55,569
Insurance Fund premiums	182,575	281,859
Other noninterest expense	28,796	15,618
CMS expense reimbursements	(166,219)	(386,534)
Total noninterest expenses	1,980,557	2,114,941
Net income	\$ 3,324,944	\$ 1,663,154

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2008	\$ 3,494,180	\$ 99,133,667	\$ 184,053	\$ 102,811,900
Comprehensive income				
Net income	-	1,663,154	-	1,663,154
Change in postretirement benefit plans	-	-	(9,755)	(9,755)
Total comprehensive income	-	1,663,154	(9,755)	1,653,399
Capital stock/participation certificates issued	122,340	-	-	122,340
Capital stock/participation certificates retired	(106,760)	-	-	(106,760)
Patronage refunds:				
Cash	-	(3,500,000)	-	(3,500,000)
Balance at March 31, 2009	<u>\$ 3,509,760</u>	<u>\$ 97,296,821</u>	<u>\$ 174,298</u>	<u>\$ 100,980,879</u>
Balance at December 31, 2009	\$ 3,661,325	\$ 101,029,380	\$ 120,854	\$ 104,811,559
Comprehensive income				
Net income	-	3,324,944	-	3,324,944
Change in postretirement benefit plans	-	-	(9,756)	(9,756)
Total comprehensive income	-	3,324,944	(9,756)	3,315,188
Capital stock/participation certificates issued	153,370	-	-	153,370
Capital stock/participation certificates retired	(86,415)	-	-	(86,415)
Balance at March 31, 2010	<u>\$ 3,728,280</u>	<u>\$ 104,354,324</u>	<u>\$ 111,098</u>	<u>\$ 108,193,702</u>

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

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves 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 (the System), which was established by Acts of Congress to meet the needs of American agriculture.

A description of the Association's significant accounting policies and the financial condition and results of operations as of December 31, 2009 are contained in the 2009 Annual Report to the stockholders. These unaudited first quarter 2010 consolidated financial statements should be read in conjunction with the 2009 Annual Report to the stockholders.

Effective January 1, 2010, the Bank and related associations adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association's financial condition and results of operations.

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 is 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 is 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. The Association reviewed its loan participation agreements to ensure that participations would meet the requirements for sales treatment and there are no special-purpose entities that would require consolidation. 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 is 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 is prohibited. The Association does not have any variable interest or controlling interest in a variable entity, thus there is no impact of adoption of the guidance.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. However, in regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2010 are not necessarily indicative of the results to be expected for the year ended December 31, 2010. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

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

	March 31, 2010	March 31, 2009
Balance at beginning of quarter	\$ 3,437,322	\$ 959,718
Provision for loan losses	107,935	834,728
Charge-offs	(79,861)	(722,029)
Recoveries	74,803	-
Balance at end of quarter	<u>\$ 3,540,199</u>	<u>\$ 1,072,417</u>

The following table presents information concerning impaired loans:

	March 31, 2010	March 31, 2009
Impaired loans with related allowance	\$ 6,562,241	\$ 1,481,690
Impaired loans with no related allowance	5,547,729	1,948,343
Total impaired loans	<u>\$ 12,109,970</u>	<u>\$ 3,430,033</u>
Allowance on impaired loans	\$ 1,751,438	\$ 336,251
Average impaired loans	\$ 10,106,553	\$ 4,313,872
Interest income on impaired loans for the quarter	\$ 24,348	\$ 22,109

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential losses 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.

In December 2009, the board declared a \$3,000,000 cash patronage to be paid to stockholders from the Association's 2009 earnings. The patronage distribution was completed in March 2010.

NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, Alabama Farm Credit, ACA, Mississippi Land Bank, ACA, Southern AgCredit, ACA, and the 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 are recorded in the statement of income in their respective line items.

NOTE 5 — INCOME TAXES:

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

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

NOTE 6 — FAIR VALUE MEASUREMENTS:

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 11 to the 2009 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2010</u>	<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 *	\$ -	\$ -	\$ 5,268,151	\$ 5,268,151
Other property owned	-	-	417,321	417,321
<u>December 31, 2009</u>	<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 *	\$ -	\$ -	\$ 4,693,542	\$ 4,693,542
Other property owned	-	-	2,819,516	2,819,516

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

Valuation Techniques

As more fully discussed in Note 11 to the 2009 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2009 Annual Report.

Loans

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

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the assets fair value.

By contrast, however, other property owned, net is reported in the accompanying balance sheet at the lower of the related loan's carrying amount (at acquisition) or the collateral's fair value less estimated costs to sell. As of March 31, 2010, other property owned, net is reported at \$375,807 in the balance sheet.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31, :

	Other Benefits	
	2010	2009
Service cost	\$ 11,639	\$ 12,156
Interest cost	20,770	19,601
Expected return on plan assets	-	-
Amortization of prior service costs	(9,756)	(9,755)
Amortizations of net (gain) loss	-	-
Net periodic benefit cost	<u>\$ 22,653</u>	<u>\$ 22,002</u>

The Association previously disclosed in its Annual Report to the stockholders for the year ended December 31, 2009, that it expected to contribute \$23,920 to its postretirement health and welfare benefits plan in 2010. As of March 31, 2010, \$6,796 of contributions have been made. The Association's liability for the plan's unfunded accumulated benefit obligation at March 31, 2010 was \$1,410,841 and is included in "Other liabilities" in the balance sheet.

NOTE 8 — COMMITMENTS AND CONTINGENCIES:

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

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through April 28, 2010, which is the date the financial statements were available to be issued, and determined that there are no subsequent events to report.