ALABAMA AG CREDIT, ACA

2010
Quarterly Report
3rd Quarter

For the Quarter Ended September 30, 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
October 26, 2010

W. Thomas Dozier, III, Chairman, Board of Directors
October 26, 2010

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
October 26, 2010

J.K. Love, CPA, Chairman, Audit Committee
October 26, 2010

ALABAMA AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2010. These comments should be read in conjunction with the accompanying 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 $2,614,396 and $8,927,096 for the three and nine months ended September 30, 2010, as compared to net income of $2,468,011 and $4,997,448 for the same periods in 2009 reflecting an increase of 5.9 percent and 78.6 percent, respectively. Net interest income was $4,657,072 and $13,713,517, respectively, for the three and nine months ended September 30, 2010, compared to $4,223,855 and $12,422,595 for the same periods in 2009. Interest income for the first nine months of 2010 increased by $677,256 or 2.7 percent from the same period of 2009, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the first nine months of 2010 decreased by $613,666, or 4.8 percent, from the same period of 2009 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2010 was $649,431,106, compared to $625,333,975 in the third quarter of 2009.

Noninterest income for the three and nine months ended September 30, 2010 increased by $33,675 and $565,895, or 6.4 percent and 34.7 percent, respectively, over the same periods of 2009. This is due primarily to a refund of $558,365 received during the second quarter from the Farm Credit Insurance Corporation (FCSIC) on prior years' premiums; no such refunds were received in 2009.

Noninterest expenses for the three and nine months ended September 30, 2010, decreased by $186,480 and $892,423, or 9.2 percent and 14.3 percent, respectively, as compared to the same periods of 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 actuarially-determined, required 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 when the FCSIC board decreased the insurance premium assessment rate for Farm Credit System banks. The premium rate was 20 basis points on adjusted insured debt for all of 2009; however the FCSIC board decreased the premium rate to 5 basis points for 2010.

The Association's provision for loan loss was $18,195 and $904,302 for the quarter and nine months ended September 30, 2010 as compared to $184,249 and $2,730,202 for the same periods in 2009. In the second quarter of 2009, the Association recognized provisions on two large participation loans in the ethanol industry, accounting for most of the year-to-date provision expense. In the third quarter of 2010, one of the ethanol credits was restructured in bankruptcy court, wherein the lending group was awarded ownership of all of the equity of the borrowing entity, a portion of the outstanding principal was charged down against existing allowance reserves, and the value of the equity received was booked as an acquired property. The Association's pro-rata share of the equity received was valued at $731,537, which offset the current quarter's provision for loan loss expense. However, a full valuation allowance was also recognized against the assets, resulting in a provision for acquired property losses of the same amount. By comparison, there was relatively little provision for acquired property loss expense in the prior year.

For further information on the Association's allowance for loan losses, see Note 2, "Allowance for Loan Losses," to the financial statements included in this quarterly report.

The Association recognized charge-offs of $1,033,847 and $2,419,157 for the three and nine months ended September 30, 2010, and charge-offs of $240,743 and $995,572 for the same periods in 2009. The Association recorded recoveries of $0 and $600,096 for the three and nine months ended September 30, 2010 as compared to no recoveries being recorded for the same time periods in 2009.

The Association's return on average assets for the nine months ended September 30, 2010, was 1.78 percent compared to 1.05 percent for the same period in 2009. The Association's return on average equity for the nine months ended September 30, 2010, was 10.83 percent, compared to 6.49 percent for the same period in 2009.

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.

Total loans outstanding at September 30, 2010, stated at recorded investment (principal less funds held), were $652,151,195 compared to $637,803,081 at December 31, 2009, reflecting an increase of 2.3 percent. The major commodities within the Association's loan portfolio are timber, poultry, cattle and field crops.

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

	September 30, 2010	December 31, 2009
Acceptable	**95.2 %**	94.5 %
Special Mention	**1.3 %**	1.8 %
Substandard	**3.5 %**	3.7 %
Total	**100.0 %**	100.0 %

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.

	September 30, 2010		December 31, 2009	
	Amount	**%**	Amount	%
Nonaccrual	**$ 8,877,150**	**77.9%**	$ 9,943,379	77.8%
90 days past due and still accruing interest	**101,905**	**0.9%**	120,087	0.9%
Formally restructured	**182,193**	**1.6%**	-	0.0%
Other property owned, net	**2,233,088**	**19.6%**	2,724,225	21.3%
Total	**$ 11,394,336**	**100.0%**	$ 12,787,691	100.0%

At September 30, 2010 loans that were considered impaired were $9,161,248 compared to $10,063,466 at December 31, 2009. This represents 1.4 percent and 1.6 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. 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, total nonaccrual loans as of September 30, 2010 decreased slightly compared to December 31, 2009, as a result of ongoing efforts by Association staff to service and work through troubled credits. During the nine months ended September 30, 2010, the Association received a payoff on one large credit of approximately $2.1 million, foreclosed on several loans totaling approximately $1.7 million, and restructured large participation credits, resulting in substantial charge-offs. All of this activity offset the increases to nonaccrual loans. The restructured loans remain classified as nonaccrual, however if the quality of the credits improves to the point that they can be upgraded to accrual status, at that time the credits will be shown as "formally restructured."

Other property owned, net decreased from December 31, 2009 as the Association sold several properties during the first nine months, three of which accounted for approximately 84% of the year-end balance. Several properties remain as of September 30, 2010, however the average size and value of the properties is smaller in comparison to the properties owned at December 31, 2009.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the Association's borrowings.

	September 30, 2010		December 31, 2009	
Note payable to the Bank	**$**	**554,737,069**	$	545,536,104
Accrued interest on note payable		**1,285,001**		1,394,506
Total	**$**	**556,022,070**	$	546,930,610

Capital Resources:

The Association's capital position increased by $9,051,935 at September 30, 2010, compared to December 31, 2009. The Association's debt as a ratio to members' equity was 4.92:1 as of September 30, 2010, compared to 5.29:1 as of December 31, 2009.

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 September 30, 2010, was 16.0 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2010, were 15.3 and 15.3 percent, respectively, which is in compliance with the FCA's minimum surplus standards.

Significant Recent Accounting Pronouncements:

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 January 1, 2010. This statement must be applied to transfers occurring on or after the effective date. Additionally, 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 in accordance with the applicable consolidation guidance. If the evaluation 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 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 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 *Andra.Wolf@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

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash	**$ 15,278**	$ 16,683
Loans	**652,151,195**	637,803,081
Less: allowance for loan losses	**2,522,564**	3,437,322
Net loans	**649,628,631**	634,365,759
Accrued interest receivable	**7,715,410**	7,738,470
Investment in and receivable from the Bank:		
Capital stock	**10,512,930**	10,512,930
Accrued patronage receivable	**409,500**	335,034
Other	**436,561**	873,568
Other property owned, net	**2,233,088**	2,724,225
Premises and equipment	**2,668,417**	2,026,448
Other assets	**435,858**	249,851
Total assets	**$ 674,055,673**	$ 658,842,968
LIABILITIES		
Note payable to the Bank	**$ 554,737,069**	$ 545,536,104
Accrued interest payable	**1,285,001**	1,394,506
Drafts outstanding	**1,861,240**	908,418
Patronage distributions payable	**2,148**	3,000,059
Other liabilities	**2,306,721**	3,192,322
Total liabilities	**560,192,179**	554,031,409
MEMBERS' EQUITY		
Capital stock and participation certificates	**3,815,430**	3,661,325
Unallocated retained earnings	**109,956,476**	101,029,380
Accumulated other comprehensive income	**91,588**	120,854
Total members' equity	**113,863,494**	104,811,559
Total liabilities and members' equity	**$ 674,055,673**	$ 658,842,968

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
INTEREST INCOME				
Loans	**$ 8,677,756**	$ 8,479,216	**$ 25,923,683**	$ 25,246,427
INTEREST EXPENSE				
Note payable to the Bank	**4,020,684**	4,255,361	**12,210,166**	12,823,832
Net interest income	**4,657,072**	4,223,855	**13,713,517**	12,422,595
PROVISION FOR LOSSES				
Provision for loan losses	**18,195**	184,249	**904,302**	2,730,202
Provision for acquired property losses	**731,537**	58,496	**747,602**	102,110
Net interest income after provision for losses	**3,907,340**	3,981,110	**12,061,613**	9,590,283
NONINTEREST INCOME				
Patronage income from the Bank	**211,212**	202,081	**637,411**	612,433
Loan fees	**329,384**	318,132	**899,014**	969,034
Financially related services income	**2,110**	2,157	**4,274**	4,824
Gain (loss) on sale of premises and equipment, net	**15,244**	1,905	**37,249**	(3,988)
Other noninterest income	**-**	-	**617,619**	47,369
Total noninterest income	**557,950**	**524,275**	**2,195,567**	**1,629,672**
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,225,502**	1,269,618	**3,721,405**	3,844,562
Directors' expense	**42,944**	30,977	**178,116**	180,514
Purchased services	**229,241**	266,018	**748,289**	1,172,686
Travel	**121,512**	73,999	**255,629**	211,092
Occupancy and equipment	**100,663**	77,825	**259,985**	234,449
Communications	**24,794**	24,418	**78,395**	75,183
Advertising	**82,403**	49,399	**241,260**	95,880
Public and member relations	**33,542**	33,149	**114,712**	103,841
Supervisory and exam expense	**-**	52,251	**104,501**	163,388
Insurance Fund premiums	**69,561**	245,769	**286,605**	790,877
Other noninterest expense	**40,629**	26,120	**104,944**	72,660
Loss (gain) on other property owned, net	**4,846**	36,983	**(322,677)**	29,891
CMS expense reimbursements	**(124,743)**	(149,152)	**(441,080)**	(752,516)
Total noninterest expenses	**1,850,894**	2,037,374	**5,330,084**	6,222,507
Net income	**$ 2,614,396**	$ 2,468,011	**$ 8,927,096**	$ 4,997,448

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	-	4,997,448	-	4,997,448
Change in postretirement benefit plans			(29,266)	(29,266)
Total comprehensive income	-	4,997,448	(29,266)	4,968,182
Capital stock/participation certificates issued	412,595			412,595
Capital stock/participation certificates retired	(291,320)			(291,320)
Patronage refunds:				-
Cash	-	(3,500,000)	-	(3,500,000)
Balance at September 30, 2009	$ 3,615,455	$ 100,631,115	$ 154,787	$ 104,401,357
Balance at December 31, 2009	$ 3,661,325	$ 101,029,380	$ 120,854	$ 104,811,559
Comprehensive income				
Net income	-	8,927,096	-	8,927,096
Change in postretirement benefit plans			(29,266)	(29,266)
Total comprehensive income	-	8,927,096	-	8,897,830
Capital stock/participation certificates issued	417,100			417,100
Capital stock/participation certificates retired	(262,995)			(262,995)
Balance at September 30, 2010	**$ 3,815,430**	**$ 109,956,476**	**$ 91,588**	**$ 113,863,494**

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 third quarter 2010 consolidated financial statements should be read in conjunction with the 2009 Annual Report to the Stockholders.

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

Effective January 1, 2010, the Association 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 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 January 1, 2010. This statement must be applied to transfers occurring on or after the effective date. Additionally, 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 in accordance with the applicable consolidation guidance. If the evaluation 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 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 January 1, 2010. The Association does not have any variable interest or controlling interest in a variable entity, thus there is no impact of adoption.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the nine months ended September 30, 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:

	September 30, 2010	September 30, 2009
Balance at beginning of quarter	**$ 3,538,216**	$ 2,750,842
Provision for loan losses	**18,195**	184,249
Charge-offs	**(1,033,847)**	(240,743)
Recoveries	**-**	-
Balance at end of quarter	**$ 2,522,564**	$ 2,694,348

The following table presents information concerning impaired loans:

	September 30, 2010	September 30, 2009
Impaired loans with related allowance	**$ 2,500,666**	$ 3,021,073
Impaired loans with no related allowance	**6,660,582**	5,731,012
Total impaired loans	**$ 9,161,248**	$ 8,752,085
Allowance on impaired loans	**$ 251,354**	$ 2,064,286
Average impaired loans	**$ 10,652,645**	$ 7,753,357
Interest income on impaired loans for the quarter	**$ 36,984**	$ 15,439

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 loss 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 September 30, 2010, based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the nine months ended September 30, 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 September 30, 2010 for each of the fair value hierarchy values are summarized below:

September 30, 2010	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Loans *	**$ -**	**$ -**	**$ 4,423,697**	**$ 4,423,697**
Other property owned	**-**	**-**	**2,573,457**	**2,573,457**

December 31, 2009	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
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 September 30, 2010, other property owned, net is reported at $2,233,088 in the balance sheet.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the nine months ended September 30:

	Other Benefits	
	2010	2009
Service cost	**$ 34,917**	$ 36,468
Interest cost	**62,310**	58,803
Expected return on plan assets	**-**	-
Amortization of prior service costs	**(29,266)**	(29,267)
Amortizations of net (gain) loss	**-**	-
Net periodic benefit cost	**$ 67,961**	$ 66,004

The Association previously disclosed in its financial statements for the year ended December 31, 2009, that it expected to contribute $23,920 to its defined pension plan in 2010. As of September 30, 2010, $20,686 of contributions have been made. The Association's liability for the plan's unfunded accumulated benefit obligation at September 30, 2010 was $1,461,768 and is included in "Other liabilities" in the balance sheet.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

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 October 26, 2010, which is the date the financial statements were available to be issued, and determined that there are no subsequent events to report.