2010 Annual Report

Lending support to rural America™

Farm Credit
SOUTHWEST GEORGIA

Southwest Georgia Farm Credit, ACA

2010 ANNUAL REPORT

Contents

Management

Richard S. Monson .... Chief Executive Officer
Richard H. Horn .... Chief Lending Officer
Tarrell Bennett .... Chief Relationship Officer
Ryan G. Burtt .... Chief Financial Officer

Board of Directors

Bobby J. Brooks .... Chairman
Charlie Burch .... Vice Chairman
T.E. Allen, III .... Director
Jeffrey A. Clark .... Director
Clifford Dollar, Jr. .... Director
Robert L. Holden, Sr. .... Director
Robert B. Moss. .... Director
B.E. Powell .... Director

President's Message From Richard S. Monson

Turning a Corner

After several years of unprecedented challenges, Southwest Georgia Farm Credit faced 2010 head-on, determined to meet its objectives and redirect our focus towards building enterprise value. With a concerted effort aimed at cleaning up and fortifying the balance sheet, our energies have yielded the desired results – over $17 million in adverse assets were collected and our permanent capital grew to surpass 18 percent. Put simply, this means our Association is very well capitalized and positioned for either future uncertainty or opportunities as they may arise.

With a generally favorable outlook for agriculture in the coming year, and with the worst of the uncertainty and volatility behind us, our intent is to continue to build upon our brand promise and center our attention on seeking financial solutions for the clients we serve. And, while we still have progress to make, the goal moving forward is to shift our focus towards realigning our resources to better mobilize our client service while simultaneously intensifying our business development efforts. We have already started this effort and are making good progress.

Challenges Lead to Rethinking Core Principles

Our Board of Directors, management and staff have used the economic events over the last several years to formulate some basic core principles. Chief among those principles is our ideal of striving for consistent value to our stockholders. Neither our board, nor management, will retreat from, or forsake, this principle. As the nation's largest, and the only solely committed domestic provider of credit to agriculture and rural America, we know much of the world's supply of food and fiber relies on us, even right here in the communities we serve. We also know that, year in and year out, you depend on us being there to provide financial solutions and access to competitively priced credit no matter the economic cycle. We must continue to use every ounce of ingenuity we have to meet the needs of farm businesses, which, over the years, have proved they have an incredible ability to innovate, grow and feed our nation. Working side-by-side, as the Farm Credit System has done since 1916, our responsibility is to provide capital, manage risk and cultivate the reputation we earned over many decades – by being the financial partner agriculture and rural America knows, and trusts.

Strategic Initiatives Aimed at the Future

Strategically, our tactical plan emphasized three key areas for the Association – quality growth, asset management, and employee quality and retention. These three areas of focus have allowed us to fully concentrate on ensuring a highly knowledgeable and skilled workforce that is ready to meet the needs of its clients in years to come. Coinciding with that is our ability to put systems in place to better manage portfolio risk and capital and allowance adequacy. Finally, we paid a great deal of attention to fueling our earnings engines to attain improved efficiency and profitability. Combined, these three areas of focus have helped our organization get on track to rebuilding long-term value. In turn, this renewed value proposition should help us as we commit ourselves to sharing our profits with our clients. Our long-term vision is driven by a "boots on the ground" strategy, promising a renewed client focus. This means our bricks and mortar structure may be less important in the future than our personalized approach to understanding the needs of each of our clients – and meeting those needs in *your* corn field, or over a cup of coffee in *your* kitchen. With advances in technology, our ability to meet your needs is as easy as a click on a web site or a call to your Relationship Manager. The goal, again, is to be there for you, wherever it's easiest for you to do business.

Client-focused and mission driven

This past year, falling interest rates provided us with a terrific opportunity to offer lower loan rates to our clients wanting a long term fixed rate. While some financial institutions were enjoying widening spreads, our Relationship Managers took great pride in knowing their clients and understanding their operations – reaching out to them so they could benefit from the low interest rate environment. Of course, it's a win-win situation. We benefit, too, when our customers are successful. Along those same lines, our organization had the privilege of working with dozens of homeowners – many of whom also took advantage of the historically low interest rates to refinance their homes – or even purchase their first home. Farm Credit is proud to provide this service to the rural communities we serve. And, of course, we remain committed to serving our young, beginning and small agricultural producers by offering education and unique financial solutions to their many challenges. Congress's mandated mission for ensuring succession in agriculture is something we whole-heartedly value and pursue.

Promise for the future

I am proud to associate with a Board of Directors and management team who demonstrated that with patience, fortitude and an unyielding commitment to our brand promise, success is inevitable. With a fortified balance sheet, improving earnings and a revitalized economy the opportunities ahead of us are limitless. We're proud to serve you.

Richard S. Monson

Richard S. Monson
Chief Executive Officer

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 Southwest Georgia Farm Credit, 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, the financial records are reliable as the basis for the preparation of all financial statements, and 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 Southwest Georgia Farm Credit, 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.

Bobby J. Brooks
Chairman of the Board

Richard S. Monson

Richard S. Monson
Chief Executive Officer

Ryan G. Burtt
Chief Financial Officer

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 effectively 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.

Richard S. Monson

Richard S. Monson
Chief Executive Officer

Ryan Burtt
Chief Financial Officer

March 14, 2011

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2010	2009	December 31, 2008	2007	2006
Balance Sheet Data					
Cash	$ 910	$ 2,575	$ 2,971	$ 1,310	$ 2,885
Investment securities	8,383	34,992	39,707	35,868	32,006
Loans	294,917	335,972	373,754	394,021	477,408
Less: allowance for loan losses	5,758	4,858	3,359	520	427
Net loans	289,159	331,114	370,395	393,501	476,981
Investments in other Farm Credit institutions	11,047	13,730	16,246	21,196	13,473
Other property owned	8,614	1,285	3,725	—	7
Other assets	66,138	78,578	89,412	99,788	104,768
Total assets	$ 384,251	$ 462,274	$ 522,456	$ 551,663	$ 630,120
Notes payable to AgFirst Farm Credit Bank*	$ 310,662	$ 388,508	$ 450,740	$ 462,596	$ 547,249
Accrued interest payable and other liabilities with maturities of less than one year	7,778	10,330	8,335	16,120	16,374
Total liabilities	318,440	398,838	459,075	478,716	563,623
Protected borrower stock	152	255	297	353	402
Capital stock and participation certificates	998	1,245	1,201	1,170	1,141
Retained earnings					
Allocated	25,426	23,894	23,993	27,115	25,198
Unallocated	39,235	38,162	37,890	44,309	39,756
Accumulated other comprehensive income (loss)	—	(120)	—	—	—
Total members' equity	65,811	63,436	63,381	72,947	66,497
Total liabilities and members' equity	$ 384,251	$ 462,274	$ 522,456	$ 551,663	$ 630,120
Statement of Operations Data					
Net interest income	$ 8,584	$ 7,156	$ 9,169	$ 11,807	$ 12,575
Provision for (reversal of allowance for) loan losses	(586)	4,631	15,558	91	(418)
Noninterest income (expense), net	(4,739)	(2,282)	(33)	943	607
Net income	$ 4,431	$ 243	$ (6,422)	$ 12,659	$ 13,600
Key Financial Ratios					
Rate of return on average:					
Total assets	1.07%	0.05%	(1.16)%	2.13%	2.27%
Total members' equity	6.74%	0.38%	(9.84)%	18.18%	21.57%
Net interest income as a percentage of average earning assets	2.40%	1.66%	1.81%	2.10%	2.18%
Net (chargeoffs) recoveries to average loans	0.47%	(0.86)%	(3.08)%	—%	—%
Total members' equity to total assets	17.13%	13.72%	12.13%	13.22%	10.55%
Debt to members' equity (:1)	4.84	6.29	7.24	6.56	8.48
Allowance for loan losses to loans	1.95%	1.45%	0.90%	0.13%	0.09%
Permanent capital ratio	18.49%	13.93%	11.97%	12.37%	12.42%
Total surplus ratio	18.13%	13.53%	11.62%	12.08%	12.16%
Core surplus ratio	15.00%	10.74%	9.06%	10.20%	10.39%
Net Income Distribution					
Estimated patronage refunds:					
Cash	1,620	—	—	3,525	3,978
Nonqualified allocated retained earnings	1,827	—	—	2,350	3,978
Nonqualified retained earnings	—	—	—	—	494

** 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 Southwest Georgia Farm Credit, 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 Southwest Georgia. 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,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, 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.swgafarmcredit.com, or by calling 1-866-304-3276, extension 1150, or writing Belinda Robertson, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817. 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 2010 was selected by reference to analysis and yield curves of the plans' actuary and industry norm.

ECONOMIC CONDITIONS

The economy in Southwest Georgia is made up of a multitude of varying industries – ranging from large industrial companies to farms and farm businesses, to small, family owned operations. The local economy is impacted by two key factors: the local unemployment rate and the annual growth rate associated with a particular industry.

According to the Georgia Department of Labor, the total labor force in Southwest Georgia for August 2010 was 176,341, of which 156,340 were employed and 16,231 were unemployed. The average unemployment rate for Southwest Georgia was 10.6% in August 2010.

It is estimated that agriculture would experience a 25.1% decrease in employment from 2006-2016. The projected annual growth rate for this sector is -2.8%. Some of the industries included in this sector include agriculture/livestock production (-3.4%); forestry/logging (1.2%); and support activities for agriculture and forestry (-1.3%). According to the Department of Labor, the crop production industry for Southwest Georgia will have the highest change in employment from 2006-2016. It is projected that employment will decrease by 2,270, which is a -29.4% change in employment from 2006-2016, or a -3.4% annual growth rate. Although employment in crop production isn't promising, it hasn't slowed down the counties of Southwest Georgia.

According to the Georgia Department of Agriculture, the peanut, corn, and cotton crops in Georgia are expected to remain consistent with previous years. This is good news for Southwest Georgia farmers. Historically, Southwest Georgia has seen strong production in these crops. For 2009, six of the top ten peanut producing counties were from Southwest Georgia, with Decatur County ranking at the top of the list. Five of the top ten corn producing counties are located in Southwest Georgia, with Calhoun County being number one. Finally, Southwest Georgia had four of the top ten cotton producing counties for 2009.

Land values in the Association's territory have declined. In 2010, non-residential real estate values were roughly 18 percent higher than in 2004, but down 30 percent from the peak in 2008. Using Crumpton Reports as the Association's source for real estate land transactions, the number of real estate sales has significantly dropped since 2007. In 2007 there were a total of 393 sales, compared to 70 so far in 2010. Average real estate values do differ across the territory. Generally, values have dropped to between 2004 and 2005 levels. Two counties have continued to defy this trend, and they are Thomas and Seminole counties.

Peanuts

The U.S. peanut market is quietly optimistic. Producers don't want to plant too much and ruin prospects for next year. Striking a balance is difficult when each farmer is independent and doesn't know what their neighbor is doing or thinking. The advice from peanut leaders is to not over-plant this market.
Growers are aware that usage is moving extremely well after the Salmonella issue and further aware that when things are bad for the consumer, peanut butter usage usually increases. Recent consumption numbers show the economy is still hurting.

Overall, feelings about the peanut economy are mixed. Producers are not excited about the farm prices, but recognize it could be worse, while peanut butter manufacturers are exceedingly happy that grocery store shelves constantly need replenishing.

The September 2010 U.S. peanut production forecast is set at 4.09 billion pounds, up 11 percent from last year. Based on USDA data, planted area at 1.29 million acres is up 16% from the previous year.

Timber

The timber economy in the South and nation continued to be affected by several forces related to the economy and changing forest, forestry, and forest industry trends. These include the housing market, weather, reforestation, product availability, land sales, mill openings and closings, price changes, global demand, and new markets and market potentials for alternatives like woody biomass and carbon sequestration opportunities. Forestry consists of several components and markets such as land and stumpage prices. These major classes consist of pine hardwood sawtimber, pine chip-n-saw, and pine and hardwood pulpwood. The factors mentioned above will have a direct impact on the Southern forest industry, because the United States is so heavily dependent on this region's ability to produce timber. The South is the largest timber producing region in the country, accounting for nearly 62% of all U.S. timber harvest.

Poultry

Broiler production has increased almost 3% during 2010 and is projected to remain flat in 2011. The number of chicks placed per grow-out averaged 5.5 percent greater in 2010, where projections for 2011 are .08 percent. The slowdown in production can be contributed to the increases in current stock and increases in feed cost.

November exports of broiler meat was up 26 percent from the previous year. Exports have grown dramatically the latter half of 2010 due to favorable exchange rates and the resumption of poultry trade with Russia in August.

Cotton

World cotton use (demand), after declining in 2008-2009, has trended back upward and is expected to improve significantly during 2010-2011. As a result, World stocks have declined to low levels causing significant increases in cotton prices. Acreage and production increases are expected in 2011 to offset the increases in demand. Georgia, the largest cotton producer in the southeastern United States, is expected to increase cotton acreage by 6 percent in 2011.

As of late September 2010, futures prices for the 2010 cotton crop have risen 25 cents per pound (from around 75 cents to over $1.00 per pound). Futures prices for the 2011 crop are approximately $1.3.

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	
	(dollars in thousands)					
Real estate mortgage	$ 180,051	61.05%	$ 187,015	55.66%	$ 196,598	52.60%
Production and intermediate-term	68,562	23.25	90,137	26.83	109,414	29.28
Loans to cooperatives					847	.23
Processing and marketing	33,650	11.41	35,797	10.65	30,890	8.26
Farm-related business	8,551	2.90	18,238	5.43	28,340	7.58
Energy	–	–	–	–	900	.24
Rural residential real estate	4,103	1.39	4,785	1.43	6,765	1.81
Total	$ 294,917	100.00%	$ 335,972	100.00%	$ 373,754	100.00%

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. The geographic distribution of the loan volume by county/branch for the past three years is as follows:

	December 31,		
County/Branch	**2010**	**2009**	**2008**
Baker	2.64%	2.18%	2.35%
Calhoun	.84	1.67	.60
Chattahoochee	1.02	1.20	.28
Clay	.72	.55	.58
Decatur*	13.21	14.52	13.93
Doughtery	3.97	4.38	3.35
Early*	3.28	2.56	1.40
Grady*	3.22	3.02	3.21
Lee	1.96	1.77	1.41
Marion	3.43	3.29	2.59
Miller	2.72	2.26	2.04
Mitchell*	9.92	10.34	9.89
Randolph	1.28	1.00	1.03
Schley	.40	.58	.75
Seminole*	4.14	2.95	2.66
Stewart	1.47	1.39	1.23
Sumter*	4.81	3.79	3.83
Terrell*	2.19	1.62	1.44
Thomas	1.52	1.18	1.11
Webster	1.13	.92	.81
Other**	36.13	38.83	45.51
	100.00%	100.00%	100.00%

**Branch Locations*
*** The Other category above consists of loans originated and participated outside our territory.*

The Association's efforts to strengthen its capital position over the last couple of years caused a shift of the geographic composition within the portfolio.

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's loan portfolio are shown below. The predominant commodities are timber, poultry, landlords, cotton, peanuts, livestock, and, fruit and nuts, which constitute over 72 percent of the entire portfolio.

	December 31,					
Commodity Group	**2010**		**2009**		**2008**	
	(dollars in thousands)					
Timber	$ 69,161	23%	$ 83,960	25%	$ 99,238	26%
Poultry	40,662	14	42,164	13	44,471	12
Landlords	33,636	11	38,469	11	49,165	13
Cotton	27,670	9	23,316	7	25,084	7
Livestock	15,572	5	24,358	7	25,040	7
Peanuts	18,338	6	14,447	4	19,172	5
Fruit & Nut	12,456	4	14,884	4	16,539	4
Vegetables	4,920	2	8,231	2	9,804	3
Dairy	5,635	2	8,668	3	6,054	2
Horticulture	929	1	1,781	1	1,992	1
Row Crops	7,816	3	11,154	3	8,799	2
Rural Home	3,552	1	4,401	1	5,619	1
Other	54,570	19	60,139	18	62,777	17
Total	$ 294,917	100%	$ 335,972	100%	$ 373,754	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of timber, landlords, poultry, cotton, livestock and peanut producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Within the timber commodity group there are significant numbers of less than full time timber producers. As such, the risk in this group is more diversified than appears from the nominal percentage. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The decrease in gross loan volume for the twelve months ended December 31, 2010, is primarily attributed to the reduction in demand for credit in our chartered territory. The deleveraging of the balance sheet has allowed the Association to strengthen both capital and liquidity positions during tough economic times.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been downward while the short and intermediate-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance in August and rapidly declines in the fall months as our primary agriculture commodities are converted to cash which is used to repay the debt.

During 2010, the Association reduced activity in the buying and selling of loan participations within and outside of the System to manage growth which strengthened the Association's capital position.

	December 31,		
Loan Participations:	**2010**	**2009**	**2008**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 72,468	$ 64,113	$ 98,003
Participations Purchased – Non-FCS Institutions	7,308	13,160	13,792
Participations Sold	(100,287)	(117,872)	(156,080)
Total	$ (20,511)	$ (40,599)	$ (44,285)

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 $14,189, which were subsequently sold into the secondary market. The Association also utilizes the Farmer Mac Long Term Stand-By repurchase agreements. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2010, the Association had loans amounting to $8,934 which were 100 percent guaranteed by Farmer Mac. The Association additionally has 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 $1,074, compared to $1,744 at December 31, 2009 and $2,174 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 program and the Tobacco Buyout Program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Association 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 $18,078, $18,761, and $19,243, respectively, in Rural America Bonds, and they are classified as Loans or Investments on the Consolidated Balance Sheets.

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout). At December 31, 2010, December 31, 2009, and December 31, 2008, the Association had $48,671, $59,302, and $69,317, respectively, in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets.

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 ABSs amounted to $0 at December 31, 2010, $27,142, at December 31, 2009 and $32,252 at December 31, 2008. These ABSs 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 changed the classification of these securities in 2009 from "held to maturity" to "available for sale" and recognized the net gain or loss as other comprehensive income or loss on the balance sheet. The Association sold these securities in June of this year and recognized a loss of ($76).

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 advanced 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 $250. 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	92.37%	84.94%	88.62%
Substandard	7.63%	15.06%	11.38%
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:

	December 31,		
High-risk Assets	**2010**	**2009**	**2008**
	(dollars in thousands)		
Nonaccrual loans	$ 19,192	$ 34,541	$ 20,358
Restructured loans	1,155	185	236
Accruing loans 90 days past due	–	–	2,104
Total Non-Performing Loans	20,347	34,726	22,698
Total high-risk loans	20,347	34,726	22,698
Other property owned	8,614	1,285	3,725
Total high-risk assets	$ 28,961	$ 36,011	$ 26,423
Ratios			
Nonaccrual loans to total loans	6.51%	10.28%	5.45%
High-risk assets to total assets	7.54%	7.79%	5.05%

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. During 2010 the Association made concentrated efforts to reduce the high risk assets by setting attainable goals and timelines. Nonaccrual loans decreased $15,349 or 44.44 percent in 2010. Of the $19,192 in nonaccrual volume at December 31, 2010, $6,516 or 33.95 percent, compared to 43.91 percent and 48.65 percent at December 31, 2009 and 2008, respectively, 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 its stockholders.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb expected losses inherent to its loan portfolio for the next twelve month period.

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2010**	**2009**	**2008**
	(dollars in thousands)		
Balance at beginning of year	$ 4,858	$ 3,359	$ 520
Charge-offs:			
Agribusiness	(1)	(99)	–
Production and intermediate term	(3,199)	(3,696)	–
Real estate mortgage	(3,765)	(1,899)	(12,721)
Total charge-offs	(6,965)	(5,694)	(12,721)
Recoveries:			
Agribusiness	13		
Real estate mortgage	248	16	2
Production and intermediate term	8,190	2,546	–
Total recoveries	8,451	2,562	2
Net (charge-offs) recoveries	1,486	(3,132)	(12,719)
Provision for (reversal of allowance for) loan losses	(586)	4,631	15,558
Balance at end of year	$ 5,758	$ 4,858	$ 3,359
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.47%	(0.86)%	(3.08)%

The net loan charge-offs were associated with several large relationships that were placed into non-accrual during the year. Provisions to the allowance for loan loss were made when necessary. Once these loans were determined to be under collateralized and uncollectible the Association processed the charge-offs.

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
	(dollars in thousands)		
Real estate mortgage	$ 2,856	$ 1,738	$ 1,481
Production and intermediate-term	1,348	1,113	1,738
Agribusiness	1,472	1,962	124
Energy	–	–	2
Rural residential real estate	82	45	14
Total allowance	$ 5,758	$ 4,858	$ 3,359

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	1.95%	1.45%	.90%
Nonperforming loans	28.30%	13.99%	14.80%
Nonaccrual loans	30.00%	14.06%	16.50%

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 Interest Income

Net interest income was $8.6 million, $7.2 million and $9.2 million 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*	Rate	Nonaccrual Income	Total
12/31/10 - 12/31/09				
Interest income	$(3,784)	$ 361	$ 728	$(2,694)
Interest expense	(2,856)	(1,267)	–	(4,122)
Change in net interest income	$ (928)	$ 1628	$ 728	$ 1,428
12/31/09 - 12/31/08				
Interest income	$(4,763)	$(4,310)	$ (27)	$(9,100)
Interest expense	(2,790)	(4,297)	–	(7,087)
Change in net interest income	$(1,973)	$ (13)	$ (27)	$(2,013)

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

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, 2010	2009	2008	Percentage Increase/(Decrease) 2010/2009	2009/2008
	(dollars in thousands)				
Loan fees	$ 966	$ 870	$ 1,453	11.03 %	(40.12) %
Fees for financially related services	4	5	9	(20.00)	(44.44)
Patronage refund from other Farm Credit Institutions	5,453	6,078	6,319	(10.28)	(3.81)
Gains (losses) on other property owned, net	(3,428)	(921)	7	(272.00)	(132.57)
Gains (losses) on sales of rural home loans, net	–	–	(3)	–	100.00
Gains (losses) on sales of premises and equipment, net	5	189	–	(97.35)	–
Gains (losses) on sales of investment securities	(76)	–	–	–	–
Insurance Fund refund	381	–	–	–	
Other noninterest income	42	46	48	(8.70)	(4.17)
Total noninterest income	$ 3,347	$ 6,267	$ 7,833	(46.59) %	(19.99) %

The decreasing trend over the past three years in noninterest income is primarily related to two setbacks:

1. The decrease in average loan volume has caused a correlated decrease in patronage income from AgFirst Farm Credit Bank
2. The losses recognized on other property owned as nonaccrual loans are foreclosed and the collateral is liquidated

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, 2010	2009	2008	Percentage Increase/(Decrease) 2010/2009	2009/2008
	(dollars in thousands)				
Salaries and employee benefits	$ 5,237	$ 5,136	$ 4,447	1.97%	15.49%
Occupancy and equipment	640	632	481	1.27	31.39
Insurance Fund premiums	144	587	554	(75.47)	5.96
Other operating expenses	2,065	2,192	2,382	(5.79)	(7.98)
Total noninterest expense	$ 8,086	$ 8,547	$ 7,864	(5.39)	8.69%

Salaries and employee benefits increased in 2010, as compared with 2009, primarily due to additional pension funding required as a result of the current economic downturn.

Insurance Fund premiums decreased 75 percent for the twelve months ended December 31, 2010, compared to the same period of 2009. The Farm Credit System Insurance Corporation (FCSIC) reduced the insurance premiums as a result of the economic downturn and the expected decrease in Systemwide insured obligations. The FCSIC reduced set premiums from 20 basis points to 5 basis points on adjusted insured debt outstanding for 2010. In addition there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Salaries and employee benefits increased in 2009, as compared with 2008, primarily due to additional pension funding required as a result of the current economic downturn. Also, the 2008 staff shorage was corrected and the Association maintained a full staff for most of 2009.

Insurance Fund premiums increased 5.96 perent for the twelve months ended December 31, 2009, compared to the same period of 2008. The Farm Credit System Insurance Corporation (FSCIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. The FSCIC set premiums at 20 basis points on adjusted insured debrt outstanding for 2009. In addition there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. Previously, premiums of up to 15 basis points could be charged on accruing loans and up to 25 basis points for nonaccrual loans.

Income Taxes

The Association recorded a provision for income taxes of $0 for the year ended December 31, 2010, as compared to a provision of $2 for 2009 and 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	1.07%	.05%	(1.16)%
Return on average members' equity	6.74%	.38%	(9.84)%
Net interest income as a percentage of average earning assets	2.40%	1.66%	1.81%
Net (charge-offs) recoveries to average loans	0.47%	(.86)%	(3.08)%

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 $310,662 as compared to $388,508 at December 31, 2009 and $450,740 at December 31, 2008. The decrease of 20 percent compared to December 31, 2009 and the decrease of 13.81 percent compared to December 31, 2008, was attributable to the reduction in total assets funded in 2009 and 2010. The average volume of outstanding notes payable to the Bank was $342,937, $421,229, and $480,998 for the years ended December 31, 2010, 2009, and 2008 respectively. Refer to Note 9, "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, stand by purchase program, investments, and other secondary market programs provides additional liquidity.

The Association's indebtedness to the Bank represents borrowings by the Association primarily 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 line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which included in 2010 liquidity, earnings and solvency covenant. At December 31, 2010, the Association was operating under a special credit arrangement in connection with the Bank's waiver of a pre-existing default of its liquidity covenant. The defaults allow the Bank to accelerate repayment of all indebtedness. In early 2010, following review of a plan submitted by the Association to achieve compliance with the covenants, the Bank approved a temporary waiver of the defaults and allowed the

Association to continue operating under a special credit arrangement pursuant to the GFA. The Association has continued to perform its obligations under the GFA, notwithstanding its covenant defaults. The special credit agreement expired at December 31, 2010. As of December 31, 2010 the Association had met all minimum covenant requirements set forth in the General Financing Agreement. The Bank extinguished all additional conditions conveyed through the Special Credit Agreement in January 2011.

The Association had no lines available under 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 30-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 is discussed in Note 9, "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 6 "Investment in AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 9, "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. As part of the Association's strategy to strengthen and restructure the balance sheet 2003 Allocated Surplus revolvement were suspended. The Association retired $247 of C-stock during 2010.

Total members' equity at December 31, 2010, increased 3.74 percent to $65,811 from the December 31, 2009, total of $63,436. At December 31, 2009, total members' equity increased .09 percent from the December 31, 2008 total of $63,381. During 2010 the Association continued to recover from the 2008 operational risk event as well as the economic turmoil experienced in the last two years.

Total capital stock and participation certificates were $1,150 on December 31, 2010, compared to $1,500 on December 31, 2009 and $1,498 on December 31, 2008. The decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business.

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 standard 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	18.49%	13.93%	11.97%	7.00%
Total surplus ratio	18.13%	13.53%	11.62%	7.00%
Core surplus ratio	15.00%	10.74%	9.06%	3.50%

The increase in the Association's permanent capital, total surplus, and core surplus for December 31, 2010 was primarily attributed to the reduction in loan volume and risk adjusted asset base. The Association's analysis and business plan forecast does not indicate any 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 10, "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 10, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The ACA did not declare patronage distributions for 2009 and 2008. An estimated $3,447 of patronage based on 2010 earnings is expected to be distributed in 2011.

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

The Association takes great pride in serving Young*, Beginning**, and Small*** farmers. As part of our mission, we provide financial services to agriculture and rural communities, which includes providing credit to these farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, Southwest Georgia Farm Credit has established annual marketing goals to help meet the needs of YBS farmers in our market. Communication strategies and educational opportunities are in place to provide outreach to this market segment, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following table outlines the Association's 2010 goals, loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2010*			
	Number of Loans		$ Amount of Loans	
	2010 Goal	2010 Actual	2010 Goal	2010 Actual
Young	209	194	33,359	32,670
Beginning	490	474	94,077	84,204
Small	915	804	107,816	90,917

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.

Each year, the Association establishes goals for the portfolio and for new loans to YBS borrowers. 2010 goals and accomplishments follow:

	As of December 31, 2010*			
	Number of New Loans		$ Amount of New Loans	
	2010 Goal	2010 Actual	2010 Goal	2010 Actual
Young	80	66	22,165	20,405
Beginning	180	127	53,292	56,713
Small	320	179	57,364	40,031

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 (2007 is the latest USDA Ag Census data available; next census will be available in February, 2012) 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 4,691 reported number of farms, of which by definition 255 operators or 5.43 percent were Young; 1,372 or 29.24 percent were Beginning; 4,066 or 86.67 percent were Small. Comparatively, as of December 31, 2010, the demographics of the Association's agricultural portfolio contained 1,472 YBS notes, of which by definition 194 or 13.18 percent were Young; 474 or 32.20 percent were Beginning; 804 or 54.62 percent were Small.

In addition to our communication and educational efforts, in 2010 the Association executed the following tactics in order to accomplish YBS goals.

- Utilize advertising and Association publications to further the awareness and understanding of YBS goals and accomplishments.
- Effectively coordinate with the USDA Farm Service Agency to fully utilize the loan guarantee program to ensure safe and sound practices.
- Work closely with our associations within the state of Georgia to promote YBS activities.
- Effectively utilize focused sales management techniques and incentive compensation to expand competitive presence with the YBS farmer mission segment.

2010 Activities

- Ag Biz Planner – Opportunity for YBS farmers to participate in an on-line Farm Credit University course stressing business management skills.
- TEPAP – The Executive Program for Agricultural Producers – Opportunity for YBS (meeting any of these definitions) farmers to participate in a two-year course taught at Texas A & M, with a focus on managing personnel, evaluating new market opportunities, negotiating mergers and acquisitions and adapting to

regulatory and technology changes. Two members will attend the program in January, 2011.

- FFA – The Association supports this organization through active participation and sponsorships, in an effort to promote leadership among middle school and high school students who express an interest in an ag-related career. More specifically, we have sponsored the t-shirts for the middle school FFA program in one of our counties for the past three years, as well as providing sponsorship money and volunteers to work, when needed, for local livestock shows, Career Development Events (CDEs), conferences, and banquets.

- 4-H – The Association supports events and sponsors activities, in an effort to promote farming skills and leadership beginning at an early age. We assist our county extension offices with 4-H programs through sponsorship of events, attendees to conferences, and banquets. This also includes volunteers to assist when needed.

- Young Farmers Association Chapters – On a local and statewide level, the Association supports young farmer education, management contests, and the annual statewide convention. We have several employees who are members of local chapters and who take an active role in supporting chapter activities. This is an opportunity to interact with borrowers and potential borrowers as well as to educate them about Farm Credit.

- YBS Advisory Committee – In order to address the on-going needs of YBS borrowers, the Association will establish a YBS Advisory Committee which will meet quarterly. Plans began earlier in the year to form this committee, including obtaining members to serve on the committee and letters outlining the expectations of the committee.

- Sunbelt Ag Expo – As a major sponsor with the two additional Farm Credit associations in the state, the Sunbelt Ag Expo serves as an opportunity to promote Farm Credit within this market segment, and offer one-on-one information about the services offered by the association. Employees volunteered to staff the Farm Credit exhibit and interacted with the hundreds of visitors who stopped by.

- Young Couples Cooperative Conference – As a member of the Georgia Cooperatives Association, this Association offers the opportunity for a YBS couple to participate in the annual, statewide conference. This conference provides YBS farmers with an opportunity to network, participate and learn about cooperative principles.

- Youth leadership conference offered by GA Cooperative Council (As a member of the Georgia Cooperative Council, the Association sponsors the annual Youth Leadership Conference, offers a guest speaker, if not from our Association then from another Farm Credit Association) at the event, and promotes Farm Credit. The Association offers scholarships to students who want to attend the event, in an effort to help defray costs.

- Scholarship at Fort Valley and at UGA – Along with the two other Farm Credit associations in the state, this Association sponsors two scholarships, one at Fort Valley and the other at UGA, to deserving students pursuing a career in an ag-related field.

- Industry Trade Shows – The Associations sponsors, and participates in, a variety of ag-related trade shows and conferences throughout the state of Georgia. These venues provide a wonderful opportunity to educate and promote Farm Credit services to a variety of potential borrowers, including those in the YBS segment. In 2010, this has included:

    - Georgia Peanut Farm Show
    - Georgia Young Farmers Association Convention
    - National Peanut Buying Points Conference
    - SE Pecan Growers Association Meeting
    - American Peanut Shellers Meeting
    - Ochlocknee Field Day
    - SE Pecan Growers Assn Trade Show & Annual Meeting
    - USA Peanut Congress
    - Southern Peanut Growers Conference
    - American Peanut Shellers & National Peanut Buying Points Assn Meeting
    - Georgia Peanut Farm Tour

The Association's Sales Incentive Program helps to ensure the extension of credit to YBS farmers. This program specifically allocated incentive compensation for new loans identified and originated as YBS. In addition, the Association continued to work closely with the Farm Service Agency to utilize the loan guarantee program as an approved Farm Service Agency Preferred Lender. Utilization of loan guarantee programs with qualifying YBS borrowers, assisted in the accomplishment of the Association's mission.

In fulfilling the Corporate Mission as well as the Public Mission and Obligation Statement, the Association ensured that credit and services were offered to all eligible borrowers, including YBS farmers and ranchers, in a safe and sound manner and within the Association's risk-bearing capacity. 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. Subsequent to year-end 2010, the FCA entered into a written agreement with the Association. The written agreement required the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality.

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 Georgia:

Location	Description	Form of Ownership
305 Colquitt Highway Bainbridge	Administrative Annex, Branch	Owned
117 S. Donalson Street Bainbridge	Administrative	Owned*
411 W. Broughton Street Bainbridge	Administrative Annex	Owned*
33 Liberty Street Blakely	Branch	Owned
40 E. Broad Street Camilla	Branch	Owned
1230 38th Blvd., NW Cairo	Branch	Owned
408 W. 3rd Street Donalsonville	Branch	Owned
1037 E. Forsyth Street Americus	Branch	Owned
937 Forrester Drive, S.E. Dawson	Branch	Owned
111 6th Avenue Buena Vista	Outpost	Leased**
401 E. Jackson Street Thomasville	Outpost	Leased***

* *The Annex and original Administrative buildings are presently for sale. However, beginning October 1, 2010 the association signed an 18 month lease agreement on the Administrative building. Lease payments are $2,350.00 per month.*

** *The Buena Vista outpost is leased by the Association on a year-by-year basis. Lease payments are $150 per month.*

*** *The Thomasville outpost is leased by the Association on a year-by-year lease basis. Lease payments are $600 per month.*

NOTE *The Thomasville outpost office is primarily used for the Association’s Secondary Mortgage Market Unit.*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 14 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 10 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, 9 and 14 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:

Senior Officer	Position
Richard S. Monson	President/Chief Executive Officer
Richard H. Horn	Chief Lending Officer
Ryan G. Burtt	Chief Financial Officer
Tarrell Bennett	Chief Relationship Officer

Richard S. Monson, President/Chief Executive Officer: Mr. Monson began his career in the Farm Credit System in 1986, serving as the Chief Lending Officer at Farm Credit of Southwest Florida. For the past 11 years, Mr. Monson has served Southwest Georgia Farm Credit as its President/Chief Executive Officer.

Richard H. Horn, Chief Lending Officer: Mr. Horn joined the Farm Credit System in 1981, most recently serving Southwest Georgia Farm Credit as its Chief Lending Officer. He joined the association in 2008. Prior to that, Mr. Horn was employed as the Chief Lending Officer at ArborOne.

Ryan G. Burtt, Chief Financial Officer:
Mr. Burtt joined the Association more than six and one-half years ago, and has served as both the Director of Credit Administration and Director of Risk Management. Mr. Burtt became Chief Financial Officer in January, 2010.

***Tarrell Bennett, Chief Relationship Manager*:**
Mr. Bennett has served the Association as Chief Relationship Manager for the past 11 years, having been a loan officer for the 10 years prior to that. Mr. Bennett has served in a variety of roles since joining the Association more than 38 years ago. He has served as the association's Credit Manager and worked in the Special Assets Management Department.

The total amount of compensation earned by the CEO and the highest 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 Salary	Bonus	*Deferred-Comp.	**Perq./Other	Total
Richard S. Monson	2010	$251,118	–	–	$ 7,063	$ 258,181
Richard S. Monson	2009	$251,118	–	–	$ 5,017	$ 256,135
Richard S. Monson	2008	$251,118	–	–	$ 5,765	$ 256,882
5	2010	$676,293	$ 68,495	–	$ 6,335	$ 751,123
7	2009	$760,630	$ 36,052	–	$15,032	$ 811,714
6	2008	$716,758	$255,438	–	$66,405	$1,038,601

**Amounts in the above table classified as Deferred Comp. include amounts contributed by the Association on behalf of the senior officer to a defined contribution plan unless the plan is made available to all employees on the same basis.*

***Amounts in the above table classified as Perquisites/Other include items, i.e., travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement.*

In addition to a base salary, certain employees may earn additional compensation under employee performance and profit sharing plans. Employee profit sharing and incentives are shown in the year earned, which may be different than the year paid. Profits distributed under the employee performance and the Employee Profit Sharing Plans are paid in the first quarter of the year following the fiscal year in which they are earned. The Relationship Manager Performance Plan is paid quarterly following the quarter in which they are earned. The Association's compensation plans are designed to motivate employees and to help the Association meet and exceed its' organizational objectives and financial goals, without taking undue risk.

Annually, the Compensation Committee (board representation) reviews the compensation plans for approval and funding. All Board Compensation Committee minutes are reviewed by the board of directors.

Distributions under the Employee Profit Sharing Plan are awarded when the profits generated meet or exceed the targets, set by management and have been approved by the Board. The Employee Profit Sharing Plan was not approved for 2010. No distributions were made under the Employee Profit Sharing Plan for 2010 due to goals set by management not being met.

Incentives earned under Discretionary Incentive plan will be paid the first pay period following approval. Discretionary incentives may be recommended at any time by any member of the management team, including supervisors of one or more employees, on the behalf of any employee who has demonstrated meritorious performance. Payment under the Discretionary Incentive plan cannot exceed 5% of the employee's annual base salary. The plan operates on a calendar year and includes all supervised employees. The Compensation Committee approved the Discretionary Plan on December 16, 2009, effective as of January 1, 2010.

The Association's Relationship Manager Performance Plan is designed to focus on sales and marketing and recognizes each relationship manager on his or her individual sales goals as set by management. The goals set by management are designed to appropriately emphasize and recognize both quality and servicing of the Association's portfolio. The primary goal is based on the Risk Adjusted Return on Capital (RAROC) of the Relationship Managers serviced portfolio. The RAROC goal is set by management at a level to maximize returns, while limiting risk to stockholder equity. The three additional goals are: (1) Young, Beginning, and Small Farmer, (2) Rural Home Loans closed, (3) Auto Draft/Online Payments. Each goal is assigned a separate rate of compensation and is aggregated for a total payment.

The Board Compensation Committee approved the Relationship Manager performance Plan December 16, 2009, effective as of January 1, 2010.

Additionally, senior officers as well as 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.

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

Directors

Directors and senior officers are reimbursed on an actual cost basis for all reasonable and necessary 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 $71,337 for 2010, $45,514 for 2009 and $94,518 for 2008.

Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2010, an honoraria of $400 for attendance or $100 for participation telephonically is paid for meetings, committee meetings excluding Audit Committee, and special assignments. Directors on the Audit Committee are paid an honoraria of $800 for attendance at Audit Committee meetings. In addition, directors on the Executive Committee (Chairman and Vice Chairman) receive a quarterly fee up to $150 for incidental services and the Chairman of the Audit Committee receive an additional honoraria of $200 per Audit Committee meeting. Expenses incurred in connection with the attendance of the spouse of a director at a compensable function may be reimbursable upon a determination by the board chairman that the attendance of the spouse was or will be beneficial to the purpose of the meeting, and such reimbursement will not be reported as compensation. Total compensation paid to directors, as a group was $176,700. No Directors received any noncash compensation during 2010.

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

	Days Served				
Name of Director	**Regular Board Meetings**	***Other Official Activities**	**Committee Meetings Attended**	**Committee Assignments**	**Comp. Paid**
Bobby J. Brooks, Chairman	25	28	14	Credit Review, Executive	$24,400
Charlie Burch, Vice-Chairman	21	8	11	Building, Executive	$14,200
T. E. Allen, III	24	18	41	Audit, Compensation, Compliance, RIMCO (Risk Management), Steering	$28,800
Jeffrey A. Clark	25	13	33	Audit, Compliance, RIMCO (Risk Management)	$27,500
Clifford Dollar, Jr.	22	18	30	Audit, Compliance, Credit Review, RIMCO (Risk Management)	$25,400
Robert L. Holden, Sr.	22	6	37	Building, Compensation, Compliance, RIMCO (Risk Management)	$19,900
Robert B. Moss	25	20	14	Audit, Compensation, RIMCO (Risk Management), Steering	$20,600
B. E. Powell	25	15	8	Compensation	$15,900
				Total	$176,700

** Other Official Activities include Miscellaneous Committee Meetings, Director Training, AgFirst Annual Meeting, FCC Annual Meeting, ACA Annual Meeting*

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Bobby J. Brooks, Chairman, is a peanut and cotton farmer who joined the Board in 1981. He is presently serving a three-year term, which will expire in 2012. Mr. Brooks also serves on the boards of Clay Co. Inc., a peanut buying point; Edison Gin Company, a cotton gin; and Clay County Farm Bureau, an insurance and farm related services provider.

Charlie Burch, Vice Chairman, is a farmer. He is presently serving a three-year term, which will expire in 2011. Mr. Burch has been a member of the Board since 1987. Burch Farms produces cotton, peanuts and cattle.

T. E. Allen, III, Ph.D., is a peanut and cotton farmer who has served as a Board member since 1989. He is presently serving a three-year term, which will expire in 2012. Mr. Allen also serves on the boards of Quality Gin, a cotton gin; and People's Warehouse, a warehouse facility.

Jeffrey A. Clark, Ph.D., is a Professor of Finance at The Florida State University. He was appointed as an Association outside director in 2005. He is serving a three-year term, which will expire in 2011. Mr. Clark serves as the Chairman of the Audit Committee.

Clifford Dollar, Jr. is a peanut, cotton and cattle farmer who has been a member of the Board since 1987. He is presently serving a three-year term, which will expire in 2012. Mr. Dollar also serves as president of the board of Sowega Cotton, Inc., a cotton gin.

Robert L. Holden, Sr. is a dairy, poultry and row crop producer. He is presently serving a three-year term, which will expire in 2013. Mr. Holden, who joined the Board in 1987, also serves on the boards of the Grady County Farm Bureau, an insurance and farm related services provider; AgFirst Farm Credit Bank, an association owned district agriculture cooperative discount and member services bank; Georgia Milk Producers Association, an organization for promoting milk and other interest of Georgia Dairymen; American Dairy Association of Georgia, an organization committed to promoting milk and consumer education; and First United Ethanol, LLC, a facility that produces and markets ethanol.

Robert B. Moss was appointed as an Association outside director in 1993. He is presently serving a three-year term, which will expire in 2013. Mr. Moss is a retired Superintendent of the University of Georgia College of Agricultural and Environmental Sciences, Southwest Georgia Branch Experiment Station, Plains, Georgia. Mr. Moss served as a part-time coordinator of the Georgia Branch Experiment Station for five years. Currently Mr. Moss is a part-time farm management consultant. Mr. Moss is a member of the Plains Lions Club, a civic organization, and Director of the Plains Better Home Town Board, an organization committed to local improvement for future growth.

B. E. Powell is a farmer who has served on the Board since 1968. He is presently serving a three-year term, which will expire in 2013. Mr. Powell also serves on the Marion County Hospital Authority Board, a healthcare provider. Though partially retired from farming, Mr. Powell is actively engaged in the land clearing business.

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 12 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 incurred by the Association for services rendered by its independent auditor for the year ended December 31, 2010 were as follows:

	2010
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 59,491
3rd Party Service Provider	
Harper, Rains, Knight & Company	
Nonaudit services	102,049
Tax services	15,960
Total	$ 177,500

Audit service fees were for the annual audit of the Consolidated Financial Statements. Nonaudit services included internal credit reviews, internal operation review, Sarbanes Oxley compliance review and other miscellaneous reviews as needed.

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 1-229-246-0384 or toll free 1-866-304-3276, or writing Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817, Attention: Chief Financial Officer, or accessing the web site, ***www.swgafarmcredit.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.

Should you have questions concerning the financial reports or any other information contained within this Annual Report please contact the Stockholder Relations Department by calling 1-866-304-3276, extension 1141.

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***. The Bank prepares an electronic version of the Annual Report, which is available on the 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 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 Southwest Georgia Farm Credit (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:

Jeffrey A. Clark
Chairman of the Audit Committee

Members of Audit Committee

T.E. Allen, III
Clifford Dollar, Jr.

March 14, 2011

Report of Independent Auditors

Report of Independent Auditors

To the Board of Directors and Members
of Southwest Georgia Farm Credit, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Southwest Georgia Farm Credit, 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

(dollars in thousands)	December 31, 2010	December 31, 2009	December 31, 2008
Assets			
Cash	$ 910	$ 2,575	$ 2,971
Investment securities:			
Available for sale (amortized cost of $0, $27,262 and $0 respectively)	—	27,142	—
Held to maturity (fair value of $8,229, $6,824 and $39,536 respectively)	8,383	7,850	39,707
Total investment securities	8,383	34,992	39,707
Loans	294,917	335,972	373,754
Less: allowance for loan losses	5,758	4,858	3,359
Net loans	289,159	331,114	370,395
Loans held for sale	—	166	—
Other investments	48,671	59,302	69,317
Accrued interest receivable	4,143	4,360	6,132
Investments in other Farm Credit institutions	11,047	13,730	16,246
Premises and equipment, net	4,448	4,611	3,382
Other property owned	8,614	1,285	3,725
Due from AgFirst Farm Credit Bank	5,110	6,029	6,237
Other assets	3,766	4,110	4,344
Total assets	$ 384,251	$ 462,274	$ 522,456
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 310,662	$ 388,508	$ 450,740
Accrued interest payable	840	1,180	1,663
Patronage refund payable	1,625	18	23
Other liabilities	5,313	9,132	6,649
Total liabilities	318,440	398,838	459,075
Commitments and contingencies			
Members' Equity			
Protected borrower stock	152	255	297
Capital stock and participation certificates	998	1,245	1,201
Retained earnings			
Allocated	25,426	23,894	23,993
Unallocated	39,235	38,162	37,890
Accumulated other comprehensive income (loss)	—	(120)	—
Total members' equity	65,811	63,436	63,381
Total liabilities and members' equity	$ 384,251	$ 462,274	$ 522,456

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

Consolidated Statements of Operations

	For the year ended December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Interest Income			
Investment securities	$ 853	$ 916	$ 1,213
Loans	16,489	18,509	26,690
Other investments	2,485	3,096	3,719
Total interest income	19,827	22,521	31,622
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	11,243	15,365	22,453
Net interest income	8,584	7,156	9,169
Provision for (reversal of allowance for) loan losses	(586)	4,631	15,558
Net interest income after provision for (reversal of allowance for) loan losses	9,170	2,525	(6,389)
Noninterest Income			
Loan fees	966	870	1,453
Fees for financially related services	4	5	9
Patronage refund from other Farm Credit institutions	5,453	6,078	6,319
Gains (losses) on other property owned, net	(3,428)	(921)	7
Gains (losses) on sales of rural home loans, net	—	—	(3)
Gains (losses) on sales of premises and equipment, net	5	189	—
Gains (losses) on sales of investment securities	(76)	—	—
Insurance Fund refund	381	—	—
Other noninterest income	42	46	48
Total noninterest income	3,347	6,267	7,833
Noninterest Expense			
Salaries and employee benefits	5,237	5,136	4,447
Occupancy and equipment	640	632	481
Insurance Fund premiums	144	587	554
Other operating expenses	2,065	2,192	2,382
Total noninterest expense	8,086	8,547	7,864
Income (loss) before income taxes	4,431	245	(6,420)
Provision for income taxes	—	2	2
Net income (loss)	$ 4,431	$ 243	$ (6,422)

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2007	$ 353	$ 1,170	$ 27,115	$ 44,309	$ —	$ 72,947
Net income (loss)				(6,422)		(6,422)
Protected borrower stock retired	(56)					(56)
Capital stock/participation certificates issued/(retired), net		31				31
Retained earnings retired			(2,646)			(2,646)
Patronage distribution adjustment			(476)	3		(473)
Balance at December 31, 2008	297	1,201	23,993	37,890	—	63,381
Comprehensive income						
Net income				243		243
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(120)	(120)
Total comprehensive income						123
Protected borrower stock retired	(42)					(42)
Capital stock/participation certificates issued/(retired), net		44				44
Retained earnings retired			(99)			(99)
Patronage distribution adjustment				29		29
Balance at December 31, 2009	255	1,245	23,894	38,162	(120)	63,436
Comprehensive income						
Net income				4,431		4,431
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					120	120
Total comprehensive income						4,551
Protected borrower stock retired	(103)					(103)
Capital stock/participation certificates issued/(retired), net		(247)				(247)
Patronage distribution						
Cash				(1,620)		(1,620)
Nonqualified allocated retained earnings			1,827	(1,827)		—
Retained earnings retired			(296)			(296)
Patronage distribution adjustment			1	89		90
Balance at December 31, 2010	$ 152	$ 998	$ 25,426	$ 39,235	$ —	$ 65,811

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ 4,431	$ 243	$ (6,422)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	244	223	105
Premium amortization (discount accretion) on investments	(2,256)	(2,567)	(2,893)
Provision for (reversal of allowance for) loan losses	(586)	4,631	15,558
(Gains) losses on other property owned, net	3,428	921	(7)
(Gains) losses on sales of premises and equipment, net	(5)	(189)	—
(Gains) losses on sales of investment securities	76	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	166	(166)	—
(Increase) decrease in accrued interest receivable	217	1,772	3,331
(Increase) decrease in due from AgFirst Farm Credit Bank	919	208	619
(Increase) decrease in other assets	344	234	(573)
Increase (decrease) in accrued interest payable	(340)	(483)	(570)
Increase (decrease) in other liabilities	(3,819)	2,483	(3,686)
Total adjustments	(1,612)	7,067	11,884
Net cash provided by (used in) operating activities	2,819	7,310	5,462
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	(893)	(1,499)	(22,934)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	360	3,206	18,269
Proceeds from sales/maturities of or principal payments received on investment securities, available for sale	26,957	2,359	—
Net (increase) decrease in loans	26,414	29,914	3,693
(Increase) decrease in investment in other Farm Credit institutions	2,683	2,516	4,950
Purchases of other investments	—	(4)	(331)
Proceeds from payments received on other investments	13,116	13,115	13,075
Purchases of premises and equipment	(83)	(1,913)	(2,131)
Proceeds from sales of premises and equipment	7	650	—
Proceeds from sales of other property owned	5,164	6,185	137
Net cash provided by (used in) investing activities	73,725	54,529	14,728
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(77,846)	(62,232)	(11,856)
Protected borrower stock retired	(103)	(42)	(56)
Capital stock and participation certificates issued/(retired), net	(247)	44	31
Patronage refunds and dividends paid	(13)	(5)	(4,002)
Retained earnings retired	—	—	(2,646)
Net cash provided by (used in) financing activities	(78,209)	(62,235)	(18,529)
Net increase (decrease) in cash	(1,665)	(396)	1,661
Cash, beginning of period	2,575	2,971	1,310
Cash, end of period	$ 910	$ 2,575	$ 2,971
Supplemental schedule of non-cash activities:			
Loans transferred to other property owned	16,127	4,666	3,855
Estimated cash dividends or patronage distributions declared or payable	1,620	—	—
Change in unrealized gains (losses) on investments	120	(120)	—
Reclassification of investments from held to maturity to available for sale	—	29,856	—
Allocated retained earnings transferred to loans net of $90 and $29 to unallocated retained respectively	(206)	(70)	—
Supplemental information:			
Interest paid	11,583	15,848	23,023

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:** Southwest Georgia Farm Credit, ACA (the Association or ACA) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes in the counties of Baker, Calhoun, Chattahoochee, Clay, Decatur, Dougherty, Early, Grady, Lee, Marion, Miller, Mitchell, Quitman, Randolph, Schley, Seminole, Stewart, Sumter, Terrell, Thomas, and Webster in the state of Georgia.

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). FLCAs 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 is authorized to make short- and intermediate-term loans for agricultural production or operating purposes; however, the Association is operating its short- and intermediate-term business through the ACA instead of the PCA.

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 or available-for-sale. If classified as held-to-maturity, these investments are reported at amortized cost. If classified as available-for-sale, these investments are reported at fair value with unrealized gains and losses netted and reported as a separate component of members' equity (accumulated other comprehensive income (loss)) in the Consolidated Balance Sheets. Changes in the fair value of investments classified as available-for-sale are reflected as direct charges or credits to members' equity. Realized gains and losses are recognized in current earnings using the specific identification method for determining the cost basis to be used. 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. 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, if the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell the other-than-temporary impaired security and it is not more likely than not that it would be required to sell the security, 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. **Other Investments:** Other investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC), which qualify as mission related investments under FCA regulations. Under the SIIC, the tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

E. **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.

F. **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.

G. **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.

H. **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.

I. **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.

J. **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.

K. **Patronage Refund from AgFirst and Other Financial Institutions:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis. The patronage receivable is included in the amount due from AgFirst Farm Credit Bank.

L. **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 15.

M. **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

During June 2010, the Association sold its available-for-sale asset backed securities (ABSs) portfolio in the amount of $24,112 with a realized loss of $(76). A summary of the amortized cost and fair value of investment securities available-for-sale at December 31, 2009 follows. The Association had no investment securities available for sale at December 31, 2010 or 2008.

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 27,262	$ 55	$ (175)	$ 27,142	1.37%

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
Mission-related investments	$ 8,383	$ 91	$ (245)	$ 8,229	6.40%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 7,850	$ 52	$ (1,078)	$ 6,824	6.58%

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 33,264	$ 152	$ (130)	$ 33,286	2.77%
Mission-related investments	6,443	233	(426)	6,250	6.71
Total	$ 39,707	$ 385	$ (556)	$ 39,536	3.41%

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	–	–	–
After five years through ten years	–	–	–
After ten years	8,383	8,229	6.40
Total	$ 8,383	$ 8,229	6.40%

During the second quarter of 2009, the Association reclassified its asset backed securities portfolio from Held to Maturity (HTM) to Available for Sale (AFS) as the AFS classification more accurately reflects management's intent regarding the Association's asset backed securities portfolio. Thus, in accordance with FASB guidance regarding accounting for certain investments in debt and equity securities, available-for-sale investments are reported at fair value with changes in the fair value excluded from earnings and reported in a separate component of members' equity called Other Comprehensive Income. Upon sale of an investment, the realized gain or loss is included in current earnings. At the time of reclassification in June 2009, the value of the ABSs was $29,856. As of December 31, 2009 the other comprehensive income related to the securities was $(120). The Association sold its ABS portfolio in June of 2010 with a realized loss of $(76) as mentioned above.

The Association's held-to-maturity mission-related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

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 table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at December 31, 2010, 2009 and 2008:

	December 31, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related investments	$ 5,898	$ (245)	$ –	–

	December 31, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 11,922	$ (89)	$ 6,816	$ (86)
Mission related investments	6,824	(1,078)	–	–
Total	$ 18,746	$ (1,167)	$ 6,816	$ (86)

	December 31, 2008			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 12,743	$ 80	$ 5,925	$ 50
Mission related investments	3,189	426	–	–
Total	$ 15,932	$ 506	$ 5,925	$ 50

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. Full payment of principal and interest is expected. 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 likely that the Association would be required to sell these investments before recovering its costs.

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
(dollars in thousands)	2010	2009	2008
Real estate mortgage	$ 180,051	$ 187,015	$ 196,598
Production and intermediate-term	68,562	90,137	109,414
Agribusiness			
Loans to cooperatives	–	–	847
Processing and marketing	33,650	35,797	30,890
Farm-related business	8,551	18,238	28,340
Total agribusiness	42,201	54,035	60,077
Energy	–	–	900
Rural residential real estate	4,103	4,785	6,765
Total Loans	$ 294,917	$ 335,972	$ 373,754

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:

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 29,900	$ 63,496	$ –	$ –	$ 2,728	$ –	$ 32,628	$ 63,496
Production and intermediate term	25,486	23,299	1,243	–	1,843	–	28,572	23,299
Agribusiness								
Processing and marketing	12,803	6,225	1,770	–	2,737	–	17,310	6,225
Farm-related business	1,266	6,357	–	910	–	–	1,266	7,267
Total agribusiness	14,069	12,582	1,770	910	2,737	–	18,576	13,492
Total	$ 69,455	$ 99,377	$ 3,013	$ 910	$ 7,308	$ –	$ 79,776	$ 100,287

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 24.12 percent of loans had maturities of one year or less:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 14,307	$ 37,090	$ 128,654	$ 180,051
Production and intermediate term	33,912	28,359	6,291	68,562
Agribusiness				
Processing and marketing	21,549	3,981	8,120	33,650
Farm-related business	1,290	1,692	5,569	8,551
Total agribusiness	22,839	5,673	13,689	42,201
Rural residential real estate	54	563	3,486	4,103
Total Loans	$ 71,112	$ 71,685	$ 152,120	$ 294,917

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:

	2010	2009	2008
Real estate mortgage:			
Acceptable	92.53%	88.64%	86.08%
OAEM	0.35	1.52	3.84
Substandard/doubtful/loss	7.12	9.84	10.08
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	87.32%	64.44%	72.37%
OAEM	7.06	11.78	9.34
Substandard/doubtful/loss	5.62	23.78	18.29
	100.00%	100.00%	100.00%
Agribusiness:			
Loans to cooperatives:			
Acceptable	–%	–%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing			
Acceptable	52.14%	60.12%	91.53%
OAEM	30.57	10.53	–
Substandard/doubtful/loss	17.29	29.35	8.47
	100.00%	100.00%	100.00%

	2010	2009	2008
Farm-related business			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total agribusiness			
Acceptable	61.74%	73.47%	95.62%
OAEM	24.44	7.01	–
Substandard/doubtful/loss	13.82	19.52	4.38
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	–%	–%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	–%	100.00%
Rural residential real estate:			
Acceptable	93.42%	94.75%	98.41%
OAEM	6.58	0.44	1.59
Substandard/doubtful/loss	–	4.81	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	86.97%	79.81%	83.83%
OAEM	5.41	5.13	4.79
Substandard/doubtful/loss	7.62	15.06	11.38
	100.00%	100.00%	100.00%

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

(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,296	$ 8,354	$ 9,650	$ 173,161	$ 182,811	$ –
Production and intermediate-term	2,750	3,377	6,127	63,381	69,508	–
Agribusiness						
Processing and marketing	–	930	930	32,907	33,837	–
Farm-related business	–	–	–	8,680	8,680	–
Total agribusiness	–	930	930	41,587	42,517	–
Rural residential real estate	29	–	29	4,107	4,136	–
Total	$ 4,075	$ 12,661	$ 16,736	$ 282,236	$ 298,972	$ –

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:

(dollars in thousands)	December 31, 2010	2009	2008
Nonaccrual loans:			
Real estate mortgage	$ 8,576	$ 11,081	$ 8,424
Production and intermediate-term	4,766	14,883	11,934
Agribusiness			
Processing and marketing	5,850	8,577	–
Total agribusiness	5,850	8,577	–
Total nonaccrual loans	$ 19,192	$ 34,541	$ 20,358
Accruing restructured loans:			
Real estate mortgage	$ 1,136	$ 161	$ 236
Production and intermediate-term	19	24	–
Total accruing restructured loans	$ 1,155	$ 185	$ 236
Accruing loans 90 days or more past due:			
Production and intermediate-term	$ –	$ –	$ 2,104
Total accruing loans 90 days or more past due	$ –	$ –	$ 2,104
Total nonperforming loans	$ 20,347	$ 34,726	$ 22,698
Other property owned	8,614	1,285	3,725
Total nonperforming assets	$ 28,961	$ 36,011	$ 26,423
Nonaccrual loans as a percentage of total loans	6.51%	10.28%	5.45%
Nonperforming assets as a percentage of total loans and other property owned	9.54%	10.68%	7.00%
Nonperforming assets as a percentage of capital	44.01%	56.77%	41.69%

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

(dollars in thousands)	December 31, 2010	2009	2008
Impaired nonaccrual loans:			
Current as to principal and interest	$ 6,516	$ 15,168	$ 9,905
Past due	12,676	19,373	10,453
Total impaired nonaccrual loans	19,192	34,541	20,358
Impaired accrual loans:			
Restructured	1,155	185	236
90 days or more past due	–	–	2,104
Total impaired accrual loans	1,155	185	2,340
Total impaired loans	$ 20,347	$ 34,726	$ 22,698

Additional impaired loan information is as follows:

	December 31, 2010			Year Ended December 31, 2010	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 3,163	$ 6,193	$ 183	$ 4,317	$ 158
Production and intermediate-term	1,260	1,468	140	1,720	63
Agribusiness					
Processing and marketing	5,850	6,182	865	7,986	293
Total agribusiness	5,850	6,182	865	7,986	293
Total	$ 10,273	$ 13,843	$ 1,188	$ 14,023	$ 514
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,549	$ 6,753	$ –	$ 10,101	$ 370
Production and intermediate-term	3,525	7,531	–	3,649	134
Agribusiness					
Processing and marketing	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Total	$ 10,074	$ 14,284	$ –	$ 13,750	$ 504
Total impaired loans:					
Real estate mortgage	$ 9,712	$ 12,946	$ 183	$ 14,418	$ 528
Production and intermediate-term	4,785	8,999	140	5,369	197
Agribusiness					
Processing and marketing	5,850	6,182	865	7,986	293
Total agribusiness	5,850	6,182	865	7,986	293
Total	$ 20,347	$ 28,127	$ 1,188	$ 27,773	$ 1,018

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:

	Year Ended December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Interest income which would have been recognized under the original loan terms	$ 2,627	$ 2,476	$ 1,392
Less: interest income recognized	924	196	223
Foregone interest income	$ 1,703	$ 2,280	$ 1,169

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

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Total
Allowance for credit losses:					
Balance at December 31, 2009	$ 1,738	$ 1,113	$ 1,962	$ 45	$ 4,858
Charge-offs	(3,765)	(3,199)	(1)	–	(6,965)
Recoveries	248	8,190	13	–	8,451
Provision for loan losses	4,635	(4,756)	(502)	37	(586)
Balance at December 31, 2010	$ 2,856	$ 1,348	$ 1,472	$ 82	$ 5,758
2010 allowance ending balance:					
Individually evaluated for impairment	$ 183	$ 140	$ 865	$ –	$ 1,188
Collectively evaluated for impairment	$ 2,673	$ 1,208	$ 607	$ 82	$ 4,570
Recorded investment in loans outstanding:					
Ending Balance at December 31, 2010	$ 182,811	$ 69,508	$ 42,517	$ 4,136	$ 298,972
2010 recorded investment ending balance:					
Loans individually evaluated for impairment	$ 9,712	$ 4,785	$ 5,850	$ –	$ 20,347
Loans collectively evaluated for impairment	$ 173,099	$ 64,723	$ 36,667	$ 4,136	$ 278,625

Note 5 — Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

For the years ended December 31, 2010, 2009 and 2008, the Association held Tobacco Buyout SIIC of $48,671, $59,302 and $69,317, respectively, net of discount.

Note 6 — 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 7 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2010	2009	2008
Land	$ 939	$ 939	$ 748
Buildings and improvements	4,295	4,245	3,745
Furniture and equipment	1,381	1,402	804
	6,615	6,586	5,297
Less: accumulated depreciation	2,167	1,975	1,915
Total	$ 4,448	$ 4,611	$ 3,382

Note 8 — Other Property Owned

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

	December 31, 2010	2009	2008
Gains (losses) on sale, net	$ 12	$ (419)	$ (2)
Carrying value unrealized gains (losses)	(3,013)	(453)	50
Operating income (expense), net	(427)	(49)	(41)
Gains (losses) on other property owned, net	$ (3,428)	$ (921)	$ 7

Note 9 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily 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 line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association operated under a special credit arrangement pursuant to its GFA during 2010 in connection with covenant violations at December 31, 2009. The Association has operated under the standard GFA (no special credit arrangement) during 2011.

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 1.58 percent for LIBOR-based loans, 1.95 percent for Prime-based loans, and the weighted average remaining maturities were 3.4 years and 6.0 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 3.22 percent and the weighted average remaining maturity was 7.8 years at December 31, 2010. The weighted average interest rate on all interest-bearing notes payable was 2.81 percent and the weighted average remaining maturity was 6.9 years at December 31, 2010.

Variable rate and fixed rate notes payable represent approximately 22.87 percent and 77.13 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.

Note 10 — 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 which 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 $1 thousand or two percent of the amount of the loan. 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 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 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 consolidated 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 of 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 18.49 percent, 18.13 percent and 15.00 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 per share.

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

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
A Common/Nonvoting	Yes	76	$ –
B Common/Nonvoting	Yes	29,447	147
C Common/Voting	No	187,260	936
B Participation Certificates/Nonvoting	Yes	869	5
C Participation Certificates/Nonvoting	No	12,303	62
Total Capital Stock and Participation Certificates		229,955	$ 1,150

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 of Directors are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. 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.

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, however, that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2010, allocated members' equity consisted of $15,718 of nonqualified allocated surplus and $9,707 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. Amounts not distributed are retained as unallocated members' equity.

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 or 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 and 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:

1. Assistance preferred Stock
2. Allocated Retained Earnings in its entirety
3. Class C Common Stock and Class C Participation Certificates
4. Classes A and B Common Stock and Class B Participation Certificates
5. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
5. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
6. All Unallocated Retained Earnings issued after January 1, 1995 shall be distributed to the holders of Class C Stock and Class C Participation Certificates from January 1, 1995 through the date of liquidation on a patronage basis; and
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

E. **Other Comprehensive Income (Loss)**

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association reported OCI of $(120) in 2009 for unrealized gains (losses) on investments available for sale (see Note 3 for further information). This amount was realized in 2010 upon sale of available for sale securities and included in net income.

Note 11 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2010	2009	2008
Current:			
Federal	$ –	$ 1	$ 2
State	–	1	–
	–	2	2
Deferred:			
Federal	–	–	–
State	–	–	–
	–	2	–
Total provision (benefit) for income taxes	$ –	$ 2	$ 2

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	$ 1,507	$ 82	$ (2,183)
State tax, net	–	1	1
Patronage distributions	(244)	–	–
Tax-exempt FLCA earnings	(1,160)	(989)	(2,236)
Change in valuation allowance	(168)	991	4,892
Other	65	(83)	(472)
Provision (benefit) for income taxes	$ –	$ 2	$ 2

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

	December 31, 2010	2009	2008
Deferred income tax assets:			
Allowance for loan losses	$ 630	$ 1,371	$ 325
Pensions and other postretirement benefits	398	389	378
Depreciation		45	42
Loss carryforwards	5,267	4,611	4,671
Gross deferred tax assets	6,295	6,416	5,416
Less: valuation allowance	(5,782)	(5,950)	(4,959)
Gross deferred tax assets, net of valuation allowance	513	466	457
Deferred income tax liabilities:			
Loan fees	(1)	(1)	(4)
Depreciation	(36)	–	–
Pensions and other postretirement benefits	(476)	(465)	(453)
Gross deferred tax liability	(513)	(466)	(457)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2010, deferred income taxes have not been provided by the Association on approximately $2 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 $5,782 during 2010, $5,950 in 2009 and $4,959 in 2008. 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 2007 and forward.

Note 12 — Employee Benefit Plans

The Association participates in district sponsored benefit plans. These plans include a defined benefit final average 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 $933 for 2010, $1,095 for 2009, and $520 for 2008, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were $992 for 2010, $919 for 2009, and $238 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 $129 for 2010, $121 for 2009, and $121 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 $127, $126, and $122 for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 13 — 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 $4,658. During 2010, $2,312 of new loans were made and repayments totaled $2,017. In the opinion of management, none of these loans outstanding at December 31, 2010 involved more than a normal risk of collectibility.

Note 14 — 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, $45,543 of commitments to extend credit and $1,983 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 $1,469 of standby letters of credit, with expiration dates ranging from December 31, 2010 to March 5, 2013. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is $1,469.

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 $23 and was included in other liabilities.

During 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investments Company (RBIC). At December 31, 2010, there was an outstanding commitment of $92 to make additional equity purchases.

Note 15 — 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 investments available for sale, 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 has no Level 1 assets or liabilities at December 31, 2010.

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 no Level 2 liabilities measured at fair value on a recurring basis at December 31, 2010. All Association Level 2 assets available-for-sale were sold in June of 2010. Level 2 assets include available-for-sale investment securities that are traded in active, non-exchange markets. These securities are U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The fair value of available-for-sale investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

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 could instrument 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			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 23	$ 23
Total Liabilities	$ –	$ –	$ 23	$ 23

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	$ –	$ 27,142	$ –	$ 27,142
Total Assets	$ –	$ 27,142	$ –	$ 27,142
Liabilities:				
Standby letters of credit	$ –	$ –	$ 15	$ 15
Total Liabilities	$ –	$ –	$ 15	$ 15

	December 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 40	$ 40
Total Liabilities	$ –	$ –	$ 40	$ 40

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:

	Standby Letters Of Credit
Balance at January 1, 2010	$ 15
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	8
Transfers in and/or out of level 3	–
Balance at December 31, 2010	$ 23

	Standby Letters Of Credit
Balance at January 1, 2009	$ 40
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(25)
Transfers in and/or out of level 3	–
Balance at December 31, 2009	$ 15

	Standby Letters Of Credit
Balance at January 1, 2008	$ 80
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(40)
Transfers in and/or out of level 3	–
Balance at December 31, 2008	$ 40

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.

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 9,086	$ 9,086	$ (2,032)
Other Property Owned	$ –	$ –	$ 8,614	$ 8,614	$ (3,001)

December 31, 2009	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 4,794	$ 4,794	$ (2,283)
Other Property Owned	$ –	$ –	$ 1,285	$ 1,285	$ (872)

December 31, 2008	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 9,828	$ 9,828	$ (15,282)

Note 16 — 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
Financial assets:				
Cash	$ 910	$ 910	$ 2,575	$ 2,575
Loans, net of allowance	$ 293,214	$ 291,309	$ 335,373	$ 338,247
Investment securities	$ 8,471	$ 8,229	$ 35,093	$ 33,966
Tobacco Buyout SIIC	$ 48,671	$ 50,715	$ 59,302	$ 63,060
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 311,502	$ 315,491	$ 389,688	$ 398,426

	December 31, 2008	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 2,971	$ 2,971
Loans, net of allowance	$ 376,300	$ 379,694
Investment securities	$ 39,934	$ 39,536
Tobacco Buyout SIIC	$ 69,317	$ 72,440
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 452,403	$ 464,528

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:** For asset-backed securities, fair value is primarily based upon prices obtained from a third party valuation service. See Note 15 for further information. For mission-related investments, fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

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 6, 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 2.73 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 $1,143 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. Tobacco Buyout SIIC: Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

Note 17 — 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	$ 2,231	$ 1,930	$ 2,209	$ 2,214	$ 8,584
Provision for (reversal of allowance for) loan losses	–	(1,700)	1,114	–	(586)
Noninterest income (expense), net	(231)	(2,474)	(1,381)	(653)	(4,739)
Net income (loss)	$ 2,000	$ 1,156	$ (286)	$ 1,561	$ 4,431

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,750	$ 1,787	$ 1,901	$ 1,718	$ 7,156
Provision for (reversal of allowance for) loan losses	–	2,463	2,168	–	4,631
Noninterest income (expense), net	(405)	(503)	1,281	(2,655)	(2,282)
Net income (loss)	$ 1,345	$ (1,179)	$ 1,014	$ (937)	$ 243

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,712	$ 1,984	$ 2,299	$ 2,174	$ 9,169
Provision for (reversal of allowance for) loan losses	10,254	3,444	742	1,118	15,558
Noninterest income (expense), net	350	650	137	(1,170)	(33)
Net income (loss)	$ (7,192)	$ (810)	$ 1,694	$ (114)	$ (6,422)

Note 18 – Regulatory Enforcement Matters

During the first quarter of 2010, the FCA entered into a written supervisory agreement with the Association. The written supervisory agreement required the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality. The Association remained under written supervisory agreement as of the date of this report.

Note 19 – Subsequent Events

The Association has evaluated subsequent events through March 14, 2011, which is the date the financial statements were issued. Subsequent to year end, management placed one of the Association's large loans into nonaccrual status. Management estimates that this action will result in the need for an additional reserve. However, final valuation of the collateral on this loan is pending. An accurate estimate of possible loss will be available once the valuation has been completed.