

2010

Annual Report



ARBORONE

FARM CREDIT

Lending support to rural America™

ARBORONE, ACA

2010 ANNUAL REPORT

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Management

Jasper W. Shuler	President and Chief Executive Officer
Tammy G. Smith	Chief Financial Officer
Kathy S. Heustess	Chief Operating Officer
Richard O. Pitts	Chief Lending Officer

Board of Directors

James M. Ward	Chairman
Harry B. DuRant	Vice Chairman
DuPree Atkinson	Director
John Lee Newman	Director
William K. Phillips, Jr.	Director
Jimmy Poston	Director
Harold C. Stowe	Director
Kelly O. Wiseman	Director

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Message from the President

Dear Stockholders and Friends of ArborOne Farm Credit,

As we reflect on 2010, I must congratulate everyone connected with ArborOne Farm Credit. It is because of you – our stockholder-customers, our directors and our employees – that we can look back and be pleased with the Association’s results in spite of economic conditions. ArborOne experienced growth, healthy profits and will once again pay a strong patronage refund to our member-owners.

Economic Landscape

The United States and world economies will likely remain fragile in 2011 after experiencing the deepest recession in 75 years. Even though The Great Recession has officially ended, the consensus remains that the recovery will be long and slow. The lack of consumer confidence coupled with high unemployment continues to cripple the already weak U.S. general economy.

However, the outlook for agriculture over the next three years, I believe, is positive. Rising world demand for our products, a good year predicted for row crop farms as well as stable farmland values will all work to the farmers’ benefit. The market is right for taking advantage of low long-term fixed rates for real estate which stabilize payment streams for the life of the loans. A word of caution: beware of “bubbles” in commodity prices. A great predictor of price is long-term average prices, and with that in mind, we are seeing prices of some commodities hit all time highs which over the long haul are not sustainable. Know your production costs, set a return goal, employ a strategy, use hedging to protect your investment and never try to “time the market”.

With these predictions, it is imperative that farmers keep risk management as an integral part of their overall management plan. Be mindful of weather conditions which are as always the biggest risk, and the need for irrigation and crop insurance. Financial preparedness should always remain a priority. As the Tobacco Transition Payment Program (TTPP) approaches year seven of ten; be mindful that the end is in sight for these payments, and I encourage you to manage your operating costs and use this one time money for retirement.

Our Company

ArborOne Farm Credit finished 2010 with strong capital, credit quality on the rise and processes in place to support the improving performance trend. We are cautiously optimistic about 2011, although there still remain some accounts experiencing stress.

We are a company of engaged employees that embrace the vision, mission and core values of ArborOne. In 2010, we were named one of the top three “Best Places to Work in SC” which was determined through employee survey responses and statewide competition. We are also proud to announce that we purchased our Florence building. Come visit us at 800 Woody Jones Boulevard!

Our Community

Our employees realize the value of giving back to the community. Christmas is a time to share our blessings through gifts to the Florence Disabilities Foundation, visits from Santa and his elves, gifts to the Billie Hardee Home for Boys in Darlington, and the list goes on. Giving of time and talent is not limited to the holiday season, we have individuals working with the Boys Scouts, FFA, 4-H, Junior Charity Leagues, American Cancer Society, the Red Cross, YMCA’s, local Chambers of Commerce and economic development groups, and many more – ArborOne staff members are making a difference across our service area.

Year in and year out, ArborOne Farm Credit plays an important role in the Pee Dee by providing jobs to fifty or so employees, who also live in the area. Both personally and corporately, we contribute to the local economy by living our lives in the area and patronizing the local merchants. We provide support to the area farmers through our local cooperative lending philosophy – “acting locally”; which in turn provides food and sustenance to the world – “connecting globally”.

Our Customers

Lending support to rural America; it’s what we do. And what we strive to continuously improve upon. With that in mind, in 2010 we designated a Farm Related Services (FRS) unit within our company. FRS works with customers for the sole purpose of helping them to adequately plan for and meet their crop and life insurance needs. Having these insurances in place is an important risk management strategy.

Our Association business model is structured so that all units work in unison to enhance our ability to serve you, our local customers. Utilizing FRS provides protection to you; as well as from our standpoint, protecting the investment we have made in your and your neighbor’s crops. Capital Markets consists of originating, purchasing or selling participation loans, which provides a mechanism to diversify our portfolio geographically and to reduce commodity concentrations while spreading overhead costs. The Rural America Bonds program enables us to provide long-term financing to enhance the quality of life in rural America in cooperation with USDA guarantee programs while also spreading overhead costs. All of these earning engines work together to provide you, our customers, with the most competitive cooperative structure in America while making services and programs available for your financing needs.

Our Future

The outlook for agriculture is bright. The Pee Dee region of South Carolina is a transitioning area for agriculture. We are located geographically to be able to take advantage of export opportunities as well as having favorable weather conditions and rich soil for agriculture. Local foods are becoming a niche market as consumers are more aware of the origin of their food. Exciting opportunities are ahead.

I would like to thank our Board of Directors, for their support of management and their willingness and ability to direct the future of ArborOne. I offer my sincere gratitude to our employees for their endurance and belief that what they do matters – and it does. And most of all I thank you, our members without whom we cease to exist, for your confidence and support and patronage to ArborOne. We look forward to our continued relationship and to serving you in 2011.



Jack W. Shuler
President and 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 **ArborOne, ACA** (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2010 Annual Report of **ArborOne, 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.



James M. Ward
Chairman of the Board



Jasper W. Shuler
Chief Executive Officer



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



Jasper W. Shuler
Chief Executive Officer



Tammy G. Smith
Chief Financial Officer

March 14, 2011

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2010	2009	December 31, 2008	2007	2006
Balance Sheet Data					
Cash	\$ 469	\$ 56	\$ 1	\$ 2	\$ 2
Investment securities	53,974	57,222	32,160	33,500	10,107
Loans	308,170	269,355	300,993	345,386	297,393
Less: allowance for loan losses	1,434	1,170	1,911	53	243
Net loans	306,736	268,185	299,082	345,333	297,150
Investments in other Farm Credit institutions	13,926	16,348	17,679	12,699	11,609
Other property owned	1,081	765	—	287	—
Other assets	103,862	116,331	127,105	137,342	141,498
Total assets	\$ 480,048	\$ 458,907	\$ 476,027	\$ 529,163	\$ 460,366
Notes payable to AgFirst Farm Credit Bank*	\$ 402,448	\$ 388,123	\$ 406,997	\$ 466,846	\$ 402,799
Subordinated debt payable to other Farm Credit institutions	7,500	7,500	7,500	—	—
Accrued interest payable and other liabilities with maturities of less than one year	11,716	9,347	10,441	13,903	11,788
Total liabilities	421,664	404,970	424,938	480,749	414,587
Protected borrower stock	190	324	371	412	453
Capital stock and participation certificates	1,154	1,146	1,205	1,196	1,151
Retained earnings					
Allocated	33,309	32,406	30,751	29,195	26,826
Unallocated	24,053	20,844	20,738	18,105	17,349
Accumulated other comprehensive income (loss)	(322)	(783)	(1,976)	(494)	—
Total members' equity	58,384	53,937	51,089	48,414	45,779
Total liabilities and members' equity	\$ 480,048	\$ 458,907	\$ 476,027	\$ 529,163	\$ 460,366
Statement of Income Data					
Net interest income	\$ 7,158	\$ 5,808	\$ 7,317	\$ 8,759	\$ 8,670
Provision for (reversal of allowance for) loan losses	1,217	2,219	2,043	(209)	(723)
Noninterest income (expense), net	1,592	992	2,097	(300)	(921)
Net income	\$ 7,533	\$ 4,581	\$ 7,371	\$ 8,668	\$ 8,472
Key Financial Ratios					
Rate of return on average:					
Total assets	1.71%	1.02%	1.54%	1.80%	1.86%
Total members' equity	13.04%	8.64%	14.26%	17.31%	18.50%
Net interest income as a percentage of					
average earning assets	1.79%	1.41%	1.64%	1.91%	1.97%
Net (chargeoffs) recoveries to average loans	(0.332)%	(1.000)%	(0.060)%	0.005%	(0.014)%
Total members' equity to total assets	12.16%	11.75%	10.73%	9.15%	9.94%
Debt to members' equity (:1)	7.22	7.51	8.32	9.93	9.06
Allowance for loan losses to loans	0.47%	0.43%	0.63%	0.02%	0.08%
Permanent capital ratio	16.17%	15.01%	15.05%	11.43%	13.29%
Total surplus ratio	15.78%	14.57%	14.60%	11.07%	12.89%
Core surplus ratio	12.00%	11.55%	12.39%	8.89%	10.65%
Net Income Distribution					
Estimated patronage refunds:					
Cash	1,060	1,148	1,704	2,712	2,320
Qualified allocated retained earnings	1,215	705	578	971	794
Nonqualified allocated retained earnings	994	1,974	1,978	3,099	2,686
Nonqualified retained earnings	1,148	—	599	1,602	1,751

* 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 ArborOne, 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 12 counties located in northeastern South Carolina. 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 Coughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.arborone.com, or by calling 1-800-741-7332, extension 2327, or writing Casey Pitts, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, S.C. 29502. 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 norms. In addition, supplemental retirement benefits are provided to certain key employees under a supplemental defined benefit executive plan.

ECONOMIC CONDITIONS

During 2010, economic conditions in our region were stable to declining when compared to 2009. Agricultural loan demand was increased, however, the continued multi year turmoil in the overall economy and stressed financial sectors has not been stable. Unemployment in each of our 12 counties remains double digit across the board. South Carolina has the 6th highest unemployment rate in the country at 10.9%. The overall U.S. unemployment rate ended the year at 9.4% thus only slight improvement over the previous year's 10%. Creditors continue to tighten their lending practices or have completely cut off credit to certain industries. The housing and real estate markets in general continue to be in distress with no improvement during 2010. All of these factors contributed to increased to stable nonearning assets in the Association and throughout the entire Farm Credit System during 2010. The Pee Dee Region has been resilient but not immune to the economic hardships being experienced by other areas of the state and country. Our strong capital position coupled with a knowledgeable lending staff and the inherent value of patronage paid under the cooperative structure have positioned the Association to effectively manage this economic crisis while retaining current members and their business relationships.

For the year ended December 31, 2010, the credit quality of the loan portfolio has remained relatively stable in comparison to the previous year end. For the agricultural sector in 2010, stable energy prices and increased commodity prices positively

impacted our row crop producers. Higher feed costs due to increased commodity prices were problematic for the livestock and poultry industries. Industries tied to housing such as forestry, sawmills, sod, and landscape nurseries saw little increase in demand and profitability during 2010. Thus, due to the strengthening of the agricultural economy in comparison to the remainder of the economy, the credit quality of the Association's loan portfolio has been stable rather than declining.

During 2010, the Association continued to tighten its lending practices and policies in order to strengthen its capital position. By taking these actions beginning in 2009 and continuing during 2010, the Association has the tools necessary to weather a difficult economy during 2011. Despite the economy and the many challenges it brings, continued efforts are being made to expand services, increase public knowledge of our services, and streamline our current delivery of products to enhance our existing portfolio.

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 gross loan volume of the Association as of December 31, 2010 was \$308,170, an increase of \$38,815 or 14.41 percent as compared to \$269,355 at December 31, 2009 and an increase of \$7,177 or 2.38 percent as compared to \$300,993 at December 31, 2008. Net loans outstanding (gross loans net of the allowance for loan losses) on December 31, 2010 were \$306,736 as compared to \$268,185 at December 31, 2009 and \$299,082 at December 31, 2008. Net loans accounted for 63.90 percent of total assets on December 31, 2010 as compared to 58.44 percent of total assets at December 31, 2009 and 62.83 percent of total assets at December 31, 2008.

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

Loan Type	2010		December 31, 2009		2008	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 122,955	39.90%	\$ 110,184	40.91%	\$ 117,013	38.87%
Production and intermediate term	140,336	45.54	109,714	40.73	128,668	42.75
Agribusiness						
Loans to cooperatives	6,021	1.95	6,700	2.49	844	0.28
Processing and marketing	24,861	8.07	28,504	10.58	36,906	12.26
Farm-related business	10,222	3.32	8,142	3.02	8,791	2.92
Total agribusiness	41,104	13.34	43,346	16.09	46,541	15.46
Energy	-	-	-	-	1,197	0.40
Water and waste disposal	755	0.24	753	0.28	752	0.25
Rural residential real estate	3,020	0.98	5,358	1.99	6,822	2.27
Total	\$ 308,170	100.00%	\$ 269,355	100.00%	\$ 300,993	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 following tables reflect the geographic locations served and the commodities financed.

The geographic distribution of the loan volume by state for the past three years is as follows:

State	December 31,		
	2010	2009	2008
South Carolina	54.5%	51.0%	57.6%
Florida	11.4	12.4	12.1
Georgia	11.3	12.2	12.5
North Carolina	4.6	4.6	2.9
Texas	4.3	6.3	5.4
Minnesota	2.1	2.6	1.8
Other	11.8	10.9	7.7
Total	100.0%	100.0%	100.0%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are forestry, poultry, field crops, and agricultural services which constitute 63 percent of the entire portfolio.

Commodity Group	December 31,					
	2010	2009		2008		
	<i>(dollars in thousands)</i>					
Forestry, Logging	\$ 61,836	20%	46,394	17	81,596	27
Poultry & Eggs	49,788	16	50,033	19	46,305	15
Field Crops	41,267	14	34,057	13	42,214	14
Agricultural Services	40,070	13	41,035	15	15,592	5
Livestock & Animal Specialties	21,662	7	19,624	7	20,285	7
Cash Grains	18,848	6	11,377	4	10,712	4
General Farms	15,082	5	15,695	6	16,068	5
Mission Related Investments	10,865	3	10,992	4	21,473	7
Vegetables & Fruits	10,864	3	10,295	4	14,344	5
Miscellaneous	8,869	3	3,408	1	4,892	2
Food Preparation	8,472	3	7,103	3	7,434	2
Energy	6,453	2	5,827	2	5,254	2
Horticultural Specialties	6,122	2	3,618	1	5,832	2
Rural Home Loans	5,256	2	7,150	3	7,044	2
Rural Utilities	2,716	1	2,747	1	1,948	1
Total	\$ 308,170	100%	\$ 269,355	100%	\$ 300,993	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's largest concentrations are in forestry, poultry, and field crops. Although a large percentage of the loan portfolio is concentrated in these industries, many of these operations are diversified within their enterprise and/or with crop production and additional sources of income, including non-farm businesses and salaried income, which reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the prices of these commodities. 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 increase in gross loan volume for the twelve months ended December 31, 2010, is primarily attributed to the decrease in participations sold and the increase in originated volume within our twelve counties. The economy remains volatile, and as a

result, the Association has tightened lending policies as well as strengthened its capital position.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been stable while the short and intermediate-term loan volume trend is downward. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans. However, participation activity is generally tied to market demand rather than seasonality.

During 2009 and 2010, the Association decreased activity in the buying and selling of loans participated. The Association continues to buy loan participations outside of the System as a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position.

Loan Participations:	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 121,249	\$ 131,264	\$ 150,796
Participations Purchased			
– Non-FCS Institutions	27,423	30,187	46,924
Participations Sold	(120,930)	(157,507)	(197,143)
Total	\$ 27,742	\$ 3,944	\$ 577

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 has sold qualified long-term mortgage loans into the secondary market. Since 2007, the activity in this market has steadily decreased resulting in a total withdrawal of this market in 2009. For the year ended December 31, 2008, the Association originated loans for resale totaling, \$1,258 which were sold into the secondary market. There were no such loans originated and sold during 2010 and 2009. The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2010, 2009 and 2008, the Association had loans amounting to \$3,707, \$5,694 and \$9,472 which were 100 percent guaranteed by Farmer Mac. The Association had other federal guaranteed loans in the amount of \$7,329 at December 31, 2010, compared to \$12,494 at December 31, 2009 and \$11,662 at December 31, 2008. In addition, the Association had \$51,921 in FSA guaranteed loans at December 31, 2010 compared to \$48,447 at December 31, 2009 and \$48,187 at December 31, 2008.

MISSION-RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples would include investments in: value-added food and fiber processors/marketers, agribusiness, rural commercial enterprises, community services, schools, hospitals and municipalities. These along with many other activities that sustain or revitalize rural communities and their economics would be a focus. 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, 2009 and 2008, the Association had \$10,865, \$10,992, and \$21,473 respectively, in Rural America Bonds classified as Loans and \$53,048, \$36,119, and \$4,390, respectively, in Rural American Bonds classified as 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, 2009 and 2008, the Association had \$84,750, \$101,922 and \$111,934, 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 consisted primarily of asset-backed securities (ABSs) and mortgage-backed securities (MBSs). During March 2010, the Association sold six mortgage-backed securities (MBSs) and all six of its asset-back securities (ABSs) in the amount of \$18,866 with a realized loss of \$85. The Association’s available-for-sale investments as of December 31, 2010 consist of only two Non-Agency MBSs, one of which has an AAA credit rating. The ABSs at December 31, 2009 and 2008 amounted to \$11,289 and \$16,003, respectively. None were held as of December 31, 2010. These ABSs were rated AAA, as they were guaranteed by the full faith and credit of the

United States government. The MBSs at December 31, 2010, 2009 and 2008 amounted to \$926, \$9,814 and \$11,767 respectively. These MBSs are collateralized by U.S. government or U.S. agency-guaranteed residential mortgages and had an AAA rating at the time of purchase.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Should a security fall below the AAA credit rating criteria, the Association is to divest of the security unless approval is granted to continue to hold by our regulators. One of the two remaining MBSs was downgraded during 2009, resulting in an other-than-temporary impairment of \$589, of which \$286 was recognized as a credit loss in the income statement. The other security maintains its AAA rating. Of the total investment portfolio, this was the only security to have an impairment considered other-than-temporary. Our regulators have approved the continued holding of this security, with conditions. Refer to Note 3, "Investment Securities," of the Notes to the Consolidated Financial Statements for additional information.

Investment securities classified as being held-to-maturity totaled \$53,048 at December 31, 2010. These held-to-maturity investments consisted of Rural America Bonds.

Investment securities classified as being available-for-sale totaled \$926 at December 31, 2010. Total unrealized losses of \$365 relating to these securities are reflected in Accumulated Other Comprehensive Income (Loss) (AOCI) in the Financial Statements. Available-for-sale investments at December 31, 2010 included two MBSs.

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. Long term real estate mortgage loans may be made only in amounts up to 85 percent of the original purchase price or appraised value, the lesser of the two, of the property taken as collateral or up to 97 percent of the purchase price or appraised value, the lesser of the two, 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 \$250,000. 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	93.04%	93.03%	95.32%
Substandard	6.88%	6.87%	4.68%
Doubtful	0.08%	0.10%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

High-risk Assets	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 17,087	\$ 12,414	\$ 6,586
Restructured loans	1,984	4,021	19
Accruing loans 90 days past due	—	—	36
Total high-risk loans	19,071	16,435	6,641
Other property owned	1,081	765	—
Total high-risk assets	<u>\$ 20,152</u>	<u>\$ 17,200</u>	<u>\$ 6,641</u>
Ratios			
Nonaccrual loans to total loans	5.54%	4.61%	2.19%
High-risk assets to total assets	4.20%	3.75%	1.39%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased \$4,673 or 37.64% percent in 2010. This increase resulted mainly from the transfer of four participation accounts into nonaccrual along with one large term loan. The increase was partially offset by the transfer of one participation account back into accruing status along with normal paydowns and liquidations of smaller loans. This deterioration was largely driven by the overall economic crisis being experienced throughout the US and World economies. Of the \$17,087 in nonaccrual volume at December 31, 2010, \$2,222 or 13.00%, compared to 35.85% and 13.65% 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 the borrower.

Allowance for Loan Losses

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

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 1,170	\$ 1,911	\$ 53
Charge-offs:			
Production and intermediate-term	(259)	(949)	(42)
Real estate mortgage	(1,283)	(1,647)	—
Agribusiness	—	(671)	(164)
Total charge-offs	<u>(1,542)</u>	<u>(3,267)</u>	<u>(206)</u>
Recoveries:			
Production and intermediate-term	60	158	19
Agribusiness	515	98	2
Real estate mortgage	14	51	—
Total recoveries	<u>589</u>	<u>307</u>	<u>21</u>
Net (charge-offs) recoveries	<u>(953)</u>	<u>(2,960)</u>	<u>(185)</u>
Provision for (reversal of allowance for) loan losses	1,217	2,219	2,043
Balance at end of year	<u>\$ 1,434</u>	<u>\$ 1,170</u>	<u>\$ 1,911</u>
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	<u>(0.332)%</u>	<u>(1.000)%</u>	<u>(0.060)%</u>

The net loan charge-offs were primarily associated with charge-offs for five participation loans. The recoveries were mainly attributed to one participation loan.

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

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Real estate mortgage	\$ 522	36.4%	\$ 416	35.6%
Production and intermediate-term	574	40.0	353	30.2
Agribusiness	278	19.4	341	29.1
Energy	—	—	—	—
Water/waste disposal	40	2.8	39	3.3
Rural residential real estate	20	1.4	21	1.8
Total	<u>\$1,434</u>	<u>100%</u>	<u>\$1,170</u>	<u>100%</u>
	December 31, 2008			
	<u>Amount</u>	<u>%</u>		
Real estate mortgage	\$1,447	75.7%		
Production and intermediate-term	337	17.6		
Agribusiness	109	5.7		
Energy	3	—		
Water/waste disposal	—	—		
Rural residential real estate	15	1.0		
Total	<u>\$1,911</u>	<u>100.0%</u>		

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	0.47%	0.43%	.63%
Nonperforming loans	7.12%	6.80%	28.77%
Nonaccrual loans	8.39%	9.42%	29.02%

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2010, totaled \$7,533, an increase of \$2,952 or 64.44 percent, as compared to \$4,581 for the same period of 2009 and an increase of \$162 or 2.20 percent, as compared to \$7,371 for the same period of 2008.

Net Interest Income

Net interest income was \$7,158, \$5,808 and \$7,317 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
<i>(dollars in thousands)</i>				
12/31/10 - 12/31/09				
Interest income	\$ (600)	\$ 784	\$ (13)	\$ 171
Interest expense	(579)	(600)	-	(1,179)
Change in net interest income	\$ (21)	\$ 1,384	\$ (13)	\$ 1,350
12/31/09 - 12/31/08				
Interest income	\$(2,126)	\$(3,853)	\$(187)	\$(6,166)
Interest expense	(1,404)	(3,253)	-	(4,657)
Change in net interest income	\$ (722)	\$ (600)	\$ (187)	\$(1,509)

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

Net interest income increased by \$1,350 or 23.24 percent in 2010 compared to 2009 and decreased by \$159 or 2.17 percent, compared to 2008. The key reason for the increase was a reduction in interest expense produced mainly by lower interest rates. Larger spreads and the use of floor rates when pricing loans, along with the recognition of interest on reinstating nonaccrual loans, increased net interest income. The decrease of \$21 in net interest income attributed to volume was primarily due to the timing of earning assets being replaced with volume at lower interest rates. The SIIC investment annual payment in January and the Association's sale of investment securities during the first quarter of the year drove down average volume for the year, while the increase in core loan volume along with Rural America Bonds during the last quarter of the year drove up volume over last year's balances. The actual 2010 year end volume increased from 2009, but due to the timing of activity, the average volume for 2010 was actually less than 2009 average

volume, resulting in an overall small decrease to net interest income. The increase in net interest income was partially offset due to the Association selling loans to AgFirst in a capitalized participation pool. This program is referred to as Capitalized Participation Pools (CPP) and is used by both AgFirst and associations as a tool for capital management. Income from CPP volume is included as patronage income which is a component of noninterest income. Interest income from SIIC of \$4,178, \$5,141 and \$5,941 was offset by interest expense of \$4,244, \$5,127 and \$5,929 for 2010, 2009 and 2008, respectively. While the net interest income (loss) generated from SIIC was \$(66), \$14 and \$12 for 2010, 2009 and 2008, respectively, the patronage paid to the Association from AgFirst based on the average direct note (notes payable to AgFirst) as a result of SIIC was \$613, \$713 and \$790 for 2010, 2009 and 2008, respectively, while not requiring any capital allocation. The Association's net interest income as a percentage of average earning assets was 1.79 percent on December 31, 2010, compared to 1.41 percent on December 31, 2009 and 1.64 percent on December 31, 2008.

Noninterest Income

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

Noninterest Income	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2010	2009	2008	2010/ 2009	2009/ 2008
<i>(dollars in thousands)</i>					
Loan fees	\$ 1,689	\$ 1,732	\$ 1,868	(2.48)%	(7.28)%
Fees for financially related services	1,100	933	797	17.90	17.06
Patronage refund from other Farm Credit Institutions	7,555	6,615	6,458	14.21	2.43
Gains (losses) on other property owned, net	(516)	(49)	(22)	953.06	1.23
Gains (losses) on sales of premises and equipment, net	32	44	599	(27.27)	(92.65)
Gains (losses) on sales of investment securities	(85)	-	-	-	-
Net impairment losses on investments	-	(286)	-	100.00	-
Insurance Fund Refund	380	-	-	-	-
Other noninterest income	169	206	406	(17.96)	(49.26)
Total noninterest income	\$10,324	\$ 9,195	\$10,106	12.28	(9.01)

The fees for financially related services included a Loss Ratio Bonus received in second quarter 2010 in the amount of \$182.

Regarding patronage refunds received from other Farm Credit Institutions, the Association received \$6,361 in a patronage refund and \$1,133 in a special distribution from the Bank for the year ended December 31, 2010, compared to \$5,975 and \$596 in a special distribution for 2009, and \$6,397 and no special distribution for 2008. Of the \$6,361 patronage refund, \$3,593 was patronage paid on the CPP loans.

The Association had a net loss from the sale of other property owned of \$516.

The gains on sales of premises and equipment of \$32 was attributed to the sale of the Association's used fixed assets.

During March of 2010, the Association sold 12 securities for a net loss of \$85. Refer to the Investment Securities section of this Management's Discussion and Analysis.

The Association recorded \$380 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC). This nonrecurring FCSIC payment resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2010	2009	2008	2010/ 2009	2009/ 2008
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 6,057	\$ 5,322	\$ 4,397	13.81%	21.04%
Occupancy and equipment	863	988	938	(12.65)	5.33
Insurance Fund premiums	125	443	394	(71.78)	12.44
Other operating expenses	1,676	1,450	2,254	15.59	(35.67)
Total noninterest expense	\$ 8,721	\$ 8,203	\$ 7,983	6.31	2.76

Noninterest expense increased \$518 or 6.31 percent for December 31, 2010 as compared to the same period for 2009 and increased \$738 or 9.24 percent compared to December 31, 2008. Salaries and employee benefits increased in 2010, as compared with 2009, primarily due to increases in the cost of employee benefits for retirement expense, as well as merit increases and employee bonuses.

Occupancy and equipment decreased 12.65 percent for the twelve months ended December 31, 2010, compared to the same period of 2009. This decrease was attributed to lower occupancy expenses.

Insurance Fund premiums expense decreased 71.78 percent for the twelve months ended December 31, 2010, compared to the same period of 2009. This is primarily due to a decrease in the insurance premium assessment rates.

Other operating expenses increased by 15.59 percent for the twelve months ended December 31, 2010, due to an increase in advertising and public & member relations expenses.

Income Taxes

The Association recorded a provision of \$11 for income taxes for the year ended December 31, 2010, as compared to no provision for 2009 and \$26 for 2008. Refer to Note 2, "Summary of Significant Accounting Policies, Income Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/10	12/31/09	12/31/08
Return on average assets	1.71%	1.02%	1.54%
Return on average members' equity	13.04%	8.64%	14.26%
Net interest income as a percentage of average earning assets	1.79%	1.41%	1.64%
Net (charge-offs) recoveries to average loans	(0.332)%	(1.000)%	(0.060)%

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 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 \$402,448 as compared to \$388,123 at December 31, 2009 and \$406,997 at December 31, 2008. The increase of 3.69 percent compared to December 31, 2009 was attributed to a decrease in the participations sold loan volume. The decrease of 1.12 percent compared to December 31, 2008, was attributable to a decrease in other investments (SIIC) and reduced interest rates. The Association issued \$7,500 in unsecured subordinated debt to another association in the District, which reduced the Association's notes payable. The average volume of outstanding notes payable to the Bank was \$369,065 and \$383,538 and \$418,092 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, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association. The Association did not have any 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, the 30-day London Interbank Offered Rate (LIBOR), or the 90-day 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" of the Notes to the Consolidated Financial Statements included in this Annual Report.

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2010 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2010, increased 8.24 percent to \$58,384 from the December 31, 2009 total of \$53,937. At December 31, 2009, total members' equity increased 5.57 percent from the December 31, 2008 total of \$51,089. The increase was primarily attributed to net income partially offset by cash patronage, the revolvment of allocated retained earnings, and the reduction of stock.

Total capital stock and participation certificates were \$1,344 on December 31, 2010, compared to \$1,470 on December 31, 2009 and \$1,576 on December 31, 2008. The decrease was attributed to the reduction of \$134 in protected borrower stock, which was partially offset by an increase of \$8 in capital stock and participation certificates. This decrease was a result of the retirement of protected stock on loans liquidated in the normal course of business and retirement of excess stock through revolvment.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

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

	2010	2009	2008	Regulatory Minimum
Permanent capital ratio	16.17%	15.01%	15.05%	7%
Total surplus ratio	15.78%	14.57%	14.60%	7%
Core surplus ratio	12.00%	11.55%	12.39%	3.5%

The increase in the Association's permanent capital, total surplus, and core surplus for December 31, 2010 is mainly due to an increase in retained earnings. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 11, "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) non-patronage participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 11, “Members’ Equity,” of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$4,417 in 2010, \$3,827 in 2009, and \$4,859 in 2008.

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

The Association’s mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. While the Association fell slightly short of its Young farmer loan volume goal, all other 2010 YBS goals were met.

The following table outlines the 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
Young	281	\$30,767
Beginning	424	65,295
Small	714	82,309

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

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association’s marketing efforts. The 2007 census data indicated that within the Association’s chartered territory (counties) there were 6,203 reported farmers of which by definition 290 or 4.7 percent were Young, 1,771 or 28.6 percent were Beginning, and 5,734 or 92.4 percent were Small. Comparatively, as of December 31, 2010, the demographics of the Association’s agricultural portfolio (by definition) are as follows: 281 or 12.6 percent were Young, 424 or 19 percent were Beginning and 714 or 32 percent were Small.

The Association is committed to the future success of young, beginning, and small farmers.

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

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, concentrations of assets, and changes in patronage policies or practices, 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 South Carolina:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
800 Woody Jones Boulevard Florence	Administrative/ Branch	Owned
900-C Main Street Conway	Branch	Leased *

* Month to month lease of \$1,800 per month beginning April 2009.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 15 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 11 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 15 of the Consolidated Financial Statements included in this Annual Report.

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

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

Senior Officers

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

<u>Name and Title</u>	<u>Term of Office</u>	<u>Prior Experience</u>
Jasper W. Shuler, <i>President and Chief Executive Officer</i>	9/20/87 – present	Started career with Farm Credit in 1974 as a loan officer trainee. Served as branch manager, Chief Credit Officer and President of various associations in South Carolina and Georgia.
Tammy G. Smith, <i>Chief Financial Officer</i>	1/1/09 – present	Started career with ArborOne in 1991 as an accountant. Served as Controller and assumed the role of Chief Financial Officer in 2009.
Kathy S. Heustess, <i>Chief Operating Officer</i>	2/1/08 – present	Started career with ArborOne in 1989 as Controller. Served as Chief Financial Officer and assumed the role of Chief Operating Officer in 2008.
Richard O. Pitts, <i>Chief Lending Officer</i>	11/1/08 – present	Started career with ArborOne in 2002 as a credit analyst. Served as Credit Manager and assumed the role of Chief Lending Officer in 2008.

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:

<u>Name of Individual or Number in Group</u>	<u>Year</u>	<u>Annual</u>				<u>Perq./- Other*</u>	<u>Total</u>
		<u>Salary</u>	<u>Bonus</u>	<u>Deferred Comp.</u>			
Jasper W. Shuler	2010	\$300,952	\$ 57,512	–	\$10,131	\$ 368,595	
Jasper W. Shuler	2009	\$294,471	\$ 26,261	–	\$ 9,074	\$ 329,806	
Jasper W. Shuler	2008	\$286,731	–	–	–	\$ 286,731	
	6	2010	\$716,676	\$138,706	–	\$ 6,451	\$ 861,833
	6	2009	\$667,871	\$ 54,780	–	\$18,178	\$ 740,829
	6	2008	\$672,017	–	–	\$ 5,354	\$ 677,371

* Amounts in the above table classified as Perquisites include group life insurance and automobile compensation.

In addition to a base salary, all employees with the exception of the CEO are eligible for additional compensation utilizing incentive plans. The CEO is eligible for incentive compensation at the discretion of the board of directors.

The incentive plans are designed to maximize financial performance while improving the Association’s financial position and shareholder wealth providing employees with a competitive total compensation package. The plans’ criteria include a balance of credit and financial results. The board of directors reviews the plans of senior management and approves all incentive payouts. An incentive was paid to all eligible staff based on financial results in 2010.

No participation in any plan is allowed for persons terminating employment prior to the fiscal year end or persons having unsatisfactory performance evaluations or on probation. New employees receive a pro rata share. The plans are paid based on percentage of salary, and will be paid from the Association’s earnings. Bonuses are shown on the financial statements as an expense in the year earned, which may be different than the year of payment.

The 2010 Association plan included four tiers based on job functionality and four percentage levels of payout based upon incremental income, with increments of one million dollars per level, in excess of budget which resulted in a cap on incentive paid as a percentage of salary. In addition, the 2010 plan placed increased “on/off” switches on payout to include Credit Quality, Return on Assets and Permanent Capital ratio requirements to further align the plan with the Association’s objectives and focus.

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

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid for 2010:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMPENSATION PAID DURING 2010
James M. Ward, <i>Chairman</i>	1998	2012	32,250
Harry B. Durant, <i>Vice-Chairman</i>	1997	2016	23,300
Harold C. Stowe, <i>Chairman of Audit Committee</i>	2003	2016	17,500
William Dupree Atkinson	1999	2013	23,300
John Lee Newman	2008	2014	20,400
William K. Phillips, Jr.	2007	2011	20,400
Jimmy Poston	1994	2015	24,300
Kelly O. Wiseman	2007	2013	20,400
			\$181,850

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

James M. Ward, Chairman of the Board, is a self-employed farmer. He served on the executive, compensation, and audit committees during 2010.

Harry B. DuRant, Vice Chairman, is a self-employed farmer. He served on the executive, compensation, and audit committees during 2010. He served as board member of Lawrence Manning Academy (education).

Harold C. Stowe, Chairman of the Audit Committee, is retired as CEO of Canal Industries (forest products) and affiliates. He served on the boards of Ruddick Corporation (supermarkets and textiles) and SCANA Corporation (utilities). He served on the audit committee during 2010.

DuPree Atkinson is a self-employed farmer. He served on the compensation and audit committees during 2010. He also served on the Marion County Farm Bureau Board (insurance).

John Lee Newman is a self-employed farmer. He served on the board of Sumter County Farm Bureau (insurance) and as Chairperson on the FSA County Committee (agriculture) in Sumter County. He served on the audit committee during 2010.

William K. Phillips, Jr. is a self-employed farmer. He served on the audit committee during 2010.

Jimmy Poston is a self-employed farmer. He served on the board of Florence County Soil and Water Conservation District (conservation), and served as Chairman of Florence County Farm Service Agency Committee (agriculture), Vice-President of the SC Tobacco Growers Association (agriculture) and was a member of the AgFirst District Advisory Committee (agriculture). He is currently a member of the AgFirst Farm Credit Bank board (agriculture). He served on the compensation and audit committees during 2010.

Kelly O. Wiseman is a certified public accountant with 14 years experience with a major accounting firm. She served on the audit committee during 2010.

Subject to approval by the board, the Association may allow directors honoraria of \$1,000 for attendance at meetings, committee meetings, or special assignments, except for the chairman of the board and chairman of the audit committee who receives \$1,250. The directors are paid honoraria each month that does not have a scheduled board or special meeting as well. Total compensation paid to directors as a group was \$181,850 for 2010. No director received more than \$5,000 in non-cash compensation during the year.

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

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
James M. Ward, Chairman	4	16	Executive, Compensation, and Audit Committees	\$ 18,500
Harry B. Durant, <i>Vice-Chairman</i>	4	16	Executive Committee, Chairman of Compensation Committee, and Audit Committee	12,300
Harold C. Stowe, Chairman of Audit Committee	4	3	Chairman of Audit Committee	3,750
William Dupree Atkinson	4	16	Compensation and Audit Committee	12,300
John Lee Newman	4	13	Audit Committee	9,400
William K. Phillips, Jr.	4	13	Audit Committee	9,400
Jimmy Poston	4	17	Compensation and Audit Committee	13,300
Kelly O. Wiseman	4	13	Audit Committee	9,400
				\$ 88,350

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

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$34,965 for 2010, \$52,692 for 2009 and \$63,852 for 2008.

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 14 of the Consolidated Financial Statements, “Related Party Transactions,” included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditor

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

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

	2010
<i>Independent Auditor</i>	
PricewaterhouseCoopers LLP	
Audit services	\$ 59,943
Total	<u>\$ 59,943</u>

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

Consolidated Financial Statements

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

Copies of the Association’s Annual and Quarterly reports are available upon request free of charge by calling 1-800-741-7332, or writing Casey Pitts, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, www.arborone.com. The Association prepares an electronic version of the Annual Report which is available on the Association’s web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report, which is available on the Bank's website, 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 **ArborOne, ACA** (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

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

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

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



Harold C. Stowe
Chairman of the Audit Committee

Members of Audit Committee

Dupree Atkinson
Harry B. Durant
John Lee Newman
William K. Phillips, Jr.
Jimmy Poston
James M. Ward
Kelly O. Wiseman

March 14, 2011

Report of Independent Auditors



Report of Independent Auditors

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

PricewaterhouseCoopers LLP

March 14, 2011

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

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31, 2010	December 31, 2009	December 31, 2008
Assets			
Cash	\$ 469	\$ 56	\$ 1
Investment securities (Note 3):			
Available for sale (amortized cost of \$1,291, \$21,777 and \$29,521 respectively)	926	21,103	27,770
Held to maturity (fair value of \$54,136, \$29,929 and \$3,975 respectively)	53,048	36,119	4,390
Total investment securities	53,974	57,222	32,160
Loans	308,170	269,355	300,993
Less: allowance for loan losses	1,434	1,170	1,911
Net loans	306,736	268,185	299,082
Other investments	84,750	101,922	111,934
Accrued interest receivable	3,754	3,153	4,463
Investments in other Farm Credit institutions	13,926	16,348	17,679
Premises and equipment, net	4,376	765	848
Other property owned	1,081	765	—
Due from AgFirst Farm Credit Bank	7,212	6,571	6,397
Other assets	3,770	3,920	3,463
Total assets	\$ 480,048	\$ 458,907	\$ 476,027
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 402,448	\$ 388,123	\$ 406,997
Subordinated debt payable to other Farm Credit institutions (Note 10)	7,500	7,500	7,500
Accrued interest payable	1,235	1,326	1,549
Patronage refund payable	1,406	1,484	2,063
Other liabilities	9,075	6,537	6,829
Total liabilities	421,664	404,970	424,938
Commitments and contingencies			
Members' Equity			
Protected borrower stock	190	324	371
Capital stock and participation certificates	1,154	1,146	1,205
Retained earnings			
Allocated	33,309	32,406	30,751
Unallocated	24,053	20,844	20,738
Accumulated other comprehensive income (loss)	(322)	(783)	(1,976)
Total members' equity	58,384	53,937	51,089
Total liabilities and members' equity	\$ 480,048	\$ 458,907	\$ 476,027

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

Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
Interest Income			
Investment securities	\$ 2,609	\$ 1,808	\$ 1,253
Loans	14,839	14,506	20,427
Other investments	4,178	5,141	5,941
Total interest income	<u>21,626</u>	<u>21,455</u>	<u>27,621</u>
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	13,793	14,972	20,124
Subordinated debt payable to other Farm Credit institutions (Note 10)	675	675	180
Total interest expense	<u>14,468</u>	<u>15,647</u>	<u>20,304</u>
Net interest income	7,158	5,808	7,317
Provision for (reversal of allowance for) loan losses	1,217	2,219	2,043
Net interest income after provision for (reversal of allowance for) loan losses	<u>5,941</u>	<u>3,589</u>	<u>5,274</u>
Noninterest Income			
Loan fees	1,689	1,732	1,868
Fees for financially related services	1,100	933	797
Patronage refund from other Farm Credit institutions	7,555	6,615	6,458
Gains (losses) on other property owned, net	(516)	(49)	(22)
Gains (losses) on sales of premises and equipment, net	32	44	599
Gains (losses) on sales of investment securities	(85)	—	—
Impairment losses on investments (Note 3)	—	(589)	—
Noncredit-related losses on investments not expected to be sold (recognized in other comprehensive income) (Note 3)	—	303	—
Net impairment losses on investments	—	(286)	—
Insurance Fund refund	380	—	—
Other noninterest income	169	206	406
Total noninterest income	<u>10,324</u>	<u>9,195</u>	<u>10,106</u>
Noninterest Expense			
Salaries and employee benefits	6,057	5,322	4,397
Occupancy and equipment	863	988	938
Insurance Fund premiums	125	443	394
Other operating expenses	1,676	1,450	2,254
Total noninterest expense	<u>8,721</u>	<u>8,203</u>	<u>7,983</u>
Income before income taxes	7,544	4,581	7,397
Provision (benefit) for income taxes	11	—	26
Net income	<u>\$ 7,533</u>	<u>\$ 4,581</u>	<u>\$ 7,371</u>

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 412	\$ 1,196	\$ 29,195	\$ 18,105	\$ (494)	\$ 48,414
Comprehensive income						
Net income				7,371		7,371
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(1,707)	(1,707)
Employee benefit plans adjustments (Note 13)				(45)	225	180
Total comprehensive income						5,844
Protected borrower stock retired	(41)					(41)
Capital stock/participation certificates issued/(retired), net		9				9
Patronage distribution						
Cash				(1,704)		(1,704)
Qualified allocated retained earnings			578	(578)		—
Nonqualified allocated retained earnings			1,978	(1,978)		—
Nonqualified retained earnings			599	(599)		—
Retained earnings retired			(1,338)			(1,338)
Patronage distribution adjustment			(261)	166		(95)
Balance at December 31, 2008	371	1,205	30,751	20,738	(1,976)	51,089
Comprehensive income						
Net income				4,581		4,581
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 3)					(303)	
Temporarily impaired (Note 3)					1,381	
Total unrealized gains (losses) on investments available for sale						1,078
Employee benefit plans adjustments (Note 13)					115	115
Total comprehensive income						5,774
Protected borrower stock retired	(47)					(47)
Capital stock/participation certificates issued/(retired), net		(59)				(59)
Patronage distribution						
Cash				(1,148)		(1,148)
Qualified allocated retained earnings			705	(705)		—
Nonqualified allocated retained earnings			1,974	(1,974)		—
Retained earnings retired			(1,392)			(1,392)
Patronage distribution adjustment			368	(648)		(280)
Balance at December 31, 2009	324	1,146	32,406	20,844	(783)	53,937
Comprehensive income						
Net income				7,533		7,533
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments:						
Other-than-temporarily impaired (Note 3)					28	
Temporarily impaired (Note 3)					279	
Total unrealized gains (losses) on investments available for sale, net of reclassification adjustments						307
Employee benefit plans adjustments (Note 13)					154	154
Total comprehensive income						7,994
Protected borrower stock retired	(134)					(134)
Capital stock/participation certificates issued/(retired), net		8				8
Patronage distribution						
Cash				(1,060)		(1,060)
Qualified allocated retained earnings			1,215	(1,215)		—
Nonqualified allocated retained earnings			994	(994)		—
Nonqualified retained earnings			1,148	(1,148)		—
Retained earnings retired			(2,388)			(2,388)
Patronage distribution adjustment			(66)	93		27
Balance at December 31, 2010	\$ 190	\$ 1,154	\$ 33,309	\$ 24,053	\$ (322)	\$ 58,384

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 7,533	\$ 4,581	\$ 7,371
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	249	244	212
Premium amortization (discount accretion) on other investments	(4,150)	(4,939)	(5,700)
Provision for (reversal of allowance for) loan losses	1,217	2,219	2,043
(Gains) losses on other property owned, net	516	49	22
(Gains) losses on sales of premises and equipment, net	(32)	(44)	(599)
Net impairment losses on investments	—	286	—
(Gains) losses on sales of investment securities	85	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	(601)	1,310	1,561
(Increase) decrease in due from AgFirst Farm Credit Bank	(641)	(174)	(1,270)
(Increase) decrease in other assets	150	(457)	451
Increase (decrease) in accrued interest payable	(91)	(223)	(697)
Increase (decrease) in other liabilities	2,692	(177)	(1,702)
Total adjustments	(606)	(1,906)	(5,679)
Net cash provided by (used in) operating activities	6,927	2,675	1,692
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	(17,149)	(20,710)	(3,396)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	220	81	6
Purchases of investment securities, available for sale	—	—	(4,005)
Proceeds from sales/maturities of or principal payments received on investment securities, available for sale	20,371	7,257	6,787
Net (increase) decrease in loans	(40,808)	15,063	44,208
(Increase) decrease in investment in other Farm Credit institutions	2,422	1,331	(4,980)
Purchases of other investments	(1,159)	(6,035)	(4,605)
Proceeds from payments received on other investments	22,509	21,188	20,305
Purchases of premises and equipment	(3,865)	(161)	(703)
Proceeds from sales of premises and equipment	37	44	826
Proceeds from sales of other property owned	208	1,701	265
Net cash provided by (used in) investing activities	(17,214)	19,759	54,708
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	14,325	(18,874)	(59,849)
Advances on (repayment of) subordinated debt payable to other Farm Credit institutions	—	—	7,500
Protected borrower stock retired	(134)	(47)	(41)
Capital stock and participation certificates issued/(retired), net	8	(59)	9
Patronage refunds and dividends paid	(1,111)	(2,007)	(2,682)
Retained earnings retired	(2,388)	(1,392)	(1,338)
Net cash provided by (used in) financing activities	10,700	(22,379)	(56,401)
Net increase (decrease) in cash	413	55	(1)
Cash, beginning of period	56	1	2
Cash, end of period	\$ 469	\$ 56	\$ 1
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ —	\$ 600	\$ —
Loans transferred to other property owned	1,040	3,115	—
Loans transferred to investments (Note 3)	—	11,100	—
Cash dividends or patronage distributions declared or payable	1,060	1,148	1,704
Change in unrealized gains (losses) on investments	307	1,078	(1,707)
Employee benefit plans adjustments (Note 13)	(154)	(115)	(180)
Supplemental information:			
Interest paid	14,559	15,870	21,001
Taxes (refunded) paid, net	—	—	117

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:** ArborOne, ACA (Association) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in the following states and counties:

Arkansas – Arkansas, Logan

California – Alameda, Calaveras, Los Angeles, San Francisco, Sonoma

Delaware – Sussex

Florida – Alachua, Charlotte, Columbia, Desoto, Duval, Hendry, Hernando, Hillsborough, Madison, Miami-Dade, Nassau, Polk, Sarasota

Georgia – Appling, Baldwin, Bulloch, Calhoun, Decatur, Fulton, Glynn, Madison

Idaho – Boise, Bonneville, Jefferson

Illinois – Cook, Lake

Indiana – Carroll

Kansas – Riley

Maine – Franklin

Maryland – Calvert, Frederick, Queen Anne's, Wicomico

Minnesota – Hennepin, Watonwan

Mississippi – Leflore

Missouri – Jackson

Nebraska – Douglas

New Hampshire – Carroll

New Jersey – Burlington, Passaic

New York – Chautauqua, Monroe, Oswego, Westchester

North Carolina – Anson, Carteret, Guilford, Hoke,

Mecklenburg, Montgomery, Richmond, Sampson, Union, Wake

Ohio – Lake, Lucas

Pennsylvania – Dauphin, Perry, Washington, Wayne

South Carolina – Abbeville, Allendale, Calhoun, Charleston,

Chesterfield, Clarendon, Colleton, Darlington, Dillon,

Dorchester, Florence, Georgetown, Horry, Kershaw,

Lancaster, Lee, Lexington, Marion, Marlboro, Richland,

Spartanburg, Sumter, Williamsburg, York

Tennessee – Bledsoe, Shelby, Wilson

Texas – Austin, Bexar, Dallas, Nueces, Walker

Virginia – Hanover, Pittsylvania, Richmond

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, with 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 ACA makes short- and intermediate-term loans for agricultural production or operating purposes, while the PCA is dormant.

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 ACA. 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. Mortgage-backed securities issued by Farmer Mac are considered other investments. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity.

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

the cash flows expected to be collected in relation to the amortized cost basis.

- C. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

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

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

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

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

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

The Association uses a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating

scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a “9” to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association’s allowance for loan losses evaluation, and is generally incorporated into the institution’s loan underwriting standards and internal lending limit. The allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

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

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

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

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

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can

be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management’s best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

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

- D. **Other Investments:** Other investments are comprised of 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 to a third party their rights to receive SIIC contract payments.

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 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.

Of the \$13,926 reported as investments in other Farm Credit institutions, \$13,178 is related to the Bank and \$748 is related to other Farm Credit institutions.

- 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.

The Association also sponsors single employer supplemental retirement and deferred compensation plans for certain key employees. The plans are nonqualified; therefore, the associated liabilities are included in the Association’s Consolidated Balance Sheets in other liabilities. See Note 13 for the impact of FASB guidance on employers’ accounting for defined benefit pension plans, other postretirement plans, and the defined benefit supplemental retirement plan.

- 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.
- 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 16.
- 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 16).

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

Note 3 — Investment Securities

A summary of the amortized cost and fair value of investment securities held as available-for-sale at December 31, 2010, 2009, and 2008 follows:

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Commercial MBS (a)	\$ 1,291	\$ —	\$ (365)	\$ 926	6.96 %

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Commercial MBS (b)	\$ 10,354	\$ —	\$ (540)	\$ 9,814	1.34 %
Asset-backed Securities	11,423	—	(134)	11,289	1.19
Total	\$ 21,777	\$ —	\$ (674)	\$ 21,103	1.26 %

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Commercial MBS	\$13,271	\$ —	\$ (1,504)	\$ 11,767	1.89 %
Asset-backed Securities	16,250	—	(247)	16,003	2.59
Total	\$29,521	\$ —	\$ (1,751)	\$ 27,770	2.27%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$275 thousand for Commercial MBS
 (b) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$303 thousand for Commercial MBS.

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	\$53,048	\$ 1,652	\$ (564)	\$ 54,136	6.23%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related Investments	\$36,119	\$ —	\$ (6,190)	\$ 29,929	6.43%

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related Investments	\$ 4,390	\$ —	\$ (415)	\$ 3,975	6.23%

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

Available-for-Sale:

	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	1,291	926	6.96
Total	\$ 1,291	\$ 926	6.96%

Held-to-Maturity:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	1,367	1,405	7.09
After ten years	51,681	52,731	6.20
Total	\$ 53,048	\$ 54,136	6.23%

Expected maturities for collateralized mortgage obligations will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The Association's investments consist primarily of mortgage-backed securities (MBSs) and asset backed securities (ABSs). MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all but one have a AAA credit rating. ABSs are all rated AAA due to the senior/subordinate structure and/or a credit wrap by a bond insurer.

MBSs and ABSs are held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an MBS and ABS investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted by the FCA to continue to hold. For the one investment security in the Association's portfolio at December 31, 2010 rated below AAA (total fair value of \$562 and amortized cost of \$838), the Association has received approval, with conditions, from the FCA to hold the security until maturity. All other investment securities held by the Association at December 31, 2010 are considered eligible under FCA regulatory guidelines.

Mission-related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA. In 2009, the Association reclassified three mission-related investments purchased in 2008, which totaled \$11,100, from loans to investments. The reclassification better reflects the nature of these financial instruments and provides for consistent presentation across the District.

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	\$ -	\$ -	\$ -	\$ -
Commercial MBS	-	-	926	365
Asset-backed securities	-	-	-	-
Total	\$ -	\$ -	\$ 926	\$ 365

	December 31, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related investments	\$ 27,600	\$ (5,334)	\$ 2,329	\$ (856)
Commercial MBS	-	-	9,814	(540)
Asset-backed securities	-	-	11,289	(134)
Total	\$ 27,600	\$ (5,334)	\$ 23,432	\$ (1,530)

	December 31, 2008			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related investments	\$ 3,975	\$ (415)	\$ -	\$ -
Commercial MBS	1,626	(492)	10,141	(1,012)
Asset-backed securities	16,003	(247)	-	-
Total	\$ 21,604	\$ (1,154)	\$ 10,141	\$ (1,012)

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 recognized total other-than-temporary impairment during 2010, 2009, and 2008 of \$0, \$589, and \$0, respectively, in connection with one MBS in its portfolio, which is included in impairment losses on investments in the Consolidated Statements of Income.

Since the Association does not intend to sell this other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the 2009 other-than-temporary impairment of \$589 is separated into: 1) the estimated amount relating to credit loss (\$286 reflected in net income in the Consolidated Statements of Income), and 2) the amount relating to all other factors (\$303 reflected in other comprehensive income in the Consolidated Statements of Changes in Members' Equity). Credit 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.

In determining the amount of credit loss, the Association uses the expected present value technique as its best estimate of the present value of cash flows expected to be collected from the debt security. This technique requires key assumptions related to the underlying collateral, including default rates, degree and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type.

Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan to collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults and the forecasted cumulative default rate used at December 31, 2010 was

approximately 18% for the one commercial MBS determined to be other-than-temporarily impaired. Prepayment rate assumptions are based on forecasted prepayments and resulted in a prepayment rate of approximately 4% at December 31, 2010. At December 31, 2010, the loss severity rate estimated from assumptions was approximately 53%.

For all investments other than the other-than-temporarily impaired security discussed above, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted in part from reduced liquidity in the securities markets stemming from general adversity in the financial markets. Also, unrealized losses on mission related investments, classified as held-to-maturity, resulted primarily from the timing of cash flows utilized in the modeling process and thus are considered temporary. The Association has the ability and intent to hold all these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. All securities continue to perform.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings as of December 31, 2010 and 2009:

	For the year ended December 31, 2010
Beginning balance at January 1, 2010	\$ 286
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	-
Ending balance at December 31, 2010	\$ 286
	For the year ended December 31, 2009
Beginning balance at January 1, 2009	\$ -
Adjustment to beginning balance due to investment impairment accounting change	-
Adjusted beginning balance at January 1, 2009	-
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	286
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	-
Ending balance at December 31, 2009	\$ 286

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Real estate mortgage	\$ 122,955	\$ 110,184	\$ 117,013
Production and intermediate-term	140,336	109,714	128,668
Agribusiness			
Loans to cooperatives	6,021	6,700	844
Processing and marketing	24,861	28,504	36,906
Farm-related business	10,222	8,142	8,791
Total agribusiness	41,104	43,346	46,541
Energy	—	—	1,197
Water and waste disposal	755	753	752
Rural residential real estate	3,020	5,358	6,822
Total Loans	\$ 308,170	\$ 269,355	\$ 300,993

A substantial portion of the Association’s lending activities is collateralized and the Association’s exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association’s credit risk exposure is considered in the determination of the allowance for loan losses.

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

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

<i>(dollars in thousands)</i>	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 29,141	\$ 50,921	\$ 15,975	\$ 3,746	\$ 3,290	\$ —	\$ 48,406	\$ 54,667
Production and intermediate term	45,270	66,803	12,771	6,121	15,041	—	73,082	72,924
Agribusiness								
Loans to cooperatives	6,011	—	—	—	—	—	6,011	—
Processing and marketing	15,554	6,989	1,492	—	8,889	—	25,935	6,989
Farm-related business	2,141	1,087	—	—	203	—	2,344	1,087
Total agribusiness	23,706	8,076	1,492	—	9,092	—	34,290	8,076
Total	\$ 98,117	\$ 125,800	\$ 30,238	\$ 9,867	\$ 27,423	\$ —	\$ 155,778	\$ 135,667

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

<i>(dollars in thousands)</i>	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 29,316	\$ 20,703	\$ 72,936	\$ 122,955
Production and intermediate term	60,959	52,169	27,208	140,336
Agribusiness				
Loans to cooperatives	1,463	4,558	—	6,021
Processing and marketing	19,508	1,176	4,177	24,861
Farm-related business	5,843	2,260	2,119	10,222
Total agribusiness	26,814	7,994	6,296	41,104
Water and waste disposal	755	—	—	755
Rural residential real estate	85	454	2,481	3,020
Total Loans	\$ 117,929	\$ 81,320	\$ 108,921	\$ 308,170

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	85.17%	84.62%	90.28%
OAEM	4.41	4.53	3.74
Substandard/doubtful/loss	10.42	10.85	5.98
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			
Acceptable	91.66%	88.05%	88.03%
OAEM	5.33	7.01	7.87
Substandard/doubtful/loss	3.01	4.94	4.10
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Agribusiness:			
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	-	-	-
Substandard/doubtful/loss	-	-	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Processing and marketing			
Acceptable	71.95%	80.48%	93.18%
OAEM	20.51	14.95	2.08
Substandard/doubtful/loss	7.54	4.57	4.74
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Farm-related business			
Acceptable	75.12%	66.51%	96.57%
OAEM	-	33.28	3.43
Substandard/doubtful/loss	24.88	0.21	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Total agribusiness			
Acceptable	76.85%	80.87%	93.95%
OAEM	12.39	16.09	2.30
Substandard/doubtful/loss	10.76	3.04	3.75
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Energy and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	-	-	-
Substandard/doubtful/loss	-	-	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Rural residential real estate:			
Acceptable	92.48%	98.26%	98.01%
OAEM	6.58	0.41	0.42
Substandard/doubtful/loss	0.94	1.33	1.57
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Total Loans:			
Acceptable	87.14%	85.73%	90.13%
OAEM	5.90	7.30	5.19
Substandard/doubtful/loss	6.96	6.97	4.68
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

<i>(dollars in thousands)</i>	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	\$ 2,317	\$ 8,879	\$ 11,196	\$ 112,963	\$ 124,159	\$ –
Production and intermediate-term	2,364	3,908	6,272	135,793	142,065	–
Agribusiness						
Loans to cooperatives	–	–	–	6,047	6,047	–
Processing and marketing	–	–	–	24,925	24,925	–
Farm-related business	–	17	17	10,266	10,283	–
Total agribusiness	–	17	17	41,238	41,255	–
Energy and water/waste disposal	–	–	–	759	759	–
Rural residential real estate	–	–	–	3,034	3,034	–
Total	<u>\$ 4,681</u>	<u>\$ 12,804</u>	<u>\$ 17,485</u>	<u>\$ 293,787</u>	<u>\$ 311,272</u>	<u>\$ –</u>

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

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

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Nonaccrual loans:			
Real estate mortgage	\$ 11,232	\$ 7,958	\$ 4,552
Production and intermediate-term	4,189	3,064	1,926
Agribusiness			
Processing and marketing	1,620	1,303	–
Farm-related business	17	17	–
Total agribusiness	1,637	1,320	–
Rural residential real estate	29	72	108
Total nonaccrual loans	<u>\$ 17,087</u>	<u>\$ 12,414</u>	<u>\$ 6,586</u>
Accruing restructured loans:			
Real estate mortgage	\$ 1,003	\$ 3,394	\$ 19
Production and intermediate-term	981	627	–
Total accruing restructured loans	<u>\$ 1,984</u>	<u>\$ 4,021</u>	<u>\$ 19</u>
Accruing loans 90 days or more past due:			
Production and intermediate-term	\$ –	\$ –	\$ 36
Total accruing loans 90 days or more past due	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 36</u>
Total nonperforming loans	\$ 19,071	\$ 16,435	\$ 6,641
Other property owned	1,081	765	–
Total nonperforming assets	<u>\$ 20,152</u>	<u>\$ 17,200</u>	<u>\$ 6,641</u>
Nonaccrual loans as a percentage of total loans	5.54%	4.61%	2.19%
Nonperforming assets as a percentage of total loans and other property owned	6.52%	6.37%	2.21%
Nonperforming assets as a percentage of capital	<u>34.52%</u>	<u>31.89%</u>	<u>13.00%</u>

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

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 2,222	\$ 4,450	\$ 899
Past due	14,865	7,964	5,687
Total impaired nonaccrual loans	<u>17,087</u>	<u>12,414</u>	<u>6,586</u>
Impaired accrual loans:			
Restructured	1,984	4,021	19
90 days or more past due	–	–	36
Total impaired accrual loans	<u>1,984</u>	<u>4,021</u>	<u>55</u>
Total impaired loans	<u>\$ 19,071</u>	<u>\$ 16,435</u>	<u>\$ 6,641</u>

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 2,154	\$ 3,335	\$ 122	\$ 1,969	\$ 21
Production and intermediate-term Agribusiness	1,337	1,178	8	1,223	13
Processing and marketing	1,620	1,736	33	1,481	16
Total agribusiness	1,620	1,736	33	1,481	16
Total	\$ 5,111	\$ 6,249	\$ 163	\$ 4,673	\$ 50
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 10,081	\$ 10,571	\$ -	\$ 9,216	\$ 96
Production and intermediate-term Agribusiness	3,833	4,695	-	3,504	36
Farm-related business	17	41	-	16	-
Total agribusiness	17	41	-	16	-
Rural residential real estate	29	67	-	26	-
Total	\$ 13,960	\$ 15,374	\$ -	\$ 12,762	\$ 132
Total impaired loans:					
Real estate mortgage	\$ 12,235	\$ 13,906	\$ 122	\$ 11,185	\$ 117
Production and intermediate-term Agribusiness	5,170	5,873	8	4,727	49
Processing and marketing	1,620	1,736	33	1,481	16
Farm-related business	17	41	-	16	-
Total agribusiness	1,637	1,777	33	1,497	16
Rural residential real estate	29	67	-	26	-
Total	\$ 19,071	\$ 21,623	\$ 163	\$ 17,435	\$ 182

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

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

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

<i>(dollars in thousands)</i>	Year Ended December 31,		
	2010	2009	2008
Interest income which would have been recognized under the original loan terms	\$ 1,069	\$ 747	\$ 462
Less: interest income recognized	86	100	287
Foregone interest income	\$ 983	\$ 647	\$ 175

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

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2009	\$ 416	\$ 353	\$ 341	\$ 39	\$ 21	\$ 1,170
Charge-offs	(1,283)	(259)	–	–	–	(1,542)
Recoveries	14	60	515	–	–	589
Provision for loan losses	1,375	420	(578)	1	(1)	1,217
Balance at December 31, 2010	\$ 522	\$ 574	\$ 278	\$ 40	\$ 20	\$ 1,434
2010 allowance ending balance:						
Individually evaluated for impairment	\$ 122	\$ 8	\$ 33	\$ –	\$ –	\$ 163
Collectively evaluated for impairment	\$ 400	\$ 566	\$ 245	\$ 40	\$ 20	\$ 1,271
Recorded investment in loans outstanding:						
Ending Balance at December 31, 2010	\$ 124,159	\$ 142,065	\$ 41,255	\$ 759	\$ 3,034	\$ 311,272
2010 recorded investment ending balance:						
Loans individually evaluated for impairment	\$ 13,709	\$ 5,188	\$ 4,437	\$ –	\$ 29	\$ 23,363
Loans collectively evaluated for impairment	\$ 110,450	\$ 136,877	\$ 36,818	\$ 759	\$ 3,005	\$ 287,909

To mitigate risk of loan losses, District Associations have entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Association. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Associations the right to sell the loans identified in the agreements to the Association, which can, in turn, sell them to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Associations were \$3,707, \$5,694, and \$9,472 at December 31, 2010, 2009, and 2008, respectively. Fees paid to Farmer Mac for such commitments are paid by the Associations and totaled \$26, \$46, and \$71 for 2010, 2009, and 2008, respectively. These amounts are classified as noninterest expense.

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 the quota holder or producer 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 \$84,750, \$101,922, and \$111,934, respectively, net of discount.

Note 6 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in the Bank of 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	\$ 807	\$ —	\$ —
Buildings and improvements	2,572	134	134
Furniture and equipment	1,679	1,301	1,339
	<u>5,058</u>	<u>1,435</u>	<u>1,473</u>
Less: accumulated depreciation	682	670	625
Total	<u>\$ 4,376</u>	<u>\$ 765</u>	<u>\$ 848</u>

The Association is no longer obligated under a noncancellable operating lease for the administrative/branch office. In December of 2010, the Association purchased this building.

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	\$ (4)	\$ (20)	\$ (24)
Carrying value unrealized gains (losses)	(516)	(22)	—
Operating income (expense), net	<u>4</u>	<u>(7)</u>	<u>2</u>
Gains (losses) on other property owned, net	<u>\$ (516)</u>	<u>\$ (49)</u>	<u>\$ (22)</u>

Note 9 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.57 percent for LIBOR-based loans, 1.95 percent for Prime-based loans, and the weighted average remaining maturities were 4.0 years and 1.4 years, respectively, at December 31, 2010. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 2.96 percent and the weighted average remaining maturity was 6.7 years at December 31, 2010. The weighted average interest rate on all interest-bearing notes payable was 2.59 percent and the weighted average remaining maturity was 5.7 years at December 31, 2010.

Variable rate and fixed rate notes payable represent approximately 12.89 percent and 87.11 percent, respectively, of total notes payable at December 31, 2010.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA

regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, the Association's notes payable were within the specified limitations.

Note 10 — Subordinated Debt Payable to Other Farm Credit Institutions

In September 2008, the Association issued \$7,500 of fixed rate unsecured subordinated debt due in 2018, generating proceeds that were used primarily to increase the permanent capital of the Association pursuant to the Farm Credit Administration regulations, and for general corporate purposes. The debt is payable to another association in the District. It is subordinate to all other categories of creditors, including any claims of the Bank and general creditors, and is senior to all classes of shareholders. The subordinated debt is not considered System debt, and thus is not guaranteed by the System and not insured by the Insurance Corporation.

The subordinated debt bears interest at an annual fixed rate of 9%, payable on the fifteenth day of each month, beginning on October 15, 2008. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, the Association may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt may be redeemed, at the Association's option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the Association has made payment in full of all amounts then due in respect of its senior indebtedness.

Note 11 — 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 2 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

The FCA's capital adequacy regulations require the Association to achieve permanent capital of 7 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. The 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 7 percent and of core surplus as a percentage of risk-adjusted assets of 3.5 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2010 were 16.17 percent, 15.78 percent and 12.00 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 (\$5.00) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Common/Nonvoting	Yes	18,016	\$ 90
B Common/Nonvoting	Yes	17,747	89
C Common/Voting	No	218,276	1,091
B Participation Certificates/Nonvoting	Yes	2,257	11
C Participation Certificates/Nonvoting	No	12,584	63
Total Capital Stock and Participation Certificates		268,880	\$ 1,344

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

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The 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. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

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

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

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

At December 31, 2010, allocated members' equity consisted of \$9,022 of qualified surplus, \$14,300 of nonqualified allocated surplus, and \$9,987 of nonqualified retained surplus.

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 and 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.

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.

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. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. 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. Holders of Classes A and D Preferred Stock
2. Holders of Classes A and B Common Stock and Class B Participation Certificates
3. Holders of Class C Common Stock and Class C Participation Certificates
4. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed
5. Holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed
6. Any remaining assets of the Association after such distributions shall be distributed to past and present patrons on a patronage basis, to the extent practicable.

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 changes in OCI of \$154, \$115, and \$225 in 2010, 2009, and 2008, respectively, due to FASB guidance on employers' accounting for defined benefit pension and other postretirement plans (see Note 13 for further information). The Association also recognized changes in OCI of \$307, \$1,078, and \$(1,707) in 2010, 2009, and 2008, respectively, for unrealized gains (losses) on investments available-for-sale (see Note 3 for further information).

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2010	2009	2008
Current:			
Federal	\$ 11	\$ (1)	\$ 22
State	—	1	4
	<u>11</u>	<u>—</u>	<u>26</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 26</u>

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

	December 31,		
	2010	2009	2008
Federal tax at statutory rate	\$ 2,565	\$ 1,558	\$ 2,515
State tax, net	—	—	2
Patronage distributions	(1,001)	(630)	(1,427)
Tax-exempt FLCA earnings	(1,687)	(1,070)	(1,101)
Change in valuation allowance	137	159	40
Other	(3)	(17)	(3)
Provision (benefit) for income taxes	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 26</u>

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

	December 31,		
	2010	2009	2008
Deferred income tax assets:			
Allowance for loan losses	\$ 169	\$ 110	\$ 56
Nonaccrual loan interest	254	167	71
Other property owned writedown	—	9	—
Gross deferred tax assets	<u>423</u>	<u>286</u>	<u>127</u>
Less: valuation allowance	<u>(423)</u>	<u>(286)</u>	<u>(127)</u>
Gross deferred tax assets, net of valuation allowance	—	—	—
Deferred income tax liabilities:	—	—	—
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2010, deferred income taxes have not been provided by the Association on approximately \$0.5 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 \$423, \$286, and \$127 during 2010, 2009, and 2008, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2010 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2007 and forward.

Note 13 — Employee Benefit Plans

The Association participates in district sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan. Financial information regarding each of these plans follows.

Substantially all employees of the Association are eligible to participate in either the defined benefit final average pay

retirement plan (the FAP Plan) or the defined benefit cash balance retirement plan (the CB Plan.) These two plans are noncontributory and include eligible District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution under the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. As a participant in these District defined benefit plans, the Association funded \$1,064 for 2010, \$1,270 for 2009, and \$723 for 2008, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were \$1,203 for 2010, \$1,022 for 2009, and \$227 for 2008.

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 \$188 for 2010, \$238 for 2009, and \$227 for 2008.

Under FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, accounting for the guidance follows the plan sponsor, which is at the District entity level for the Districtwide benefit plans in which the Association participates. Therefore, there is no impact to the Association's financial statements due to this guidance for the two defined benefit plans discussed above. Additional financial information for the District sponsored plans, including the impact of this guidance, may be found in Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2010 Annual Report.

In addition, supplemental retirement benefits are provided to certain key employees under a supplemental defined benefit executive plan adopted during 2007.

The supplemental defined benefit executive plan is unfunded and had a projected benefit obligation of \$423 and a net under-funded status of \$423 at December 31, 2010. Net periodic pension cost for the period was \$99. The assumptions used to determine the projected benefit obligation included a discount rate of 5.65 percent.

FASB guidance requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007 by the Association for the single employer supplemental nonqualified plan, resulting in an adjustment of \$450 to accumulated other comprehensive income (loss) (AOCI).

FASB guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. This guidance provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement

benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings by \$45.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. These amounts are subsequently recognized as components of net periodic benefit costs over time. For 2010, 2009, and 2008, \$154, \$115, and \$225, respectively, has been recognized as a net credit to AOCI to reflect these elements.

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 \$152, \$124, and \$115 for the years ended December 31, 2010, 2009, and 2008, respectively.

Note 14 — 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 \$2,288. During 2010, \$1,332 of new loans were made and repayments totaled \$1,362. In the opinion of management, none of these loans outstanding at December 31, 2010 involved more than a normal risk of collectibility.

Note 15 — 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, \$58,411 of

commitments to extend credit and \$1,635 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 \$1,413 of standby letters of credit, with expiration dates ranging from January 4, 2011, to September 2, 2013. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$1,413.

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 \$27 and was included in other liabilities.

During 2006, the Association agreed to become one of several investors in a USDA-approved Rural Business Investment Company (RBIC) whose mission is to promote economic development and job creation in rural areas. The total commitment to purchase equities was \$250 of which \$210 have been purchased as of December 31, 2010 and are included in other assets in the Consolidated Balance Sheets. At December 31, 2010, there is a remaining outstanding commitment of \$40 to make additional equity purchases.

Note 16 — 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, assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

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

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

Level 1

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

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has Level 2 assets and no Level 2 liabilities measured at fair value on a recurring basis. Level 2 assets include available-for-sale investment securities that are traded in active, non-exchange markets. These securities are U.S. government and agency mortgage-backed securities, non-agency mortgage-backed securities, and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The fair value of substantially all of the Association's 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 mortgage- or 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 include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets 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. Impaired loans with related specific reserves, previously held by the Association, have been charged off during 2010.

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
Assets:				
Investments available-for-sale	\$ -	\$ 926	\$ -	\$ 926
Assets held in Trust funds	\$ 4	\$ -	\$ -	\$ 4
Total Assets	\$ 4	\$ 926	\$ -	\$ 930

Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 27	\$ 27
Total Liabilities	\$ -	\$ -	\$ 27	\$ 27

December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	\$ -	\$ 21,103	\$ -	\$ 21,103
Assets held in Trust funds	\$ 4	\$ -	\$ -	\$ 4
Total Assets	\$ 4	\$ 21,103	\$ -	\$ 21,107

Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 50	\$ 50
Total Liabilities	\$ -	\$ -	\$ 50	\$ 50

	December 31, 2008			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale	\$ -	\$ 27,770	\$ -	\$ 27,770
Total Assets	\$ -	\$ 27,770	\$ -	\$ 27,770
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 22	\$ 22
Total Liabilities	\$ -	\$ -	\$ 22	\$ 22

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	\$ 50
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(23)
Transfers in and/or out of level 3	-
Balance at December 31, 2010	\$ 27

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 22
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	28
Transfers in and/or out of level 3	-
Balance at December 31, 2009	\$ 50

	Standby Letters Of Credit
Balance at January 1, 2008	\$ 65
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(43)
Transfers in and/or out of level 3	-
Balance at December 31, 2008	\$ 22

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				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 4,948	\$ 4,948	\$ (1,116)
Other property owned	\$ -	\$ -	\$ 1,150	\$ 1,150	\$ (520)

	December 31, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ (1,909)
Other property owned	\$ -	\$ -	\$ 765	\$ 765	\$ (41)

	December 31, 2008				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 4,553	\$ 4,553	\$ (1,236)

Note 17 — 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	\$ 469	\$ 469	\$ 56	\$ 56
Loans, net of allowance	\$ 309,838	\$ 309,291	\$ 270,835	\$ 272,266
Investment securities	\$ 54,626	\$ 55,062	\$ 57,725	\$ 51,032
Tobacco Buyout SIIC	\$ 84,750	\$ 88,279	\$ 101,922	\$ 108,223
Assets held in Trust funds	\$ 4	\$ 4	\$ 4	\$ 4
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 403,640	\$ 410,951	\$ 389,404	\$ 410,258
Subordinate debt payable to other Farm Credit institutions	\$ 7,543	\$ 8,204	\$ 7,545	\$ 7,963

	December 31, 2008	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 1	\$ 1
Loans, net of allowance	\$ 303,382	\$ 306,698
Investment securities	\$ 32,323	\$ 31,745
Tobacco Buyout SIIC	\$ 111,934	\$ 117,028
Assets held in Trust funds	\$ -	\$ -
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 408,504	\$ 432,601
Subordinate debt payable to other Farm Credit institutions	\$ 7,542	\$ 8,037

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 MBSs and ABSs, fair value is primarily based upon prices obtained from a third party valuation service. See Note 16 for additional 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 3.63 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.

Of the \$13,926 reported as Investments in other Farm Credit institutions, \$13,178 is related to the Bank and \$748 is 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.
- H. **Subordinate Debt Payable to Other Farm Credit Institutions:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar liabilities.

Note 18 — 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	\$ 1,670	\$ 1,678	\$ 1,845	\$ 1,965	\$ 7,158
Provision for (reversal of allowance for) loan losses	(508)	544	1,290	(109)	1,217
Noninterest income (expense), net	246	588	349	409	1,592
Net income (loss)	\$ 2,424	\$ 1,722	\$ 904	\$ 2,483	\$ 7,533

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,355	\$ 1,476	\$ 1,399	\$ 1,578	\$ 5,808
Provision for (reversal of allowance for) loan losses	667	987	1,052	(487)	2,219
Noninterest income (expense), net	110	(105)	612	375	992
Net income (loss)	\$ 798	\$ 384	\$ 959	\$ 2,440	\$ 4,581

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,942	\$ 1,684	\$ 2,056	\$ 1,635	\$ 7,317
Provision for (reversal of allowance for) loan losses	—	636	237	1,170	2,043
Noninterest income (expense), net	125	(89)	1,166	895	2,097
Net income (loss)	\$ 2,067	\$ 959	\$ 2,985	\$ 1,360	\$ 7,371

Note 19 – Subsequent Events

The Association has evaluated subsequent events and has determined there are none requiring disclosure through March 14, 2011, which is the date the financial statements were issued.