

---

**FARM CREDIT OF SOUTH FLORIDA, ACA**  
**2010 ANNUAL REPORT**

**Contents**

Message from the President.....	3-4
Report of Management .....	5
Report on Internal Control Over Financial Reporting .....	6
Consolidated Five-Year Summary of Selected Financial Data .....	7
Management's Discussion & Analysis of Financial Condition & Results of Operations .....	8-18
Disclosure Required by FCA Regulations.....	19-23
Report of the Audit Committee .....	24
Report of Independent Auditors.....	25
Consolidated Financial Statements .....	26-29
Notes to the Consolidated Financial Statements .....	30-47

**Management (of Farm Credit of Florida, ACA)**

Don Rice.....	President/Chief Executive Officer
Roger Scarborough .....	Chief Lending Officer
Linda Rusciano.....	Chief Financial Officer
Esther Morales.....	Chief Credit Officer
Blanca Aquino.....	Chief Operations Officer
Daniel Irby.....	Chief Risk Officer
Sonja Newland .....	Special Assets Officer

**Board of Directors (of Farm Credit of Florida, ACA)**

Louis E. Larson, Jr. ....	Chairman
Sherwood J. Johnson.....	Vice Chairman
James M. Alderman .....	Director
John L. Alger .....	Director
T. Richard Barber, Jr. ....	Director
Howard P. Bateman .....	Director
Robert J. Callaway.....	Outside Director
Jack C. Coker .....	Director
Shepherd E. Colledge .....	Outside Director
Roger W. Davis .....	Director
Walter S. Farr .....	Director
John Roy Gough .....	Director
William E. Hopkins.....	Director
Joseph C. Joyce .....	Outside Director
Martin J. McKenna .....	Director
Charles F. Martin.....	Director
Douglas Moore .....	Director
Jerry M. Newlin .....	Director
Lloyd Register .....	Director
Stanford Robertson .....	Director
Ron St. John .....	Director
Arthur Sandlin .....	Director
Robert G. Sexton.....	Director
Lisa Sherman .....	Outside Director
John F. Smoak, Jr. ....	Director
Andrea Thurn .....	Outside Director
E. E. Waldron .....	Outside Director
J. Mark Wheeler .....	Director

---

(This page intentionally left blank).

# *Message from the President*

Farm Credit celebrates its 95<sup>th</sup> anniversary in 2011. Since 1916, the Farm Credit System has served farmers, ranchers, cooperatives and rural communities through local associations owned by the people who use its services. This cooperative model has served us well for that entire time. However, what began as thousands of local associations has now consolidated down to just over 80 associations nationwide. In early 2010, three of Florida's five Farm Credit associations: Farm Credit of North Florida, Farm Credit of Southwest Florida and Farm Credit of South Florida began to consider merging to better serve the farmers, ranchers, cooperatives and rural communities in our respective geographic territories. In November, our stockholders overwhelmingly approved the merger and, on January 1, 2011, the merger became effective with the new association named Farm Credit of Florida.

As the President and CEO of Farm Credit of Florida, I would like to update you on the financial performance of each of those entities during 2010 and provide additional details specific to your former association.

Since the national economic recession began in late 2007, Florida has been one of the most severely impacted states. We entered the recession well before the rest of the nation and continue to struggle as the rest of the country begins to recover. Unemployment across the state reached much higher peaks than the national average and remains well above 10 percent. Home prices across the state have fallen by almost one-half, thousands are in foreclosure and many more may default as the economy continues to struggle in numerous parts of the state.

While the production conditions and prices for most agricultural products were stable-to-good over the past few years, nursery growers, timber producers and loans to individuals dependent on non-farm income for repayment are closely tied to the general economy. These borrowers have struggled to maintain sufficient cash flow to repay loans. Moreover, almost all agriculture producers have seen a marked decline in their financial position as farm land prices have fallen as dramatically as home prices. These adverse conditions for our borrowers have also stressed the performance of all three of the merging associations.

While the former South Florida Association had relatively strong net earnings at \$8.5 million, both the former Southwest and North associations had net operating losses in 2010 of \$9 million and \$12.5 million, respectively. All three ended the year with strong permanent capital ratios, the principle regulatory measure of capital. South had a permanent capital ratio of 17.19%, North had 12.67% and Southwest had 14.58%. The minimum permanent capital ratio required by the regulator is 7.0%. Loan losses from charge-offs were the primary drag on association capital with 1.6% of total assets at South Florida, 4.8% at Southwest and 1.7% at North. Provisions for future losses significantly reduced earnings in all three associations. Provisions for loan losses reduced North's income by \$15.2 million, Southwest's by \$9.7 million and South's by \$7.9 million. While the new association faces significant credit quality and loan performance challenges over the next few years, we feel the aggressive charge-offs taken and provisions for future loan losses recorded, by each association in 2010, has positioned us to face those challenges without material declines in income and capital in future years. Also, to facilitate the merger, the associations entered into an agreement with AgFirst Farm Credit Bank (the funding bank for the Association) that limits future losses, which could jeopardize the viability of Farm Credit of Florida.

The following pages provide a detailed report on the financial performance of your previous association, Farm Credit of South Florida, during 2010. We believe Florida's recession has bottomed, and we are currently seeing signs of improvement in the new association's portfolio. We are optimistic about the future of farming in our new larger territory and the future performance of Farm Credit of Florida. While each of the three former associations leaves behind a 95-year heritage of serving our members, we are confident in the new association's ability to provide even more efficient and high-quality service to our combined members in the future.

I also want to acknowledge the Boards of the three merging associations for the courage and cooperation they exhibited in facilitating the merger. Even more, I want to commend and thank our staff for the extra effort they made to make the merger a success while still providing a high level of service to our members.

On behalf of Farm Credit of Florida's Board and staff, I want to thank you for your support of the merger, your past patronage of the former associations and for your future business.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Rice", enclosed within a large, loopy oval shape.

Don Rice  
President/Chief Executive Officer  
of Farm Credit of Florida, ACA,  
successor by merger to Farm Credit of South Florida, ACA

March 14, 2011

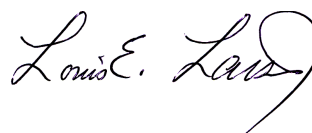
## *Report of Management*

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of South Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been examined by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

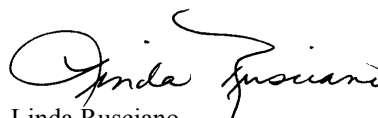
The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2010 Annual Report of Farm Credit of South Florida, ACA that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Louis E. Larson, Jr.  
Chairman of the Board  
of Farm Credit of Florida, ACA,  
successor by merger to Farm Credit of South Florida, ACA



Don Rice  
Chief Executive Officer  
of Farm Credit of Florida, ACA,  
successor by merger to Farm Credit of South Florida, ACA



Linda Rusciano  
Chief Financial Officer  
of Farm Credit of Florida, ACA,  
successor by merger to Farm Credit of South Florida, ACA

March 14, 2011

## Report on Internal Control Over Financial Reporting

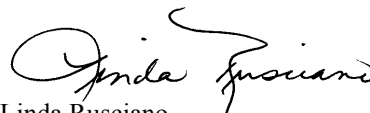
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2010. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2010, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2010.



Don Rice  
Chief Executive Officer  
of Farm Credit of Florida, ACA,  
successor by merger to Farm Credit of South Florida, ACA



Linda Rusciano  
Chief Financial Officer  
of Farm Credit of Florida, ACA,  
successor by merger to Farm Credit of South Florida, ACA

March 14, 2011

## Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2010	2009	December 31, 2008	2007	2006
<b>Balance Sheet Data</b>					
Cash	\$ 2,790	\$ 3,670	\$ 408	\$ 2,072	\$ 667
Investment securities	1,987	2,573	3,221	1,803	—
Loans	559,912	589,043	589,244	529,972	514,258
Less: allowance for loan losses	10,679	11,963	8,051	4,978	5,198
Net loans	549,233	577,080	581,193	524,994	509,060
Investments in other Farm Credit institutions	8,716	8,679	7,857	7,552	6,773
Other property owned	4,516	1,749	—	—	—
Other assets	16,576	17,487	16,412	17,850	18,914
Total assets	\$ 583,818	\$ 611,238	\$ 609,091	\$ 554,271	\$ 535,414
Notes payable to AgFirst Farm Credit Bank*	\$ 454,284	\$ 487,064	\$ 484,670	\$ 428,586	\$ 420,609
Accrued interest payable and other liabilities with maturities of less than one year	10,500	13,535	19,294	26,493	23,378
Total liabilities	464,784	500,599	503,964	455,079	443,987
Protected borrower stock	2,463	2,475	2,538	2,682	2,739
Capital stock and participation certificates	635	657	697	725	777
Retained earnings					
Allocated	30,879	25,239	22,550	22,483	21,752
Unallocated	85,057	82,268	79,342	73,302	66,159
Total members' equity	119,034	110,639	105,127	99,192	91,427
Total liabilities and members' equity	\$ 583,818	\$ 611,238	\$ 609,091	\$ 554,271	\$ 535,414
<b>Statement of Income Data</b>					
Net interest income	\$ 15,894	\$ 16,209	\$ 16,107	\$ 17,319	\$ 16,702
Provision for (reversal of allowance for) loan losses	7,900	6,500	5,525	—	—
Noninterest income (expense), net	529	53	3,656	(290)	(489)
Net income	\$ 8,523	\$ 9,762	\$ 14,238	\$ 17,029	\$ 16,213
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	1.44%	1.61%	2.47%	3.15%	3.20%
Total members' equity	7.30%	8.80%	13.55%	17.38%	17.97%
Net interest income as a percentage of					
average earning assets	2.93%	2.84%	2.91%	3.32%	3.41%
Net (chargeoffs) recoveries to average loans	(1.592)%	(0.440)%	(0.442)%	(0.042)%	0.019%
Total members' equity to total assets	20.39%	18.10%	17.26%	17.90%	17.08%
Debt to members' equity (:1)	3.90	4.52	4.79	4.59	4.86
Allowance for loan losses to loans	1.91%	2.03%	1.37%	0.94%	1.01%
Permanent capital ratio	17.20%	15.63%	15.57%	17.04%	16.31%
Total surplus ratio	17.16%	15.58%	15.50%	16.93%	16.18%
Core surplus ratio	17.16%	15.58%	15.50%	16.33%	14.94%
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 587	\$ 4,041	\$ 5,071	\$ 6,006	\$ 5,147
Nonqualified retained earnings	4,230	2,840	3,470	3,834	4,383

\* General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2011.

# Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

## GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of South Florida, ACA, (Association) for the year ended December 31, 2010 with comparisons to the years ended December 31, 2009 and December 31, 2008. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of southeast Florida. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Coughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, [www.farmcreditsfl.com](http://www.farmcreditsfl.com) or by calling 1-800-432-4156, extension 240, or writing Linda Rusciano, Farm Credit of South Florida, ACA, P. O. Box 213069, Royal Palm Beach, FL 33421. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after

the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

## 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, 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 the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to the USDA information in this section refer to the entire U.S. agricultural market and are not limited to the Association.

The February 2011 USDA forecast estimates that 2010 farmers' net cash income, which is a measure of the cash income after payment of business expenses, increased to \$91.3 billion, up \$22.2 billion from 2009, and up \$19.5 billion from its 10-year average of \$71.8 billion. The improvement in 2010 farmers' net cash income was primarily due to an increase in livestock receipts of \$21.7 billion. The USDA forecasts 2011 farmer's net cash income to increase to \$98.6 billion, a \$7.3 billion increase from 2010, and \$26.8 billion above the 10-year average. Contributing to this forecasted increase in 2011 farmers' net cash income are increases in crop receipts of \$24.0 billion, livestock receipts of \$4.3 billion, and farm-related income of \$300 million, partially offset by an increase in cash expenses of \$19.7 billion, and a decline in direct government payments of \$1.6 billion.

During 2010, feed prices declined through the first half of the year and export demand for livestock was strong resulting in the significant increase in livestock receipts. The forecast for crop receipts for 2010 was up from 2009 but not to the same extent as livestock. For 2011, crop receipts are forecasted to rise across a number of crop categories, particularly corn, soybeans, and cotton. Continued demand for ethanol, strong exports, and tight supplies are forecasted to contribute to significant commodity price increases. These increases, as well as uncertainty regarding future commodity price increases, could significantly raise input costs and place further pressure on certain dairy and livestock producers.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2007 to December 31, 2010:

Commodity	12/31/10	12/31/09	12/31/08	12/31/07
Corn	\$4.82	\$3.60	\$4.11	\$3.76
Soybeans	\$11.60	\$9.80	\$9.24	\$10.00
Wheat	\$6.45	\$4.87	\$5.95	\$7.74
Beef Cattle	\$98.10	\$78.50	\$79.70	\$88.90

The USDA's February 2011 income outlook shows a great deal of variation depending on farm size, geographic location, and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms, and rural residential farms. Commercial farms, large-scale farms with gross sales greater than \$250 thousand, represent about 10 percent of U.S. farms by number and represent 80 percent of total U.S. farm production. Commercial farms are expected to have a nearly 29 percent increase in average net cash income in 2010. Intermediate farms, defined as ones in which the primary occupation is farming and gross sales are between \$10 thousand and \$250 thousand, represent 30 percent of U.S. farms by number and account for 18 percent of total production. Intermediate farms are expected to have a 78 percent increase in average net cash income in 2010. The remaining 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than \$10 thousand in products. Rural residential farms only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of income for the repayment of farm debt obligations and is less subject to cycles in agriculture.

However, off-farm income can be directly affected by conditions in the general economy. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and more than 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 25 percent of farm household income for commercial farms is generated from off-farm income.

According to the USDA February 2011 forecast, farm sector asset values are expected to increase \$64 billion or 3.1 percent to \$2.121 trillion for 2010, reflecting increased expected returns on farm investments. The values of land, machinery/equipment, and inventories of crop, livestock, and poultry are expected to rise modestly in 2010. Farmers' equity (farm business assets minus debt) is expected to rise 3.8 percent from \$1.812 trillion in 2009 to \$1.881 trillion in 2010, largely due to an expected 3.1 percent increase in farm asset values and a 2.1 percent decline in debt.

One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. Lower rates indicate healthier cash flow and financial position. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 37 percent in 1973 to a high of 110 percent in 1981, and has remained relatively stable since 1987, averaging about 50 percent. During 2010, repayment capacity utilization decreased to 45 percent due to the increase in farmers' net cash income. The forecast for 2011 predicts farmers' utilization to decline from 45 percent in 2010 to approximately 43 percent for 2011.

As estimated by the USDA in February 2011, the Farm Credit System's market share of farm business debt, defined as debt incurred by those involved in on-farm agricultural production, grew to 40.1 percent at December 31, 2009 (latest available data), as compared with 39.0 percent at December 31, 2008. Farm business debt is forecasted to rise slightly in 2011 to \$241.6 billion from \$240.3 billion in 2010. The USDA's forecast of rising debt is due to rising production costs, such as energy and feed, in 2011, which will drive certain crop and livestock producers to increase their debt loads.

In general, agriculture has experienced a sustained period of favorable economic conditions, due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the Association's financial results have remained favorable as a result of these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economies remain volatile. Certain agriculture sectors, as described more fully in

this *Management Discussion and Analysis*, experienced significant financial stress during 2010 and could continue to experience financial stress in 2011. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

### CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in

the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.
- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2009 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

### ECONOMIC CONDITIONS

The U.S. and the world appear to be emerging from the worst recession since the Great Depression. The economy of Florida has declined more than any other state in most economic measures. It entered the recession more than six months before the rest of the nation and clearly remains in deep recession. The economy of the area served by the Association began a significant decline during 2007 and continued to decline rapidly through 2009 with no significant improvement noted during 2010. New construction, the leading economic driver in the South Florida economy for almost 10 years, essentially stopped. Inventories of unsold houses reached record highs and prices began to fall in 2006 and continued through 2009. There has been some stabilization in starter homes prices under \$250,000 during 2010. Across our territory, the median price of a home is down more than 50% from the peak of 2005. Foreclosures in South Florida remain among the highest in the U.S. and due to incorrect foreclosure documentation many Banks were forced to

suspend their foreclosures in 2010. Unemployment has risen sharply with Florida ending the year at 11.8% after peaking during March 2010 at 12.3%. This relates to 1.1 million Floridians being out of work.

The 2010 farm operating year was relatively stable for most Association financed industries with the exception of those directly tied to the housing industry like nursery, sod and tree growers. These growers continued to experience the worst economic conditions in history. Many tree and sod growers report sales being down 80-90 percent since the peak in 2005. Nursery growers' results are mixed based on the products and the marketing sources. Foliage sales to large retailers have seen some decline but not nearly as dramatic as landscape plants. The serious recession, which fully developed in 2008, has materially slowed and will continue to slow discretionary consumer purchases of plants.

Citrus growers continued to lose very significant acres of producing groves to diseases in 2010. Citrus canker, citrus greening and other diseases have resulted in the loss of thousands of acres of groves over the past few years. Prices for citrus products are currently good due to the increased demand for juice and fresh fruit and the reduction in crop size. However, the long-term prospects of keeping sufficient acres in production to operate the industry efficiently are bleak. The industry should be able to continue production at some level. However, the industry's infrastructure capacity will greatly exceed producer needs. Not only is the industry being forced to adopt new practices to produce crops threatened by these diseases, it also is facing dramatic changes in the way it harvests, processes and markets crops. Many packinghouses, processors, and others who provide services to the industry are being forced out of business or are merging operations due to the decreased volume of acres and fruit. Export levels of the 2010-2011 citrus crops are good due to the recovering world economy.

The demand for beef has been increasing and the lower cattle numbers have resulted in higher prices for feeder calves grown in our territory. Dairy prices, which were below the cost of production for most of 2009, recovered in 2010, but the recent increases in grain prices are starting to squeeze profit margins. Vegetable prices and production in 2010 was good for most producers financed by the Association.

Performance of the Association's portfolio saw significant decline in quality and performance in 2010. However, the year-end levels of non-performing loans remain manageable based on the Association's strong capital and earnings position. Most of the distressed borrowers are attempting to sell land to reduce debt but are unable to do so in the current market. Few sales are being reported and those that have occurred indicate that prices are still declining. The staff is aggressively working to assist these borrowers. The management team and board of directors continue to adjust the Association's loan underwriting and servicing practices to deal with the troubled assets. As charge-offs have occurred, the allowance for loan loss reserves has been replenished to insure the Association maintains its ability to deal with future performance stress in the loan portfolio. As in past economic downturns and natural disasters, Farm Credit stands ready to work with our members who have long-term viable operations even though they are currently experiencing cash flow and profitability problems.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	2010		December 31, 2009		2008	
			<i>(dollars in thousands)</i>			
Real estate mortgage	\$ 395,049	70.34%	\$ 409,864	69.58%	\$ 388,652	65.96%
Production and intermediate-term	110,974	19.94	81,233	13.79	72,121	12.24
Processing and marketing	41,538	7.49	72,756	12.35	90,194	15.31
Farm-related business	8,117	1.47	11,543	1.96	26,620	4.52
Communication	2,335	0.42	11,297	1.92	11,501	1.95
Energy	1,780	0.32	2,216	0.38	-	-
Rural residential real estate	119	0.02	134	0.02	156	0.02
<b>Total</b>	<b>\$ 559,912</b>	<b>100.00%</b>	<b>\$ 589,043</b>	<b>100.00%</b>	<b>\$ 589,244</b>	<b>100.00%</b>

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are nursery, livestock, equine, sugar, citrus and vegetables, which constitute over 48 percent of the entire portfolio.

Commodity Group	2010		December 31, 2009		2008	
			<i>(dollars in thousands)</i>			
Nursery/Greenhouse	\$ 150,069	27%	\$ 158,731	27%	\$ 160,501	27%
Participations						
Purchased	94,385	17	121,448	20	134,213	23
Other Real Estate	76,479	13	65,502	11	67,743	11
Livestock	29,181	5	31,563	5	29,744	5
Equine	49,083	9	45,989	8	42,424	7
Sugar Cane	18,667	3	22,120	4	20,190	3
Vegetables	31,279	6	29,816	5	23,329	4
Other	21,919	4	19,091	3	40,785	7
Citrus Fruits	25,117	4	28,269	5	26,551	5
Dairy	20,864	4	23,244	4	17,796	3
Farm Related Business	32,808	6	33,920	6	16,548	3
Fruits	10,061	2	9,350	2	9,420	2
<b>Total</b>	<b>\$ 559,912</b>	<b>100%</b>	<b>\$ 589,043</b>	<b>100%</b>	<b>\$ 589,244</b>	<b>100%</b>

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association enjoys a diverse commodity portfolio with no significant single concentration in any one commodity. The Nursery/Greenhouse group represents 26.8% of the portfolio, it should be noted this group is a broad classification covering both interior foliage and exterior landscape plant products with very different market characteristics and credit risk profiles. Other concentrations,

such as sugar and vegetables contain operations that are vertically integrated with processing, sales and marketing which increases their profitability and reduces credit risks to the Association. For purposes of calculating concentration risks, each loan is classified by the principal product grown. However, many operations produce a number of products in addition to the principal product, thus reducing overall risks to the operation and the Association.

The decrease in gross loan volume for the twelve months ended December 31, 2010, is primarily attributed to the economic recession that has impacted loan demand and applicants ability to qualify for credit. Fluctuations in volume can also be influenced by usage of borrower SmartCash accounts, a voluntary additional conditional payment fund, which are offset against the related loans outstanding in the portfolio. SmartCash balances at December 31, 2010 were \$6,809, compared to \$8,231 at December 31, 2009 and \$7,645 at December 31, 2008. Additional SmartCash funds, held in Other Liabilities against commitment balances, totaled \$3,710 as of December 31, 2010 as compared to \$2,400 and \$7,387 at 2009 and 2008, respectively.

For the past few years, the Association has experienced a shift in loan assets. The short and intermediate-term volume trend has been downward while the long-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in the fall and rapidly declines in the spring and early summer months as commodities are marketed and proceeds are applied to repay operating loans.

During 2009 and 2010, the Association increased activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen their capital position.

Loan Participations:	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 86,887	\$ 140,835	\$ 117,437
Participations Purchased			
– Non-FCS Institutions	9,391	10,964	13,608
Participations Sold	(39,599)	(86,433)	(87,926)
Total	\$ 56,679	\$ 65,366	\$ 43,119

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2010.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2010, the Association originated loans for resale totaling \$698, which were sold into the secondary market. The Association additionally purchased portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2010, the balance of these loans, including the

unamortized premium, was \$6,545, compared to \$11,052 at December 31, 2009 and \$13,608 at December 31, 2008.

### MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot and the Tobacco Buyout Program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2010, December 31 2009 and December 31, 2008, the Association had no investments in Rural America Bonds. The Association is actively seeking opportunities in the Rural America Bond Program; however, very limited opportunities exist within the Association’s largely urban territory.

### INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association’s investments consist primarily of asset-backed securities (ABS). The ABS investments amounted to \$1,987 at December 31, 2010, \$2,573 at December 31, 2009 and \$3,221 at December 31, 2008. These investments are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of

payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be required by our regulator to dispose of the security.

Investment securities classified as being held-to-maturity totaled \$1,987 at December 31, 2010, \$2,573 at December 31, 2009 and \$3,221 at December 31, 2008. These held-to-maturity investments consist of pools of loans with United States government guarantees.

### CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$1 million. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.

- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2010	2009	2008
Acceptable & OAEM	82.46%	90.39%	94.18 %
Substandard	17.54%	9.61%	5.82 %
Doubtful	–%	–%	– %
Loss	–%	–%	– %
Total	100.00%	100.00%	100.00 %

### Nonperforming Assets

The Association’s loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 49,268	\$ 23,864	\$ 14,384
Impaired accrual loans			
Restructured loans	–	–	–
Current as to principal and interest	–	–	–
Accruing loans 90 days past due	–	–	–
Total high-risk loans	49,268	23,864	14,384
Other property owned	4,516	1,749	–
Total high-risk assets	\$ 53,784	\$ 25,613	\$ 14,384
<b>Ratios</b>			
Nonaccrual loans to total loans	8.80%	4.05%	2.44%
High-risk assets to total assets	9.21%	4.19%	2.36%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased \$25,404 or 106.45 percent in 2010. This increase resulted from continued deterioration of credit quality and decline of collateral values resulting from the current economic downturn. Of the \$49,268 in nonaccrual volume at December 31, 2010, \$11,592 or 23.53%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

*Allowance for Loan Losses*

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 11,963	\$ 8,051	\$ 4,978
Charge-offs:			
Real estate mortgage	(4,934)	(2,700)	(1,605)
Production and intermediate-term	(1,783)	(347)	(581)
Agribusiness	(20)	—	(278)
Communication	(2,554)	—	—
Total charge-offs	(9,291)	(3,047)	(2,464)
Recoveries:			
Real estate mortgage	95	137	—
Production and intermediate-term	12	322	12
Total recoveries	107	459	12
Net (charge-offs) recoveries	(9,184)	(2,588)	(2,452)
Provision for (reversal of allowance for) loan losses	7,900	6,500	5,525
Balance at end of year	\$ 10,679	\$ 11,963	\$ 8,051
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(1.59%)	(0.440)%	(0.442)%

The net loan charge-offs were primarily associated with transfers to nonaccrual status where the outstanding balance of the loan exceeded the net realizable value of the collateral.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 7,684	\$ 6,267	\$ 6,382
Production and intermediate-term	1,878	1,238	975
Agribusiness	955	2,933	637
Communication	162	1,525	57
Rural residential real estate	—	—	—
Total Allowance for Loan Losses	\$ 10,679	\$ 11,963	\$ 8,051

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31,		
	2010	2009	2008
Total loans	1.91%	2.03%	1.37%
Nonperforming loans	21.68%	50.13%	55.97%
Nonaccrual loans	21.68%	50.13%	55.97%

Please refer to Note 4, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

**RESULTS OF OPERATIONS**

Net income for the year ended December 31, 2010, totaled \$8,523, a decrease of \$1,239 or 12.69 percent, as compared to \$9,762 for the same period of 2009 and a decrease of \$5,715 or 40.14 percent, as compared to \$14,238 for the same period of 2008. The decline in net income for the year ending 2010 is attributed to a decrease in net interest income coupled with an increase in the provision for loan losses of \$1,400.

Interest income for the year ended December 31, 2010 was \$28,289, a decrease of \$2,988 or 9.55 percent as compared to \$31,277 for the same period of 2009. Interest income decreased by \$6,442 or 17.08 percent for the period ended December 31, 2009, compared to the same period of 2008. The significant decline in interest income during 2010 is a result of a decline in loan volume and increased volume transferred to nonaccrual status during the period.

*Net Interest Income*

Net interest income was \$15,894, \$16,209 and \$16,107 in 2010, 2009 and 2008, respectively. Net interest income is the difference between interest income and interest expense. 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 table:

**Change in Net Interest Income:**

	Volume*	Nonaccrual		Total
		Rate	Income	
	<i>(dollars in thousands)</i>			
<b>12/31/10 - 12/31/09</b>				
Interest income	\$ (1,551)	\$ (1,277)	\$ (160)	\$ (2,988)
Interest expense	(581)	(2,092)	—	(2,673)
Change in net interest income	\$ (970)	\$ 815	\$ (160)	\$ (315)
<b>12/31/09 - 12/31/08</b>				
Interest income	\$ 1,253	\$ (7,986)	\$ 291	\$ (6,442)
Interest expense	1,692	(8,236)	—	(6,544)
Change in net interest income	\$ (439)	\$ 250	\$ 291	\$ 102

*Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods*

Net interest income decreased by \$315 or 1.94 percent in 2010 compared to 2009 and decreased by \$213 or 1.32 percent, compared to 2008. The primary reason for the decrease is the reduction in the variable interest rate market coupled with declines in loan volume outstanding offset by increased yields on new loans. A comparison of 2010 and 2009 reveals the change in rate accounted for \$815 of the increase while the change in volume accounted for the offsetting decrease of \$970. Interest income on nonaccrual loans for 2010 totaled \$138 a decrease of \$160 compared to the \$299 during 2009. When comparing 2009 and 2008, the change in rate accounted for \$250 of the increase while the change in volume accounted for the offsetting decrease of \$439. Nonaccrual interest income was \$299 in 2009, an increase of \$291 compared to \$7 in 2008. The Association's net interest income as a percentage of average earning assets was 2.93 percent on December 31, 2010, compared to 2.84 percent and 2.91 percent on December 31, 2009 and December 31, 2008, respectively. The increase in this ratio is attributed to the reduction of interest rates on the association's interest bearing liabilities.

*Noninterest Income*

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2010	2009	2008	2010/ 2009	2009/ 2008
	<i>(dollars in thousands)</i>				
Loan fees	\$ 2,716	\$ 2,650	\$ 2,573	2.49%	2.99%
Fees for financially related services	822	1,026	1,203	(19.88)%	(14.71)%
Patronage refund from other Farm Credit Institutions	4,990	4,678	3,805	6.67%	22.94%
Gains (losses) on other property owned, net	(734)	(198)	407	(270.71)%	(148.65)%
Gains (losses) on sales of premises and equipment, net	6	26	2,721	(76.92)%	(99.04)%
Other noninterest income	949	543	(127)	74.77%	527.56%
Total noninterest income	\$ 8,749	\$ 8,725	\$10,582	0.28%	(17.55)%

Loan fees increased \$66 or 2.49 percent during the period ending December 31, 2010 when compared to \$2,650, in 2009. This increase is a result of increased activity in loan originations and participation loans during the period. Fees for financially related services were \$822 in 2010 compared to \$1,026 in 2009, a decrease of \$204 or 19.88 percent. Losses on other property owned of \$734 resulted from expenses incurred in the sale of several properties acquired by the Association. The Association also realized gains from sales of premises and equipment of \$6. This gain is primarily attributed to the gains on sale of Association automobiles and other furniture and equipment. The \$2,721 gain recognized in 2008 was from the sale of the former administrative office in Lake Worth. In other noninterest income, the Association recorded \$571 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act

*Noninterest Expense*

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2010	2009	2008	2010/ 2009	2009/ 2008
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 5,600	\$ 5,814	\$ 4,260	(3.68)%	36.48%
Occupancy and equipment expense	564	622	658	(9.32)%	(5.47)
Insurance Fund premium	254	928	747	(72.63)%	24.23
Other operating expense	1,803	1,305	1,285	38.16%	1.56
Total noninterest expense	\$ 8,221	\$ 8,669	\$ 6,950	(5.17)%	24.73%

Non-interest expense decreased \$448 or 5.17 percent for December 31, 2010, as compared to the same period in 2009, and increased \$1,271 or 18.29 percent compared to December 31, 2008.

Salaries and employee benefits decreased \$214 or 3.68 % in 2010, as compared with 2009, primarily due to decreased costs associated with employee benefit plans, merit and incentive compensation, and employee staffing levels. The \$58 decrease in occupancy and equipment expense is related to reductions in real estate taxes and other building expenses. Other operating expenses increased \$498 or 38.16% resulting from increases in areas such as purchased services, travel expense, and communication expense offset by decreases in employee training and advertising expense.

Insurance Fund premiums decreased \$674 or 72.63 percent for the twelve months ended December 31, 2010, compared to the same period of 2009. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. Please refer to the "Regulatory Matters" section of this management's discussion and analysis for details concerning the 2008 Farm Bill.

*Income Taxes*

The Association recorded a benefit for income taxes of \$1 for the year ended December 31, 2010, as compared to a provision of \$3 for 2009 and a benefit of \$24 for 2008. Refer to Note 2, "Summary of Significant Accounting Policies, Income Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/10	12/31/09	12/31/08
Return on average assets	1.44%	1.61%	2.47%
Return on average members' equity	7.30%	8.80%	13.55%
Net interest income as a percentage of average earning assets	2.93%	2.84%	2.91%
Net (charge-offs) recoveries to average loans	(1.592)%	(0.440)%	(0.442)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

## LIQUIDITY AND FUNDING SOURCES

### *Liquidity and Funding*

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2010, was \$454,284 as compared to \$487,064 at December 31, 2009 and \$484,670 at December 31, 2008. The decrease of 6.73 percent compared to December 31, 2009 and the decrease of 6.27 percent compared to December 31, 2008, was attributable to fluctuations in loan volume during the respective periods. The average volume of outstanding notes payable to the Bank was \$463,559 and \$487,540 for the years ended December 31, 2010 and 2009, respectively. Refer to Note 8, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2010.

### *Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

### *Relationship with the Bank*

The Association's statutory obligation to borrow only from the Bank and the Bank's ability to access capital of the Association is discussed in Note 5, "Investment in AgFirst Farm Credit Bank" and Notes 7 "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements included in this Annual Report

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 7, "Notes Payable to AgFirst Farm Credit Bank included in this annual report.

## CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2007 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2010, increased 7.59 percent to \$119,034 from the December 31, 2009, total of \$110,639. At December 31, 2009, total members' equity increased 5.24 percent from the December 31, 2008 total of \$105,127. The increase was primarily attributed to continued growth in net income offset by distribution of cash patronage and revolvment of allocated surplus.

Total capital stock and participation certificates were \$3,098 on December 31, 2010, compared to \$3,132 on December 31, 2009 and \$3,235 on December 31, 2008. The decrease was attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business, retirement of excess stock through revolvment. FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2010	2009	2008	Regulatory Minimum
Permanent capital ratio	17.20%	15.63%	15.57%	7.00%
Total surplus ratio	17.16%	15.58%	15.50%	7.00%
Core surplus ratio	17.16%	15.58%	15.50%	3.50%

The increase in the Association's permanent capital, total surplus, and core surplus for December 31, 2010 was attributed to the Association's growth in capital greater than the growth in total assets. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 9, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

### PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 9,

"Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$4,817 in 2010, \$6,881 in 2009, and \$8,541 in 2008.

### YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young\*, Beginning\*\* and Small\*\*\* farmers. The Association has further expanded this mission to include minority farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS&M farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS&M borrowers have access to a stable source of credit. As a result, 2010 goals were established and met as illustrated below.

	As of December 31, 2010			
	Total	YBS Total	Goal	% Chg
New Volume Closed	\$468,378	\$207,188	\$99,676	221%
# Loans Closed	755	339	302	112%

The following table outlines the loan volume and number of YBS&M loans in the loan portfolio for the Association.

	As of December 31, 2010	
	Number of Loans	Amount of Loans
Young	125	51,728
Beginning	413	202,758
Small	371	127,776

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.'

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 6,259 reported farmers of which by definition 191 or 3.1 percent were Young, 2,322 or 37.1 percent were Beginning, and 5,552 or 88.7 percent were Small. Comparatively, as of December 31, 2010, the demographics of the Association's agricultural portfolio contained 618 farmers, of which by definition 92 or 14.89 percent were Young, 308 or 49.84 percent were Beginning and 295 or 47.74 percent were Small.

In addition to the Association's overall marketing plan, the Association has developed and implemented a specific YBS&M plan to better identify and serve this unique and important segment of the agriculture in South Florida.

The YBS&M plan contains several components including staffing, identification, education, development, and direct financial support. Staffing represents the foundation of the program. The Association recognizes that to serve this

community, its staff must understand the culture and needs of each group. The Association has focused on diversity in its employment practices for several years because we believe strongly that our staff should reflect the diversity of the community we serve. The Association currently has Credit, Lending and Operational staff fully capable of conducting business in four languages. The Association also has specialized programs and specially trained staff to serve the YBS&M community. Specific quantitative and qualitative goals have been set for the Association and specific staff members ensure their focus on the program as well as measure our performance in reaching these segments of our market.

Identification and outreach are also critical components of the program. The Association constantly monitors any public record databases, organizational membership roles, etc. available that could assist in identification of YBS&M potential customers. In addition, staff members are active in community, trade and cultural organizations felt to have membership that might include YBS&M farmers with other agricultural trade organizations and agencies such as the Federal, State and county agricultural agencies to ensure they understand our programs and would refer YBS&M farmers with financial or credit needs to Farm Credit. The Association has also worked closely with these agencies in providing training and development opportunities for YBS&M farmers. The Association aggressively attempts to partner with these agencies in joint programs. The Association is a "Preferred Lender" in USDA guaranteed lending programs.

A final component of the program is in the area of youth development programs. The Association actively supports those organizations such as FFA, 4-H, NAYFE and other youth based programs that are training and developing the farmers and ranchers of the future.

The Association is committed to the future success of Young, Beginning and Small farmers.

- \* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- \*\* Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- \*\*\* Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

## REGULATORY MATTERS

For the twelve months ended December 31, 2010, the FCA took no enforcement action against the Association.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

# Disclosure Required by Farm Credit Administration Regulations

## Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, "Organization and Operations," included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

## Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
11903 Southern Blvd. Ste. 200 Royal Palm Beach	Administrative/ Branch	Owned
1880 82 <sup>nd</sup> Ave. Ste. 106 Vero Beach	Branch	Leased
403 NW 6th Street Okeechobee	Branch	Owned
24700 SW 177th Avenue Homestead	Branch	Owned

## Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 12 of the Consolidated Financial Statements, "Commitments and Contingencies," included in this Annual Report.

## Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 8 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

## Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 8 and 13 of the Consolidated Financial Statements included in this Annual Report.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

## Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

<u>Senior Officer</u>	<u>Position &amp; Other Business Interests</u>
Donald A. Rice	<i>President and Chief Executive Officer</i> since November 1995, with Farm Credit since 1981. During 2010, he served on the boards of the Florida Council of Cooperatives (promotes cooperatives in Florida), Palm Beach County Overall Economic Development Program and the Palm Beach County Ag Enhancement Council.
C. Robert Pendleton	<i>Executive Vice President and Chief Lending Officer</i> since 1991, with Farm Credit since 1979. Serves as director on the board of the South Florida Fair.
Linda Rusciano	<i>Executive Vice President and Chief Financial Officer</i> since 1986, with Farm Credit since 1981.
Esther Morales	<i>Senior Vice President &amp; Chief Credit Officer</i> since 2000, with Farm Credit since 1989.
Blanca Aquino	Chief Risk Manager since 2009 previously served as Assistant Controller since 2006, with Farm Credit since 1990.

The total amount of compensation earned by the CEO and five most highly paid officers as a group during the years ended December 31, 2010, 2009 and 2008, is as follows:

Name of Individual or Number in Group	Year	Annual		Deferred Comp.	Perq./ Other*	Total
		Salary	Bonus			
Donald A. Rice	2010	\$325,013	-	\$ 50,000	-	\$375,013
Donald A. Rice	2009	\$325,012	-	\$ 50,000	-	\$375,013
Donald A. Rice	2008	\$315,012	-	\$100,000	-	\$415,012
5	2010	\$677,226	-	-	-	\$677,226
5	2009	\$648,966	\$ 53,009	\$ 43,009	-	\$745,642
5	2008	\$615,474	\$135,987	\$ 98,933	-	\$850,394

Disclosure of information on total compensation paid during 2010 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

In addition to a base salary, all employees earn additional compensation under an incentive plan. The Association incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals typically include return on assets, credit quality, credit administration, loan volume, nonaccrual loan volume, permanent capital and other key ratios. The goals incorporated in the current plan include return on assets, return on equity, credit quality, credit administration, high-risk loans, nonaccrual loan volume and operating efficiencies. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

The Association sponsors a non-qualified supplemental deferred compensation plan for eligible employees. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

### Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2010
Louis E. Larson, Jr., <i>Chairman</i>	1989	2013	\$25,800
Robert J. Callaway, <i>Outside Director/Vice Chairman</i>	1990	2012	21,100
James M. Alderman	2009	2012	18,800
John L. Alger	2007	2011	20,300
Jack C. Coker	1982	2011	21,000
Eric L. Hopkins	2009	2013	21,300
Sherwood J. Johnson	1982	2012	25,200
Charles F. Martin	1987	2013	16,200
Robert G. Sexton	1995	2011	18,300
Andrea Thurn, <i>Outside Director</i>	2007	2013	20,100
			\$208,100

Subject to approval by the board, the Association may allow directors honoraria of \$300 for attendance at meetings, committee meetings, or special assignments. Directors are paid a monthly retainer fee of \$900, except for the chairman of the board who receives \$1,000. Total compensation paid to directors as a group was \$208,100 for 2010. No director received more than \$5,000 in non-cash compensation during the year.

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
Louis E. Larson, Jr., <i>Chairman</i>	12	43	Compensation, Executive, Loan	\$ 13,800
Robert J. Callaway, <i>Vice-Chairman</i>	12	37	Audit, Compensation, Loan	10,200
James M. Alderman	12	45	Governance, Loan	8,000
John L. Alger	12	47	Compensation, Governance, Loan	9,500
Jack C. Coker	12	31	Compensation, Governance, Loan	10,200
Eric Hopkins	10	34	Loan	10,500
Sherwood J. Johnson	11	67	Audit, Governance, Compensation, Executive, Loan	14,400
Charles F. Martin	11	22	Compensation, Governance, Loan	5,400
Robert G. Sexton	12	31	Compensation, Loan	
Andrea Thurn	11	29	Audit, Compensation, Loan	9,300
				\$ 91,300

\* Includes board committee meetings and other board activities other than regular board meetings.

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$39,373 for 2010, \$50,121 for 2009 and \$55,015 for 2008.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

**Louis E. Larson, Jr.**, Chairman, is a dairy farmer and rancher in Okeechobee County and owns Family Tree Enterprises, LLLP. He serves as director on the boards of Larson Dairy, Inc., SunTrust of Mid-Florida, Dairy Feeds, Inc., Okeechobee Cattleman's Association, and Southeast Milk, Inc. Mr. Larson also serves as Vice President to the Florida Cattleman's Association. He was originally appointed to the board in 1989 and his current term is 2010-2013. Mr. Larson is chairman of the new Farm Credit of Florida, ACA board and serves on the Compliance Committee.

**Robert J. Callaway** serves as an Outside Director for the Association. He is a co-founder of Callaway and Price, Inc., a real estate appraisal and consulting firm. Mr. Callaway serves on the boards of Callaway Realty, Inc., the West Palm Beach Fishing Club & Foundation and Law Enforcement Assistance Foundation, a fund raising organization. He was appointed to the board in 1990 and his current term expires in 2012. Mr. Callaway currently serves as Outside Director on the Farm Credit of Florida, ACA board and is a member of the Credit/Lending Committee.

**James M. Alderman** is a vegetable grower in Palm Beach County and grows citrus in Martin County. He is President of J. Alderman Farms, Alderman Farms Sales Corporation, B & A Tomato Corporation, West Boynton Farms and Marald Citrus. Mr. Alderman also serves as a member of Florida Panther Conservation, LLC; Alderman Cattle Company, LLC; and Rim Canal, LLC; Rocker Highway, LLC; and Gropper Ridge, LLC; all real estate ventures. Mr Alderman is a board member on the Lake Worth Drainage District. He was elected to the board in 2009 for a three year term. He also serves on the board of Farm Credit of Florida, ACA and is a member of the Governance Committee.

**John L. Alger** is a vegetable grower and nurseryman in Miami-Dade County. He is President of Alger Farms, Inc. and Alger Seed & Ag Products, LLC. He also serves as Vice President of S. M. Jones and Company, a produce sales company in Belle Glade and is a member of the Executive Advisory Board of First National Bank of South Florida. Mr. Alger is also Vice President and PAC Chairperson of Dade County Farm Bureau; a director on the board of Florida Fruit and Vegetable Association; and alternate director on Miami Dade Avocado Committee. Mr. Alger was elected to the board in 2007 and his current term expires in 2011. He currently serves as director on the Farm Credit of Florida, ACA board and is a member of the Special Assets Committee.

**Jack C. Coker** is a beef cattle rancher and real estate developer in Okeechobee County. He currently serves as President and Director of B and J Investments, Inc.; J & M Investments, Inc.; and Coker Cattle Corporation. Mr. Coker was elected to the board in 1982 and his current term expires in 2011. He is a director on the board of Farm Credit of Florida, ACA and serves on the Governance Committee.

**William E. Hopkins** is a sugar cane and vegetable grower in Western Palm Beach County, employed by Hundley Farms, Inc. He serves as director on the boards of Hundley Farms, Inc.; Frontier Produce; Double H Farms; Pioneer Growers; Leadership Palm Beach County; Florida Fruit and Vegetable Association; and Law Enforcement Assistance Foundation, a fund raising organization. Mr. Hopkins also serves as Vice President of Florida Vegetable Exchange and as an advisor on the boards of PNC Bank and Wedgeworth Leadership Program. He was appointed to the board in 2009 and elected to a three year term in 2010. Mr. Hopkins also serves on the Farm Credit of Florida, ACA board and is a member of the Audit Committee.

**Sherwood J. Johnson** is a citrus grower in the Indian River area and owns Hilliard Groves, Inc. He currently serves as a director on the boards of Delta Farms Water Control District, University of Florida Share Council, and Treasure Coast Agriculture Research Foundation. Mr. Johnson also serves on the AgFirst Farm Credit Bank Nominating Committee. He was appointed to the board in 1982 and his term of office expires in 2012. He is Vice Chairman of Farm Credit of Florida, ACA and serves on the Compliance, Governance and Credit/Lending Committees.

**Charles F. Martin** is a nurseryman in Miami-Dade County. He serves as secretary/treasurer of Harold B. Martin, Inc. and Team Martin, Inc. Mr. Martin was elected to the board in 1987 and his current term is 2010-2013. He also serves as director

on the Farm Credit of Florida, ACA board and is a member of the Compensation Committee.

**Robert G. Sexton** is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director on the boards of AgFirst Farm Credit Bank; Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. Mr. Sexton was appointed to the board in 1995 and his current term of office expires in 2011. He is a member of the Farm Credit of Florida, ACA board and serves on the Compensation and Special Assets Committees.

**Andrea Thurn** serves as an Outside Director for the Association. She is a Certified Public Accountant and a Partner/Owner in Morgan, Jacoby, Thurn, Boyle and Associates, P.A. in Vero Beach. Ms. Thurn has many years of experience with financial institutions, cooperatives and agri-businesses. She serves as Secretary/Treasurer of Vero Chemical Distributors, a janitorial paper and chemical supplier. Ms. Thurn was appointed to the board in 2007 and her current term of office is 2010 – 2013. She also serves on the Farm Credit of Florida, ACA board and is a member of the Audit Committee.

**Additional members of the new Farm Credit of Florida, ACA board of directors include:**

**T. Richard Barber, Jr.** has been a peanut, melon, and cattle rancher in Marion County. He was elected to the board in 2005 and his current term of office is 2008 – 2011. Mr. Barber is currently serving on the board of Farm Credit of Florida, ACA and serves on the Audit Committee.

**Howard P. "Rowdy" Bateman** manages a 3,700 acre citrus and cattle operation for Bright Hour Ranch in Desoto County. He has interests in a family cattle operation, as well as his own personal cattle operation. Mr. Bateman currently serves on the Peace River Valley Citrus Growers Association Board. He was elected to the board in 2004 and his term of office is 2010 – 2013. He is a current director on the board of Farm Credit of Florida, ACA and serves on the Compensation Committee.

**Shepherd E. Colledge**, from Duval County, serves as Outside Director and is a real estate developer. He was appointed to the board in 1990 and his current term of service is 2008-2011. Mr. Colledge currently serves as Outside Director on the board of Farm Credit of Florida, ACA and is a member of the Compensation and Credit/Lending Committees.

**Roger W. Davis** is a tobacco farmer and cattle rancher based in Columbia County. He was elected to the board in 1998 and his term of office is 2010 – 2013. Mr. Davis is a member of the Farm Credit of Florida, ACA board of directors and serves on the Special Assets Committee.

**Walter S. Farr** is a retired Certified Public Accountant from Wauchula who has interests in citrus and beef cattle. He serves as a Trustee and Officer of the Matred Carlton Olliff Foundation, a charitable organization. Mr. Farr also serves on the AgFirst Farm Credit Bank Nominating Committee. He was elected to the board in 1991 and his current term is 2010-2013. Mr. Farr is also a director on the Farm Credit of Florida, ACA board and serves on the Audit and Governance Committees.

**John Roy Gough** is an agri-chemical salesman with Crop Production Services. He is also involved in citrus and cattle ranching operations in Hardee County. Mr. Gough was elected to the board in 1992 and his current term expires in 2012. He also serves on the board of Farm Credit of Florida, ACA.

**Joseph C. Joyce**, an Outside Director, is Associate Vice President for Ag and Natural Resources at the University of Florida. He serves on the board of the Florida Aquatic Plant Management Society Foundation; Citrus Research and Development Foundation; UF Leadership and Education Foundation; Treasure Coast Education Research and Development Authority; and SW Florida Research and Education Foundation. Mr. Joyce was appointed to the board in 2008 and his current term of service is 2010-2013. He is an Outside Director on the Farm Credit of Florida, ACA board and serves on the Governance Committee.

**Martin J. "Marty" McKenna** is self-employed through McKenna & Associates Citrus, Inc., a privately owned citrus and harvesting operation business. He also serves on Florida Citrus Mutual, a statewide citrus growers' organization and the Florida Citrus Research & Development foundations, which is involved in citrus research. Mr. McKenna was elected to the board in 2009 for a three year term that expires in 2012. He also serves on the Farm Credit of Florida, ACA board and is a member of the Credit/Lending Committee.

**Douglas Moore** is a dairy, forestry, and cattle farmer in Duval and Baker Counties. He serves on the boards of Northpoint Services, a construction company; T. M. Livestock, a real estate firm; and South Prong Hunt Club. Mr. Moore was elected to the board in 2001 and current term is 2008 – 2011. He currently serves on the board of Farm Credit of Florida, ACA.

**Jerry M. Newlin** is Vice President of Orange-Co, LP responsible for the daily operations and management of the citrus and nursery operations. He serves as a member of Florida Citrus Production Managers Association and is a Board member of Florida Citrus Production Research Advisory Council. Mr. Newlin is the President of the Joshua Water Control District and the East Charlotte Drainage District. He was appointed to the board in 2007 and his current term is 2008-2011. Mr. Newlin serves on the Farm Credit of Florida, ACA board and is a member of the Special Assets Committee.

**Lloyd Register** is a dairy, beef, hay, and timber farmer in Baker County. He serves on the board of the Baker County Farm Bureau Association and Farm Service Agency. Mr. Register was elected to the board in 1997 and his term of office is 2009-2012. He also serves on the board of Farm Credit of Florida, ACA and is a member of the Special Assets Committee.

**Stanford Robertson** has been a potato farmer for the past five years in Flagler and Okeechobee Counties. He serves on the Flagler County Farm Bureau board. Mr. Robertson was elected in 2001 and his term of office is 2009-2012. He also serves on the Farm Credit of Florida, ACA board and is a member of the Special Assets Committee.

**Ron St. John** is a dairy farmer based in Gilchrist County. He serves on the boards of Southeast Milk Cooperative and the Trenton Medical Center. Mr. St. John was elected to the board in 1992 and his term of office is 2010 – 2013. He currently serves on the Farm Credit of Florida, ACA board and is a member of the Compensation Committee.

**Arthur Sandlin** is a peanut farmer and cattle rancher in Levy County. He is currently a director on the board of Perkins State Bank. Mr. Sandlin was originally elected to the board in 1995 and his term of office is 2010 – 2013. He also serves on the Farm Credit of Florida, ACA board of directors and is a member of the Audit Committee.

**Lisa Sherman** serves as Outside Director for the Association. She is a Certified Public Accountant with Williams & Sherman, CPA in Lake Placid. Ms. Sherman serves on the board of directors of Lake Childs Citrus, Inc. and Black Bear Citrus, LLC with operations based in Highlands County. She was appointed to the board in 2008 and her current term of office expires in 2011. Ms. Sherman also serves on the board of Farm Credit of Florida, ACA and is a member of the Credit/Lending Committee.

**John F. Smoak, Jr.** a citrus grower and cattle rancher in Highlands and Hardee Counties. He is self-employed through Smoak Groves, Inc., a family owned agri-business corporation. Mr. Smoak serves as a director for Lake Placid Citrus Cooperative. He was elected to the board in 1981 and his current term of office is 2009-2012. Mr. Smoak also serves on the Farm Credit of Florida, ACA board.

**E.E. "Bucky" Waldron** serves as an Outside Director for the Association. He is an attorney with a private civil practice in Arcadia. Mr. Waldron was elected to the board in 1991 and his term of office is 2010-2013. He is a member of the Farm Credit of Florida, ACA board and serves on the Special Assets Committee.

**J. Mark Wheeler**, Vice Chairman, is Chief Financial Officer of Wheeler Farms, Inc., a citrus operation based in Highlands County. He serves on the boards of AgFirst Farm Credit Bank, Florida Citrus Mutual, an industry trade association; Hardee Livestock Market (HLM), a wholly-owned subsidiary of Wheeler Farms, Inc., a cattle auction company; and Wheeler Brothers, Inc., a family-held citrus contract harvesting corporation. Mr. Wheeler is president of Boston Mining Company, a citrus, real estate and cash investment organization. He was elected to the board in 1999 and his current term of service is 2008-2011. He is a director of Farm Credit of Florida, ACA and currently serves on the Audit Committee.

#### **Transactions with Senior Officers and Directors**

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are

incorporated herein by reference to Note 11 of the Consolidated Financial Statements, "Related Party Transactions," included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

**Involvement in Certain Legal Proceedings**

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

**Relationship with Independent Auditor**

There were no changes in or material disagreements with our independent auditor on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent auditor for the year ended December 31, 2010 were as follows:

	2010
<b>Independent Auditor</b>	
PricewaterhouseCoopers LLP	
Audit services	\$ 55,844.00
Total	\$ 55,844.00

Audit fees were for the annual audit of the consolidated financial statements.

**Consolidated Financial Statements**

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 14, 2011 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-800-432-4156 or writing Linda Rusciano, Farm Credit of South Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421 or accessing the web site, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

**Borrower Information Regulations**

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit

institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

**Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products**

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

**Shareholder Investment**

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at [www.agfirst.com](http://www.agfirst.com). The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

## *Report of the Audit Committee*

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of South Florida, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2010, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2010. The foregoing report is provided by the following independent directors, who constitute the Committee:



Andrea Thurn  
Chairman of the Audit Committee

### **Members of Audit Committee**

Richard T. Barber  
Walter Farr  
William E. Hopkins  
Arthur Sandlin  
J. Mark Wheeler

March 14, 2011

## Report of Independent Auditors



### Report of Independent Auditors

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

*PricewaterhouseCoopers* LLP

March 14, 2011

*PricewaterhouseCoopers LLP, 10 Tenth Street, Suite 1400, Atlanta, GA 30309-3851  
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us*

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31, 2010	December 31, 2009	December 31, 2008
<b>Assets</b>			
Cash	\$ 2,790	\$ 3,670	\$ 408
Investment securities:			
Held to maturity (fair value of \$2,024, \$2,598 and \$3,215 respectively)	1,987	2,573	3,221
Loans	559,912	589,043	589,244
Less: allowance for loan losses	10,679	11,963	8,051
Net loans	549,233	577,080	581,193
Accrued interest receivable	2,086	2,832	3,112
Investments in other Farm Credit institutions	8,716	8,679	7,857
Premises and equipment, net	5,348	5,607	5,793
Other property owned	4,516	1,749	—
Due from AgFirst Farm Credit Bank	4,484	4,398	3,614
Other assets	4,658	4,650	3,893
<b>Total assets</b>	<b>\$ 583,818</b>	<b>\$ 611,238</b>	<b>\$ 609,091</b>
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 454,284	\$ 487,064	\$ 484,670
Accrued interest payable	1,006	1,117	1,579
Patronage refund payable	671	4,161	5,349
Advanced conditional payments	3,710	2,400	7,387
Other liabilities	5,113	5,857	4,979
<b>Total liabilities</b>	<b>464,784</b>	<b>500,599</b>	<b>503,964</b>
Commitments and contingencies			
<b>Members' Equity</b>			
Protected borrower stock	2,463	2,475	2,538
Capital stock and participation certificates	635	657	697
Retained earnings			
Allocated	30,879	25,239	22,550
Unallocated	85,057	82,268	79,342
<b>Total members' equity</b>	<b>119,034</b>	<b>110,639</b>	<b>105,127</b>
<b>Total liabilities and members' equity</b>	<b>\$ 583,818</b>	<b>\$ 611,238</b>	<b>\$ 609,091</b>

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

# Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
<b>Interest Income</b>			
Investment securities	\$ 66	\$ 67	\$ 126
Loans	28,223	31,210	37,593
Total interest income	28,289	31,277	37,719
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	12,395	15,068	21,612
Net interest income	15,894	16,209	16,107
Provision for loan losses	7,900	6,500	5,525
Net interest income after provision for loan losses	7,994	9,709	10,582
<b>Noninterest Income</b>			
Loan fees	2,716	2,650	2,573
Fees for financially related services	822	1,026	1,203
Patronage refund from other Farm Credit institutions	4,990	4,678	3,805
Gains (losses) on other property owned, net	(734)	(198)	407
Gains (losses) on sales of premises and equipment, net	6	26	2,721
Insurance Fund refund	571	—	—
Other noninterest income (expense)	378	543	(127)
Total noninterest income	8,749	8,725	10,582
<b>Noninterest Expense</b>			
Salaries and employee benefits	5,600	5,814	4,260
Occupancy and equipment	564	622	658
Insurance Fund premiums	254	928	747
Other operating expenses	1,803	1,305	1,285
Total noninterest expense	8,221	8,669	6,950
Income before income taxes	8,522	9,765	14,214
Provision (benefit) for income taxes	(1)	3	(24)
Net income	\$ 8,523	\$ 9,762	\$ 14,238

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

## Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2007	\$ 2,682	\$ 725	\$ 22,483	\$ 73,302	\$ 99,192
Net income				14,238	14,238
Protected borrower stock retired	(144)				(144)
Capital stock/participation certificates issued/(retired), net		(28)			(28)
Patronage distribution					
Cash				(5,071)	(5,071)
Nonqualified retained earnings			3,470	(3,470)	—
Retained earnings retired			(3,237)		(3,237)
Patronage distribution adjustment			(166)	343	177
Balance at December 31, 2008	2,538	697	22,550	79,342	105,127
Net income				9,762	9,762
Protected borrower stock retired	(63)				(63)
Capital stock/participation certificates issued/(retired), net		(40)			(40)
Patronage distribution					
Cash				(4,041)	(4,041)
Nonqualified retained earnings			2,840	(2,840)	—
Patronage distribution adjustment			(151)	45	(106)
Balance at December 31, 2009	2,475	657	25,239	82,268	110,639
Net income				8,523	8,523
Protected borrower stock retired	(12)				(12)
Capital stock/participation certificates issued/(retired), net		(22)			(22)
Patronage distribution					
Cash				(587)	(587)
Nonqualified allocated retained earnings			1,778	(1,778)	—
Nonqualified retained earnings			4,230	(4,230)	—
Patronage distribution adjustment			(368)	861	493
Balance at December 31, 2010	\$ 2,463	\$ 635	\$ 30,879	\$ 85,057	\$ 119,034

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

# Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
<b>Cash flows from operating activities:</b>			
Net income	\$ 8,523	\$ 9,762	\$ 14,238
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	279	311	345
Premium amortization (discount accretion) on investments	47	57	74
Provision for (reversal of allowance for) loan losses	7,900	6,500	5,525
(Gains) losses on other property owned, net	734	198	(407)
(Gains) losses on sales of premises and equipment, net	(6)	(26)	(2,721)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	746	280	250
(Increase) decrease in due from AgFirst Farm Credit Bank	(86)	(784)	364
(Increase) decrease in other assets	(8)	(757)	(76)
Increase (decrease) in accrued interest payable	(111)	(462)	(528)
Increase (decrease) in other liabilities	(744)	878	(2,248)
Total adjustments	8,751	6,195	578
Net cash provided by (used in) operating activities	17,274	15,957	14,816
<b>Cash flows from investing activities:</b>			
Purchases of investment securities, held to maturity	—	—	(2,133)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	539	591	641
Net (increase) decrease in loans	16,145	(5,040)	(61,724)
(Increase) decrease in investment in other Farm Credit institutions	(37)	(822)	(305)
Purchases of premises and equipment	(20)	(129)	(316)
Proceeds from sales of premises and equipment	6	30	3,592
Proceeds from sales of other property owned	301	706	—
Net cash provided by (used in) investing activities	16,934	(4,664)	(60,245)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(32,780)	2,394	56,084
Net increase (decrease) in advanced conditional payments	1,310	(4,987)	(3,138)
Protected borrower stock retired	(12)	(63)	(144)
Capital stock and participation certificates issued/(retired), net	(22)	(40)	(28)
Patronage refunds and dividends paid	(3,584)	(5,335)	(5,772)
Retained earnings retired	—	—	(3,237)
Net cash provided by (used in) financing activities	(35,088)	(8,031)	43,765
Net increase (decrease) in cash	(880)	3,262	(1,664)
Cash, beginning of period	3,670	408	2,072
Cash, end of period	\$ 2,790	\$ 3,670	\$ 408
<b>Supplemental schedule of non-cash activities:</b>			
Financed sales of other property owned	\$ 332	\$ 32	\$ —
Loans transferred to other property owned	4,134	2,685	—
Cash dividends or patronage distributions declared or payable	587	4,041	5,071
<b>Supplemental information:</b>			
Interest paid	12,506	15,530	22,140
Taxes (refunded) paid, net	—	—	4

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

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

## Note 1 — Organization and Operations

A. **Organization:** Farm Credit of South Florida, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in the counties of Broward, Dade, Indian River, Martin, Monroe, Okeechobee, Palm Beach, and St. Lucie in the state of Florida.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which 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 (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2010, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and eighty-six associations.

AgFirst Farm Credit Bank (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other associations operating within the District. The District consists of the Bank and twenty-two Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCA's are tax-exempt while ACAs and PCAs are taxable.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) 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 (Insured debt), (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 discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the

Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other 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 Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which 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 may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

## Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of 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 may differ from these estimates.

Certain amounts in prior years' financial statements may have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the PCA. All significant inter-company transactions have been eliminated in consolidation.

- A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.
- B. **Investment Securities:** The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association's investments are classified as held-to-maturity and accordingly have been reported at amortized cost. Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security which approximates the effective interest method.

The Association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Asset backed securities issued by the Small Business Administration are considered allowable investments. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the carrying value of the security would be written down to fair value, the credit-related loss would be included in earnings in the period of impairment and the non-credit related portion would be recognized in other comprehensive income. Credit related loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

- C. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 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.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized 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 reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income 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. Otherwise, loan payments are applied against the recorded investment in the loan. 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 "doubtful" or "loss."

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association uses 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 and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) 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 based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality, 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.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

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. Impaired loans include nonaccrual loans, restructured loans, and could include 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 the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs.

- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as due from AgFirst Farm Credit Bank.

- E. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. 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, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

- F. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

- G. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced 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 interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

- H. **Employee Benefit Plans:** Substantially all employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Association, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plans' participants.

Substantially all employees of the Association may also be eligible to participate in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. 401(k) plan costs are expensed as funded.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the

expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

- I. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

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 surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

- J. **Patronage Refund from AgFirst and Other Financial Institutions:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.
- K. **Fair Value Measurement:** Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This 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. This guidance also 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. It describes three levels of inputs that may be used to measure fair value as discussed in Note 14.

- L. **Recently Issued Accounting Pronouncements:** The Financial Accounting Standards Board (FASB) issued guidance "Accounting for Transfers of Financial Assets," which amended 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 guidance 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 guidance) 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 that requires consolidation. The Association evaluated the impact of adoption on its loan participation agreements to ensure that loan participations would meet the requirements for sales treatment. 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. Therefore, there was no impact of adoption of the guidance for the Association.

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed 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 guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 14).

In July 2010, the FASB issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” This guidance provides additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes 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 disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or 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 guidance should have no impact on the Association’s financial condition or results of operations, but it will result in additional disclosures.

**Note 3 — Investment Securities**

A summary of the amortized cost and fair value of investment securities held-to-maturity at December 31, 2010, 2009 and 2008 follows:

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 1,987	\$ 37	\$ -	\$ 2,024	2.33%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 2,573	\$ 27	\$ (2)	\$ 2,598	1.98%

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 3,221	\$ 3	\$ (9)	\$ 3,215	3.20%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at December 31, 2010 follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	675	679	2.23
After five years through ten years	1,312	1,345	2.38
After ten years	-	-	-
Total	\$ 1,987	\$ 2,024	2.33%

The Association’s investments consist of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. Asset-backed securities are held for managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association’s asset-backed securities at December 31, 2010 are considered eligible under FCA regulatory guidelines.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at December 31, 2009 and 2008. The Association had no investments that have been in a continuous unrealized loss position at December 31, 2010.

	December 31, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ -	\$ -	\$ 403	\$ (2)

	December 31, 2008			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 683	\$ 6	\$ 618	\$ 3

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the

underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes. Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from reduced liquidity in the securities markets stemming from general adversity in the financial markets. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal

amount and interest due on these securities, especially after considering credit enhancements. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at December 31, 2010.

**Note 4 — Loans and Allowance for Loan Losses**

A summary of loans follows:

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Real estate mortgage	\$ 395,049	\$ 409,864	\$ 388,652
Production and intermediate-term Agribusiness	110,974	81,233	72,121
Loans to cooperatives	5,473	—	—
Processing and marketing	36,065	72,756	90,194
Farm-related business	8,117	11,543	26,620
Total agribusiness	49,655	84,299	116,814
Communication	2,335	11,297	11,501
Energy	1,780	2,216	—
Rural residential real estate	119	134	156
Total Loans	\$ 559,912	\$ 589,043	\$ 589,244

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.

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

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 participations purchased and sold balances at December 31, 2010:

<i>(dollars in thousands)</i>	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ —	\$ 11,792	\$ 2,042	\$ 16,246	\$ 8,136	\$ —	\$ 10,178	\$ 28,038
Production and intermediate term Agribusiness	41,056	4,076	7,395	—	—	—	48,451	4,076
Loans to cooperatives	3,835	—	1,186	—	505	—	5,526	—
Processing and marketing	18,733	317	5,960	3,331	—	—	24,693	3,648
Farm-related business	2,823	3,836	2,060	—	750	—	5,633	3,836
Total agribusiness	25,391	4,153	9,206	3,331	1,255	—	35,852	7,484
Communication	—	—	—	—	—	—	—	—
Energy	1,797	—	—	—	—	—	1,797	—
Total	\$ 68,244	\$ 20,021	\$ 18,643	\$ 19,577	\$ 9,391	\$ —	\$ 96,278	\$ 39,599

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at December 31, 2010 and indicates that approximately 36.49 percent of loans had maturities of one year or less:

<i>(dollars in thousands)</i>	<b>Due less than 1 year</b>	<b>Due 1 Through 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
Real estate mortgage	\$ 83,817	\$ 247,302	\$ 63,910	\$ 395,029
Production and intermediate term Agribusiness	82,136	21,115	7,721	110,972
Loans to cooperatives	4,298	1,175	-	5,473
Processing and marketing	29,313	5,289	1,463	36,065
Farm-related business	2,963	4,853	301	8,117
Total agribusiness	36,574	11,317	1,764	49,655
Communication	-	2,358	-	2,358
Energy	1,779	-	-	1,779
Rural residential real estate	-	73	46	119
Total Loans	<u>\$ 204,306</u>	<u>\$ 282,165</u>	<u>\$ 73,441</u>	<u>\$ 559,912</u>

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31, 2010, 2009, and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>		<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Real estate mortgage:</b>				<b>Total agribusiness</b>			
Acceptable	71.99%	80.15%	91.03%	Acceptable	85.84%	84.55%	96.87%
OAEM	9.46	11.11	2.24	OAEM	10.04	3.85	1.01
Substandard/doubtful/loss	18.55	8.74	6.73	Substandard/doubtful/loss	4.12	11.60	2.12
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>				<b>Energy and water/waste disposal:</b>			
Acceptable	72.64%	83.25%	83.71%	Acceptable	100.00%	100.00%	-
OAEM	8.01	8.44	8.74	OAEM	-	-	-
Substandard/doubtful/loss	19.35	8.31	7.55	Substandard/doubtful/loss	-	-	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>-%</u>
<b>Agribusiness:</b>				<b>Communication:</b>			
<b>Loans to cooperatives:</b>				Acceptable	-	56.39%	100.00%
Acceptable	100.00%	100.00%	-	OAEM	-	-	-
OAEM	-	-	-	Substandard/doubtful/loss	100.00	43.61	-
Substandard/doubtful/loss	-	-	-		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>-%</u>	<b>Rural residential real estate:</b>			
<b>Processing and marketing</b>				Acceptable	100.00%	100.00%	100.00%
Acceptable	80.65%	80.31%	96.21%	OAEM	-	-	-
OAEM	13.82	4.98	1.31	Substandard/doubtful/loss	-	-	-
Substandard/doubtful/loss	5.53	14.71	2.48		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<b>Total Loans:</b>			
<b>Farm-related business</b>				Acceptable	73.14%	80.93%	91.34%
Acceptable	99.35%	98.38%	99.10%	OAEM	9.15	9.46	2.84
OAEM	-	-	-	Substandard/doubtful/loss	17.71	9.61	5.82
Substandard/doubtful/loss	0.65	1.62	0.90		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>				

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

<i>(dollars in thousands)</i>	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 14,405	\$ 19,837	\$ 34,242	\$ 362,267	\$ 396,509	\$ -
Production and intermediate-term	2,017	10,203	12,220	99,214	111,434	-
Agribusiness						
Loans to cooperatives	-	-	-	5,509	5,509	-
Processing and marketing	-	-	-	36,129	36,129	-
Farm-related business	-	60	60	8,088	8,148	-
Total agribusiness	-	60	60	49,726	49,786	-
Communication	-	-	-	2,358	2,358	-
Energy and water/waste disposal	-	-	-	1,779	1,779	-
Rural residential real estate	-	-	-	119	119	-
Total	<u>\$ 16,422</u>	<u>\$ 30,100</u>	<u>\$ 46,522</u>	<u>\$ 515,463</u>	<u>\$ 561,985</u>	<u>\$ -</u>

The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

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

<i>(dollars in thousands)</i>	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 34,194	\$ 11,715	\$ 9,228
Production and intermediate-term	12,663	2,316	4,922
Agribusiness			
Processing and marketing	-	4,755	-
Farm-related business	53	185	234
Total agribusiness	53	4,940	234
Communication	2,358	4,893	-
Total nonaccrual loans	<u>\$ 49,268</u>	<u>\$ 23,864</u>	<u>\$ 14,384</u>
<b>Accruing restructured loans:</b>			
Total accruing restructured loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Accruing loans 90 days or more past due:</b>			
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 49,268	\$ 23,864	\$ 14,384
Other property owned	4,516	1,749	-
Total nonperforming assets	<u>\$ 53,784</u>	<u>\$ 25,613</u>	<u>\$ 14,384</u>
Nonaccrual loans as a percentage of total loans	8.80%	4.05%	2.44%
Nonperforming assets as a percentage of total loans and other property owned	9.53%	4.34%	2.44%
Nonperforming assets as a percentage of capital	<u>45.18%</u>	<u>23.15%</u>	<u>13.68%</u>

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

<i>(dollars in thousands)</i>	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 11,592	\$ 12,099	\$ 5,403
Past due	37,676	11,765	8,981
Total impaired nonaccrual loans	<u>49,268</u>	<u>23,864</u>	<u>14,384</u>
<b>Impaired accrual loans:</b>			
Restructured	-	-	-
90 days or more past due	-	-	-
Total impaired accrual loans	<u>-</u>	<u>-</u>	<u>-</u>
Total impaired loans	<u>\$ 49,268</u>	<u>\$ 23,864</u>	<u>\$ 14,384</u>

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,937	\$ 5,145	\$ 503	\$ 3,050	\$ 14
Production and intermediate-term	9,571	9,828	879	7,414	34
Total	<u>\$ 13,508</u>	<u>\$ 14,973</u>	<u>\$ 1,382</u>	<u>\$ 10,464</u>	<u>\$ 48</u>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 30,257	\$ 35,079	\$ -	\$ 23,438	\$ 106
Production and intermediate-term	3,092	3,781	-	2,396	11
Agribusiness					
Farm-related business	53	88	-	41	-
Total agribusiness	53	88	-	41	-
Communication	2,358	3,261	-	1,827	8
Total	<u>\$ 35,760</u>	<u>\$ 42,209</u>	<u>\$ -</u>	<u>\$ 27,702</u>	<u>\$ 125</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 34,194	\$ 40,224	\$ 503	\$ 26,488	\$ 120
Production and intermediate-term	12,663	13,609	879	9,810	45
Agribusiness					
Farm-related business	53	88	-	41	-
Total agribusiness	53	88	-	41	-
Communication	2,358	3,261	-	1,827	8
Total	<u>\$ 49,268</u>	<u>\$ 57,182</u>	<u>\$ 1,382</u>	<u>\$ 38,166</u>	<u>\$ 173</u>

Unpaid principal balance represents the contractual principal balance of the loan.

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

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

<i>(dollars in thousands)</i>	Year Ended December 31,		
	2010	2009	2008
Interest income which would have been recognized under the original loan terms	\$ 2,218	\$ 1,517	\$ 875
Less: interest income recognized	138	299	7
Foregone interest income	<u>\$ 2,080</u>	<u>\$ 1,218</u>	<u>\$ 868</u>

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
<b>Allowance for credit losses:</b>							
Balance at December 31, 2009	\$ 6,267	\$ 1,238	\$ 2,933	\$ 1,525	\$ -	\$ -	\$ 11,963
Charge-offs	(4,934)	(1,783)	(20)	(2,554)	-	-	(9,291)
Recoveries	95	12	-	-	-	-	107
Provision for loan losses	6,256	2,411	(1,958)	1,191	-	-	7,900
Balance at December 31, 2010	\$ 7,684	\$ 1,878	\$ 955	\$ 162	\$ -	\$ -	\$ 10,679
2010 allowance ending balance:							
Individually evaluated for impairment	\$ 503	\$ 879	\$ -	\$ -	\$ -	\$ -	\$ 1,382
Collectively evaluated for impairment	\$ 7,181	\$ 999	\$ 955	\$ 162	\$ -	\$ -	\$ 9,297
<b>Recorded investment in loans outstanding:</b>							
Ending Balance at December 31, 2010	\$ 396,509	\$ 111,434	\$ 49,786	\$ 2,358	\$ 1,779	\$ 119	\$ 561,985
2010 recorded investment ending balance:							
Loans individually evaluated for impairment	\$ 34,194	\$ 12,663	\$ 53	\$ 2,358	\$ -	\$ -	\$ 49,268
Loans collectively evaluated for impairment	\$ 362,315	\$ 98,771	\$ 49,733	\$ -	\$ 1,779	\$ 119	\$ 512,717

**Note 5 — Investment in AgFirst Farm Credit Bank**

The Association is required to maintain ownership in the Bank of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

**Note 6 — Premises and Equipment**

Premises and equipment consists of the following:

	December 31,		
	2010	2009	2008
Land	\$ 149	\$ 149	\$ 149
Buildings and improvements	5,417	5,426	5,419
Furniture and equipment	1,797	1,805	1,780
	<u>7,363</u>	<u>7,380</u>	<u>7,348</u>
Less: accumulated depreciation	2,015	1,773	1,555
Total	<u>\$ 5,348</u>	<u>\$ 5,607</u>	<u>\$ 5,793</u>

**Note 7 — Other Property Owned**

Net gains (losses) on other property owned consist of the following:

	December 31,		
	2010	2009	2008
Gains (losses) on sale, net	\$(292)	\$ (35)	\$ 407
Carrying value unrealized gains (losses)	(300)	(88)	-
Operating income (expense), net	<u>(142)</u>	<u>(75)</u>	<u>-</u>
Gains (losses) on other property owned, net	<u>\$ (734)</u>	<u>\$ (198)</u>	<u>\$ 407</u>

**Note 8 — Notes Payable to AgFirst Farm Credit Bank**

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.57 percent for LIBOR-based loans, 1.95 percent for Prime-based loans, and the weighted average remaining maturities were 3.4 years and 3.6 years, respectively, at December 31, 2010. The weighted average

interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.14 percent and the weighted average remaining maturity was 3.0 years at December 31, 2010. The weighted average interest rate on all interest-bearing notes payable was 2.53 percent and the weighted average remaining maturity was 3.2 years at December 31, 2010.

Variable rate and fixed rate notes payable represent approximately 32.46 percent and 67.54 percent, respectively, of total notes payable at December 31, 2010.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has 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, the Association's notes payable were within the specified limitations.

### Note 9 — Members' Equity

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

#### A. Protected Borrower Equity

Protection of certain borrower equity is provided under the Farm Credit Act, which 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.

#### B. Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of two percent of the loan amount or \$1,000. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the

related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. 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 stock or participation certificates.

#### C. Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require the Association to achieve permanent capital of seven percent of risk adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by 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 shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk adjusted assets of seven percent and core surplus as a percentage of risk adjusted assets of three and one-half percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2010 were 17.20 percent, 17.16 percent and 17.16 percent, respectively.

An FCA regulation empowers it 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.

#### D. Description of Equities

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2010:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Common/Nonvoting	Yes	86,051	\$ 430
B Common/Nonvoting	Yes	401,005	2,005
C Common/Voting	No	123,568	618
B Participation Certificates/Nonvoting	Yes	5,400	27
C Participation Certificates/Nonvoting	Yes	3,519	18
Total Capital Stock and Participation Certificates		619,543	\$ 3,098

Protected common stock and participation certificates are retired at par or face value in the normal course of business.

At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

#### *Retained Earnings*

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The Board determines the minimum aggregate amount of these two accounts. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2010, allocated members' equity consisted of \$1,778 of nonqualified surplus and \$29,101 of nonqualified retained surplus.

#### *Patronage Distributions*

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms

of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

#### *Dividends*

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, or C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

#### *Transfer*

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

#### *Impairment*

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

- a) **First**, Assistance Preferred Stock issued and outstanding;
- b) **Second**, allocated surplus, in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;
- c) **Third**, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
- d) **Fourth**, Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and
- e) **Fifth**, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

*Distribution on Liquidation*

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities, shall be distributed in the following order of priority:

- a) **First**, to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders,
- b) **Second**, to the holders of Class A Common Stock, Class B Common Stock, Class C Common Stock and Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
- d) **Fourth**, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
- e) **Fifth**, all unallocated surplus accrued or issued after April 22, 1995, shall be distributed to present and former Patrons from said date through the date of liquidation on a patronage basis to the extent practicable; and
- f) **Sixth**, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of Common Stock and Participation Certificates in proportion to the number or shares or units of such class of Common Stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made in proportion to the number of shares or units of such classes of stock or participation certificates held by such holders. All distributions to holders of allocated surplus shall be pro-rata by year of issuance.

**Note 10 — Income Taxes**

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2010	2009	2008
Current:			
Federal	\$ (1)	\$ 4	\$ (24)
	-	-	(24)
Deferred:	-	-	-
Total provision (benefit) for income taxes	\$ (1)	\$ 4	\$ (24)

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

	December 31,		
	2010	2009	2008
Federal tax at statutory rate	\$ 2,897	\$ 3,321	\$ 4,833
Patronage distributions	(199)	(1,374)	(1,724)
Tax-exempt FLCA earnings	(2,644)	(2,220)	(4,081)
Change in deferred tax asset valuation allowance	(59)	349	983
Other	4	(72)	(35)
Provision (benefit) for income taxes	\$ (1)	\$ 4	\$ (24)

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2010	2009	2008
Deferred income tax assets:			
Allowance for loan losses	\$ 150	\$ 470	\$ 367
Net operating loss – carryforward	2,385	2,176	1,877
Nonaccrual loan interest	68	26	47
Gross deferred tax assets	2,603	2,672	2,291
Less: valuation allowance	(2,355)	(2,414)	(2,065)
Gross deferred tax assets, net of valuation allowance	248	258	226
Deferred income tax liabilities:			
Bank patronage allocation	(248)	(258)	(226)
Gross deferred tax liability	(248)	(258)	(226)
Net deferred tax asset (liability)	\$ -	\$ -	\$ -

At December 31, 2010, deferred income taxes have not been provided by the Association on approximately \$1.1 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$2,355, \$2,414 and \$2,065 during 2010, 2009 and 2008, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2010 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2005 and forward.

**Note 11 — Employee Benefit Plans**

The Association participates in district sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined

contribution 401(k) plan. Financial information regarding each of these plans follows.

Substantially all employees of the Association are eligible to participate in either the defined benefit final average pay retirement plan (the FAP Plan) or the defined benefit cash balance retirement plan (the CB Plan.) These two plans are noncontributory and include eligible District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution under the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. As a participant in these District defined benefit plans, the Association funded \$820 for 2010, \$848 for 2009, and \$505 for 2008, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were \$865 for 2010, \$1,066 for 2009, and \$218 for 2008. Additional financial information for the plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2010 Annual Report.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$101 for 2010, \$87 for 2009 and \$80 for 2008. Additional financial information for the Plan may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2010 Annual Report

The Association participates in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association will contribute \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association will contribute \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Employer contributions to this plan were \$138, \$141, and \$124 for the years ended December 31, 2010, 2009 and 2008, respectively.

#### **Note 12 — Related Party Transactions**

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2010 amounted to \$16,447. During 2010, \$6,200 of new loans were made and repayments totaled \$8,298.

#### **Note 13 — Commitments and Contingencies**

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The 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, \$164,520 of commitments to extend credit and \$131 of commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2010, the Association had outstanding \$10,098 of standby letters of credit, with expiration dates ranging from January 1, 2011 to August 31, 2015. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$10,098.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2010, the Association's inventory of standby letters of credit had a fair value of \$141 and was included in other liabilities.

**Note 14 — Fair Value Measurement**

As described in Note 2, effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This 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.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

**Level 1**

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at December 31, 2010 consist of assets held in trust funds related to deferred compensation plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

**Level 2**

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at December 31, 2010.

**Level 3**

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at December 31, 2010 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon

the underlying collateral since these were collateral-dependent loans. 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 collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a Level 3 asset at December 31, 2010. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at December 31, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2010, 2009 and 2008 for each of the fair value hierarchy levels:

	December 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in trust funds	\$ 1,733	\$ —	\$ —	\$ 1,733
Total Assets	\$ 1,733	\$ —	\$ —	\$ 1,733

<b>Liabilities:</b>				
Standby letters of credit	\$ —	\$ —	\$ 141	\$ 141
Total Liabilities	\$ —	\$ —	\$ 141	\$ 141

	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in trust funds	\$ 1,473	\$ —	\$ —	\$ 1,473
Total Assets	\$ 1,473	\$ —	\$ —	\$ 1,473

<b>Liabilities:</b>				
Standby letters of credit	\$ —	\$ —	\$ 256	\$ 256
Total Liabilities	\$ —	\$ —	\$ 256	\$ 256

	December 31, 2008			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in trust funds	\$ 895	\$ —	\$ —	\$ 895
Total Assets	\$ 895	\$ —	\$ —	\$ 895

<b>Liabilities:</b>				
Standby letters of credit	\$ —	\$ —	\$ 191	\$ 191
Total Liabilities	\$ —	\$ —	\$ 191	\$ 191

The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during 2010 or 2009. The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for 2010, 2009 and 2008:

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2010	\$ 256
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(115)
Transfers in and/or out of level 3	-
Balance at December 31, 2010	<u>\$ 141</u>

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2009	\$ 191
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	65
Transfers in and/or out of level 3	-
Balance at December 31, 2009	<u>\$ 256</u>

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2008	\$ 184
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	7
Transfers in and/or out of level 3	-
Balance at December 31, 2008	<u>\$ 191</u>

**Assets and Liabilities Measured at Fair Value on a Non-recurring Basis**

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010, 2009 and 2008 for each of the fair value hierarchy values are summarized below. As discussed in Note 2, fair value disclosure of nonfinancial instruments, such as other property owned, began in 2009.

	<b>December 31, 2010</b>				<b>YTD Total Gains (Losses)</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 12,126	\$ 12,126	\$ (5,729)
Other property owned	\$ -	\$ -	\$ 4,342	\$ 4,342	\$ (592)

	<b>December 31, 2009</b>				<b>YTD Total Gains (Losses)</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 9,817	\$ 9,817	\$ (6,901)
Other property owned	\$ -	\$ -	\$ 1,893	\$ 1,893	\$ (123)

	<b>December 31, 2008</b>				<b>YTD Total Gains (Losses)</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 2,118	\$ 2,118	\$ (2,652)

**Note 15 — Disclosures About Fair Value Of Financial Instruments**

The following table presents the carrying amounts and 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, 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 are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash	\$ 2,790	\$ 2,790	\$ 3,670	\$ 3,670
Loans, net of allowance	\$ 551,306	\$ 545,850	\$ 579,896	\$ 585,457
Investment securities	\$ 2,000	\$ 2,024	\$ 2,589	\$ 2,598
Assets held in trust funds	\$ 1,733	\$ 1,733	\$ 1,473	\$ 1,473
<b>Financial liabilities:</b>				
Notes payable to AgFirst Farm Credit Bank	\$ 455,290	\$ 459,092	\$ 488,181	\$ 492,259

	December 31, 2008	
	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>		
Cash	\$ 408	\$ 408
Loans, net of allowance	\$ 584,277	\$ 592,318
Investment securities	\$ 3,249	\$ 3,215
Assets held in trust funds	\$ 895	\$ 895
<b>Financial liabilities:</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 486,249	\$ 492,050

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 primarily a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.  
  
For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.  
  
Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.  
  
The carrying value of accrued interest approximates its fair value.
- C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service.
- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit

Institutions is not practicable because the stock is not traded. As described in Note 5, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.29 percent of the issued stock of the Bank as of December 31, 2010 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.8 billion and shareholders' equity totaled \$1.9 billion. The Bank's earnings were \$417 million during 2010.

In addition, the Association has an investment of \$404 related to other Farm Credit institutions.

- E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.
- F. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- G. **Assets Held in Trust Funds:** See Note 14 for discussion of estimation of fair value for this instrument.

**Note 16 — Quarterly Financial Information (Unaudited)**

Quarterly results of operations for the years ended December 31, 2010, 2009 and 2008 follow:

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,119	\$ 4,015	\$ 3,809	\$ 3,951	\$ 15,894
Provision for (reversal of allowance for) loan losses	1,500	1,100	4,300	1,000	7,900
Noninterest income (expense), net	190	231	(109)	217	529
Net income (loss)	\$ 2,809	\$ 3,146	\$ (600)	\$ 3,168	\$ 8,523
	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,977	\$ 3,891	\$ 3,956	\$ 4,385	\$ 16,209
Provision for (reversal of allowance for) loan losses	—	4,000	1,500	1,000	6,500
Noninterest income (expense), net	217	379	(363)	(180)	53
Net income (loss)	\$ 4,194	\$ 270	\$ 2,093	\$ 3,205	\$ 9,762
	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,163	\$ 4,033	\$ 3,839	\$ 4,072	\$ 16,107
Provision for (reversal of allowance for) loan losses	—	525	2,000	3,000	5,525
Noninterest income (expense), net	667	204	515	2,270	3,656
Net income (loss)	\$ 4,830	\$ 3,712	\$ 2,354	\$ 3,342	\$ 14,238

**Note 17 – Merger Activity**

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, after the FCA granted final approval of the merger on December 20, 2010. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. The merger was accounted for under the acquisition method of accounting guidance.

Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately \$250 million. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial “safety net” from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association’s ability to make patronage distributions and certain other restrictions which are imposed if the merged Association’s capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

**Note 18 – Subsequent Events**

The Association has evaluated subsequent events and has determined that, except as described in Note 17, there are none requiring disclosure through March 14, 2011, which is the date the financial statements were issued.