PUERTO RICO FARM CREDIT, ACA

2010 ANNUAL REPORT

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Management

Ricardo L. Fernández……………………………………………………..President and Chief Executive Officer
Victor Arroyo…………………………...…………………………....Vice President and Chief Credit Officer
Nydia J. Acevedo……………………………………... …………………………………………… Controller

Board of Directors

Juan A. Santiago .... Chairman
Felipe Ozonas-Morell .... Vice Chairman
Victor Ayala-Benitez .... Director
Damián Rivera .... Director
Carlos A. Rodríguez.. Director
Pablo Rodríguez-Morales .... Director
Robert G. Miller…………………………………...………………………………………………Director
Antonio E. Marichal.. External Director
Francisco Oramas-Irizarry .... External Director

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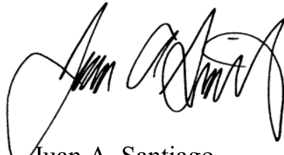
Report of Management

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

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, 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.

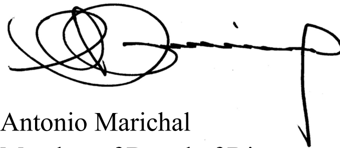
The consolidated financial statements have been examined by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

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 Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Juan A. Santiago
Chairman of the Board

Ricardo L. Fernandez
Chief Executive Officer



Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

Nydia J. Acevedo
Controller

July 11, 2011

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2010	2009	2008	2007	2006
Balance Sheet Data					
Cash	$ 928	$ 162	$ 290	$ 130	$ 132
Loans	188,406	227,226	260,905	250,019	247,136
Less: allowance for loan losses	4,003	2,720	1,254	330	271
Net loans	184,403	224,506	259,651	249,689	246,865
Notes receivable from other Farm Credit institutions	10,000	10,000	10,000	—	—
Investments in other Farm Credit institutions	3,162	3,679	3,517	3,399	3,670
Other property owned	2,443	521	—	73	—
Other assets	5,253	6,086	6,376	6,392	7,073
Total assets	$ 206,189	$ 244,954	$ 279,834	$ 259,683	$ 257,740
Notes payable to AgFirst Farm Credit Bank*	$ 156,743	$ 187,237	$ 219,092	$ 197,926	$ 197,058
Accrued interest payable and other liabilities with maturities of less than one year	690	1,515	3,088	4,767	4,787
Other liabilities with maturities of greater than one year	2,407	1,528	1,385	1,429	2,080
Total liabilities	159,840	190,280	223,565	204,122	203,925
Capital stock and participation certificates	679	721	779	819	874
Unallocated retained earnings	45,878	53,208	54,577	53,880	52,941
Accumulated other comprehensive income (loss)	(208)	745	913	862	—
Total members' equity	46,349	54,674	56,269	55,561	53,815
Total liabilities and members' equity	$ 206,189	$ 244,954	$ 279,834	$ 259,683	$ 257,740
Statement of Operations Data					
Net interest income	$ 3,896	$ 4,545	$ 5,520	$ 6,493	$ 6,327
Provision for loan losses	9,390	3,312	926	59	34
Noninterest income (expense), net	(1,850)	(2,093)	(1,927)	(2,310)	(2,065)
Net income (loss)	$ (7,344)	$ (860)	$ 2,667	$ 4,124	$ 4,228
Key Financial Ratios					
Rate of return on average:					
Total assets	(3.22)%	(0.33)%	1.00%	1.62%	1.62%
Total members' equity	(13.13)%	(1.54)%	4.67%	7.41%	7.73%
Net interest income as a percentage of average earning assets	1.95%	1.93%	2.18%	2.68%	2.53%
Net (chargeoffs) recoveries to average loans	(3.839)%	(0.755)%	—%	—%	—%
Total members' equity to total assets	22.48%	22.32%	20.11%	21.40%	20.88%
Debt to members' equity (:1)	3.45	3.48	3.97	3.67	3.79
Allowance for loan losses to loans	2.12%	1.20%	0.48%	0.13%	0.11%
Permanent capital ratio	20.84%	17.39%	16.96%	23.48%	24.31%
Total surplus ratio	20.49%	17.06%	16.74%	23.11%	23.90%
Core surplus ratio	20.49%	17.06%	16.74%	23.11%	23.90%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ —	$ 615	$ 2,000	$ 3,250	$ 3,200

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916, and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of 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 served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

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

Copies of the Association's Annual and Quarterly reports are on the Association's website, ***www.puertoricofarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Nydia J Acevedo, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936. 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 Report 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 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 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 the expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Association's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico 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 the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are critical to the understanding of the Association's results of operations and financial position because some accounting policies require the Board and management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. These policies are 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* management's best estimate of the amount of probable losses existing in and 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, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

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 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.

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. A discount rate is used to determine the present value of the future benefit obligations.

ECONOMIC CONDITIONS

During 2010, Puerto Rico continued to weather a terrible economic and fiscal situation as it went through a fourth year and into a fifth year of economic recession. Additionally, the 2010 US Census revealed that Puerto Rico's population declined by approximately 2.2 percent during the first decade of the 21st century. There has been significant change in the Association's loan portfolio over the past few years, with the Association buying loan participations through AgFirst. The Association continued to target certain segments of the island's agricultural business with hopes of increasing market share; but the recession hindered marketing efforts. Continued efforts are being made to expand lending services, increase public knowledge of the Association's services and streamline delivery of products to increase the chartered territory loan 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 various product types.

The gross loan volume of the Association as of December 31, 2010 was $188,406 a decrease of $38,820 or 17.08 percent as compared to $227,226 at December 31, 2009 and compared to $260,905 at December 31, 2008 a decrease of $33,679 or 12.91 percent. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2010 were $184,403 as compared to $224,506 at December 31, 2009 and $259,651 at December 31, 2008. Net loans accounted for 89.43 percent of total assets on December 31, 2010 as compared to 91.65 percent of total assets on December 31, 2009 and 92.79 percent of total assets on December 31, 2008.

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

Loan Type	12/31/10	12/31/09	12/31/08
Real estate mortgage	60.43%	56.60%	54.32%
Production and intermediate term	16.35	18.20	20.21
Agribusiness:			
Loans to cooperatives	–	.02	–
Processing and marketing	8.08	11.54	12.41
Farm related business	.70	.98	1.67
Communication	2.75	2.20	1.93
Energy	1.44	1.26	.77
Rural residential real estate	10.25	9.20	8.69
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified. Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio are shown below. The predominant commodities on the island were dairy, field crops, and livestock, which constituted 43.9 percent of the entire portfolio at December 31, 2010.

	Percent of Portfolio		
Commodity Group	**2010**	**2009**	**2008**
Participations (net)	25.6%	30.8%	34.4%
Dairy	25.3	22.7	21.5
Livestock (Beef Cattle)	10.9	9.5	9.5
Rural Home	9.8	9.2	8.7
Field Crops (Vegetables)	7.7	8.0	8.6
Fruits	6.6	6.2	6.0
Misc Real Estate	3.9	3.4	1.6
Ornamentals/Nursery	2.8	2.7	2.1
Poultry	2.1	2.2	2.4
Plantains	2.1	2.3	2.3
Coffee	1.6	1.5	1.6
Horses	0.9	0.8	0.8
Other	0.7	0.7	0.5
Total	100.00%	100.0%	100.0%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. 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 chartered territory. Even though the concentration of participation loans has steadily decreased during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The decrease in gross loan volume for the twelve months ended December 31, 2010 was due to decreases in both the on-island, chartered territory loan portfolio and the participation purchased loan portfolio. More specifically, the decrease in chartered territory loan volume was related to the fourth quarter allowance process in which the Board of Directors authorized Management to charge-off $7,331 of nonperforming loans. Additionally, the Association has participated part of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions in the gross loan portfolio of $10,464, $12,110 and $11,572 at December 31, 2010, 2009 and 2008, respectively. The Association did not have any loans sold with recourse.

The Association has experienced changes in the composition of loan assets. The long-term real estate mortgage trend has been upward while the short and intermediate-term loan volume trend has been downward. This trend change was primarily the result of decreasing loan volume in the participation purchased portfolio, which carries shorter maturities related to commercial lending activities. At December 31, 2010, 2009 and 2008 the Association had no one single borrower that comprised more than 3.7 percent of loan volume.

During the past several years, the Association has had increased activity in the buying and selling of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position. However, the net effect of the increased activity has led the Association to reduce its portfolio since 2008. The following table presents information concerning the Association's participations purchased portfolio at December 31:

Loan Participations	**2010**	**2009**	**2008**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 45,343	$ 60,425	$ 65,724
Participations Purchased – Non-FCS Institutions	5,854	11,525	16,349
Total	$ 51,197	$ 71,950	$ 82,073

As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. At December 31, 2010, the balance of these loans (including unamortized premium) was $5,854 compared to $8,511 at December 31, 2009 and $12,672 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 under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations of the AgFirst District to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as loans or investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2010, 2009 and 2008, the Association had $0, $973 and $1,000, respectively, in Rural America Bonds, included as loans on the Consolidated Balance Sheets.

NOTES RECEIVABLE-OTHER FARM CREDIT INSTITUTIONS

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018. The notes receivable are subordinate to all other categories of creditors of the issuing associations, including any claims of

the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the two issuing associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations. As of the end of 2010, one of the two associations' credit portfolio is considered by management to maintain higher risk than average and than when the debt was purchased. If this note receivable were an eligible loan, it would be a criticized loan impacting the Association's liquidity and ability to fund loan growth. Management expects to collect all interest and principal as contracted. It will also continue to inform the Board of Directors on the financial performance of the Associations on a quarterly basis.

The notes receivable bear interest at an annual fixed rate of 9.00 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. For the twelve months ended December 31, 2010, the Association recognized $900 as interest income. During the next several years, management projects that the Association will continue to accrue $900 annually as interest income from the notes receivable. For more information related to notes receivable-other Farm Credit Institutions, see Note 5 of the Notes to the Consolidated Financial Statements.

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 Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Under FCA regulations, appraisals are required for real estate mortgage loans of more than $250,000. The Association requires an appraisal for all real estate mortgage loans, no matter the size. 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.

Management reviews the credit quality of the loan portfolio on an ongoing basis as part of the Association's 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	87.25%	87.86%	87.97%
Substandard	12.75	12.14	12.03
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

The higher adverse level of the substandard asset quality category during 2010 and 2009 was a direct result of the weaker economies, both in Puerto Rico and the US mainland. Credit quality deterioration for production agriculture was a result of reduced profitability largely driven by higher input costs (fuel, feed, and electricity). Additionally, loans tied to housing, either through construction or development, have seen demand plummet and profitability decline resulting in downgrades of the assigned credit risk rating.

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:

	12/31/10	**12/31/09**	**12/31/08**
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 13,923	$ 19,107	$ 12,626
Restructured loans	–	–	–
Accruing loans 90 days past due	34	–	242
Total high-risk loans	13,957	19,107	12,868
Other property owned	2,443	521	–
Total high-risk assets	$ 16,400	$ 19,628	$ 12,868
Ratios			
Nonaccrual loans to total loans	7.39%	8.41%	4.84%
High-risk assets to total assets	7.95%	8.01%	4.60%

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. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $5,184 or 27.13 percent in 2010. Of the $13,923 in nonaccrual loan volume at December 31, 2010, $5,474 or 39.32 percent as compared to $6,534 or 34.20 percent and $9,170 or 72.63 percent at December 31, 2009 and 2008, respectively, was considered 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 has been considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $4,003 at December 31, 2010, as compared with $2,720 and $1,254 at December 31, 2009 and 2008, respectively.

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

Allowance for Loan Losses Activity:	2010	2009	2008
	(dollars in thousands)		
Balance at beginning of year	$ 2,720	$ 1,254	$ 330
Charge-offs:			
Real Estate Mortgages	(2,273)	(83)	–
Production and intermediate term	(5,360)	(866)	(2)
Agribusiness	(488)	(897)	–
Total charge-offs	(8,121)	(1,846)	(2)
Recoveries:			
Real Estate Mortgages	14	–	–
Total recoveries	14	–	–
Net (charge-offs) recoveries	(8,107)	(1,846)	(2)
Provision for (reversal of allowance for) loan losses	9,390	3,312	926
Balance at end of year	$ 4,003	$ 2,720	$ 1,254
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(3.839)%	(0.755)%	–%

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

Allowance for Loan Losses by Type	December 31, 2010	2009	2008
	(dollars in thousands)		
Real estate mortgage	$ 1,107	$ 283	$ 160
Production and intermediate term	153	44	501
Agribusiness	2,579	2,330	559
Communication	17	19	11
Energy	7	7	2
Rural residential real estate	140	37	21
Total allowance	$ 4,003	$ 2,720	$ 1,254

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	2.13%	1.20%	.48%
Nonperforming loans	24.41%	14.24%	9.75%
Nonaccrual loans	28.75%	14.24%	9.93%

RESULTS OF OPERATIONS

For the year ended December 31, 2010 the Association incurred a net loss from operations which totaled $(7,344) an increase of $6,484 as compared to a net loss of $(860) for the same period of 2009 and for 2009 a decrease of $4,677 as compared to $2,667 for the same period of 2008. Total interest income for the year ended December 31, 2010 was $8,148 a decrease of $1,554 or 16.02 percent as compared to $9,702 for the same period of 2009. Total interest income decreased by $4,144 or 29.93 percent for the period ended December 31, 2009 compared to December 31, 2008. Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	2010-2009	2009-2008
	(dollars in thousands)	
Net income (prior year)	$ (860)	$ 2,667
Increase (decrease) in net income due to:		
Interest income	(1,554)	(4,144)
Interest expense	905	3,169
Net interest income	(649)	(975)
Provision for loan losses	(6,078)	(2,386)
Noninterest income	435	381
Noninterest expense	(190)	(547)
Provision for income taxes	(2)	–
Total changes in income	(6,484)	(3,527)
Net income/(loss)	$ (7,344)	$ (860)

Net Interest Income

Net interest income was $3,896, $4,545 and $5,520 in 2010, 2009 and 2008, respectively. Net interest income from loans was the principal source of earnings for the Association and was impacted by volume, yields on assets and cost of debt. Additionally, net interest income was negatively impacted by the amortization of premium paid to acquire USDA guaranteed loans in the secondary market place. Premium amortization expense was $191, $260 and $265 in 2010, 2009 and 2008, respectively. However, net interest income was enhanced by the notes receivable from other Farm Credit Institutions. Net interest income from notes receivable was

$263, $263 and $70 in 2010, 2009 and 2008, respectively. The effects of changes in average volume and interest rates on net interest income are summarized in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Other	Total
	(dollars in thousands)				
12/31/10 – 12/31/09					
Interest income	$ (1,723)	$ 280	$ (112)	$ 1	$ (1,554)
Interest expense	(841)	(65)	–	1	(905)
Income	$ (882)	$ 345	$ (112)	$ –	$ (649)
12/31/09 – 12/31/08					
Interest income	$ (394)	$ (4,108)	$ 360	$ (2)	$ (4,144)
Interest expense	(113)	(3,056)	–	–	(3,169)
Income	$ (281)	$ (1,052)	$ 360	$ (2)	$ (975)

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

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income.

For the twelve months of 2010, the Association recognized provision for loan losses expense which totaled $9,390, compared to $3,312 and $926 for the twelve months of 2009 and 2008, respectively. During 2010, the Association included $8,003 of specific reserves in the provision expense for loans classified as impaired under FASB guidance, "Accounting by Creditors for Impairment of a Loan," as compared to $2,319 of specific reserves during 2009 and $942 during 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, 2010	2009	2008	Percentage Increase/(Decrease) 2010/2009	2009/2008
	(dollars in thousands)				
Loan fees	$ 342	$ 352	$ 396	(2.84)%	(11.11)%
Patronage Rebate Fees	226	233	156	(3.00)	49.36
Patronage refunds from other Farm Credit Institutions	1,768	1,845	1,605	(4.17)	14.95
Other noninterest income	73	45	76	62.22	(40.79)
Insurance Fund refund	704	–	–	–	–
Gains (losses) on other property owned	(114)	89	(50)	(228.09)	278.0
Total noninterest income	$ 2,999	$ 2,564	$ 2,183	16.97%	17.45%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $1,340 in two patronage refunds from the Bank and $428 in special dividend distributions from the Bank for the year ended December 31, 2010. This compared to $1,599 in two patronage refunds from the Bank and $246 in a special dividend distribution from the Bank for the year ended December 31, 2009 and $1,605 in patronage refunds and no special dividend distribution for 2008. Additionally, during 2010, the Association received two refunds from the Farm Credit System Insurance Corporation (FCSIC) which totaled $704. It is not known whether the FCSIC will make any distributions in future years.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2010	2009	2008	Percentage Increase/(Decrease) 2010/2009	2009/2008
	(dollars in thousands)				
Salaries and employee benefits	$ 3,388	$ 3,212	$ 2,600	5.48%	23.54%
Occupancy and equipment	251	266	285	(5.64)	(6.67)
Insurance Fund premiums	100	392	337	(74.49)	16.32
Other operating expenses	1,108	787	888	28.97	(11.37)
Total noninterest expense	$ 4,847	$ 4,657	$ 4,110	4.08%	13.31%

Salaries and employee benefits expense increased in 2010 primarily due to an unbudgeted severance payment at the time of the CEO's retirement in June 2010. This was partially reduced by lower insurance fund premiums charged by the FCSIC. However, the other operating expenses increased by more than $168 related to a Board authorized viability study conducted during the second quarter of 2010.

Income Taxes

The Association recorded no provision for federal income tax for 2009 or 2008. However, during 2010 not all eligible patronage sourced income was distributed from 2009, resulting in $2 of federal income tax expense. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 2(H), Income Taxes, for more specific information.

Key Results of Operations Comparisons

Key results of operations comparisons for 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	For the 12 Months Ended 12/31/09	For the 12 Months Ended 12/31/08
Return on Average Assets	(3.22)%	(0.33)%	1.00%
Return on Average Members' Equity	(13.13)%	(1.54)%	4.67%
Net Interest Income as a Percentage of Average Earning Assets	1.95%	1.93%	2.18%
Net (Charge-offs) Recoveries to Average Loans	(3.84)%	(0.76)%	–%

The Association's financial goals are operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

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 Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in 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 the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2010 were $156,743 as compared to $187,237 at December 31, 2009 and $219,092 at December 31, 2008. The decrease of $30,494 or 16.29 percent closely corresponds to the decrease in loans during 2010. The average volume of notes payable to the Bank was $170,347 and $203,530 for the years ended December 31, 2010 and 2009, respectively. Refer to Note 8, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

The Association had no available 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 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 and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

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 8, "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 4 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 8, "Notes Payable to AgFirst Farm Credit Bank" included in this Annual Report.

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2010 that affected the minimum stock purchase requirement or would have had an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2010 decreased $8,325 or 15.23 percent to $46,349 from the December 31, 2009 total of $54,674. At December 31, 2009 total members' equity decreased 2.83 percent or $1,595 from the December 31, 2008 total of $56,269. The decrease in the total members' equity was primarily due to the net loss from operations, directly related to the material provision for loan losses and related charge-offs experienced during 2010. For 2009, the Association recorded a consolidated net loss from operations of $(860). The FLCA subsidiary showed a loss of $(1,464), while the ACA recognized patronage sourced net income which totaled $604. Additionally, for 2010 and 2009, total members' equity changed by $(953) and $(168), respectively, which were the net incremental adjustments recorded as Accumulated Other Comprehensive Income (Loss) from adopting the provisions of FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The adoption of this guidance had no effect on the Consolidated Statements of Operations for the years ended December 31, 2010 and 2009. Refer to Note 11, "Employee Benefit Plans," of the Notes to the Consolidated Financial Statements for additional information on the adoption of this guidance during 2007.

Total capital stock and participation certificates were $679 on December 31, 2010, compared to $721 on December 31, 2009 and $779 on December 31, 2008. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

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 three ratios.

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

	2010	2009	2008	Regulatory Minimum
Permanent Capital	20.84%	17.39%	16.96%	7.00%
Total Surplus	20.49%	17.06%	16.74%	7.00%
Core Surplus	20.49%	17.06%	16.74%	3.50%

The increase in the Association's permanent capital, total surplus and core surplus ratios since December 31, 2008 was primarily attributable to a decrease in calculated risk weighted assets each year. The FCA's approval of the Association's investment in notes receivable from other Farm Credit institutions in 2008 required it to deduct the total amount of the investment from the amount of permanent capital. However, due to the significant provision expense recorded at the end of 2010 which resulted in a loss from operations negatively impacting the unallocated retained surplus of the Association, the average amount of permanent capital used to calculate the ratio will be materially lower during 2011. Management expects that even though the Association's permanent capital ratio will decline during 2011, it would not affect the Association's ability to meet the FCA's regulatory minimum capital standards and capital adequacy requirements.

See Note 9, "Members' Equity," of the Notes to 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, if necessary, 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 the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 9, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. The Association declared estimated patronage distributions of $0 in 2010, $615 in 2009 and $2,000 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 its 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.

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

	As of December 31, 2010	
	Number of Loans	Amount of Loans
Young	83	$11,744
Beginning	306	$42,494
Small	366	$45,475

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

The 2007 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 15,745 reported farmers of which by definition 720 or 4.57 percent were Young and 4,785 or 30.39 percent were Beginning. The Puerto Rico census does not make available data which identifies and classifies Small farmers. Comparatively, as of December 31, 2010, the demographics of the Association's agricultural portfolio contained 587 farmers, of which by definition 83 or 14.14 percent were Young, 306 or 52.13 percent were Beginning and 366 or 62.35 percent were Small.

As of December 31, 2010, The Association achieved its gross new business goals as a percentage of the number of loans, as follows:

	2010 Goal	2010 Actual
Young	8%	12%
Beginning	15%	28%
Small	15%	25%

In addition to the marketing strategies, in 2010 the Association supported Young, Beginning and Small farmers through outreach and financial support programs. Education is at the heart of the programs, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities may be both in-house, in the form of events held by the Association, and external, in which case, the Association is a speaker or provider of educational materials. The Association website includes a section of information and resources for YBS visitors to the site.

A second focus area of the program includes activities where the Association sponsors local events or events where the Association

is an exhibitor and/or a participant (such as industry or trade shows). Financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a "certified lender," as designated by FSA.

The following outreach programs were conducted during 2010 in the Association's efforts to achieve established goals:

- utilization of AgScore (credit score lending for small loan borrowers)
- experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers
- supported and/or sponsored various programs and activities of 4H, the Service de Extension Agricola of UPR-Mayagüez.
- Participated in various educational programs coordinated by the Department of Agriculture, Associacion de Agricultores and /or the Agronomist Association.

The Regional Lending Manager coordinates the Association's efforts, and oversees the YBS program. The Association includes YBS goals in the annual strategic business plan, and reports on those goals and achievements to the board of directors on a quarterly basis.

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

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, certain internal controls and, reduced earnings and liquidity. The Board of Directors and the Association have met several milestones in compliance with the agreement including the following:

- Hiring a board consultant to assist them in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters and undergoing several training sessions to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on June 30, 2010.
- Overseeing the implementation of updated collateral risk management policies and procedures.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor to assess the capital markets portfolio credit risk and, strengthen credit policies and procedures.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the new management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas.

- Improving board efficacy in overseeing the Association's business practices by updating board policies.
- Establishing a succession plan and human capital plan to ensure the Association's continued operation.
- Establishing direction and strategic priorities for the Association via a revised business plan.
- Improving the calculation for the Allowance for Loan Losses to fully reflect the risk of the credit portfolio.
- Strengthening the capital markets portfolio policies and procedures.
- Developing strategies for growing the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement.

Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

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, patronage dividend policies or practices, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Dommenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 13 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 9 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 and 13 of the Consolidated Financial Statements included in this Annual Report.

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
William A. Garrahan	*President & CEO* retired June 30, 2010
Bruce M. Hoffman	*Vice President & COO/CFO* since November 1992 and *Acting President &CEO* since July 1, 2010; retired January 31, 2011
Ricardo L Fernandez	*President & CEO* since February 1, 2011 He has spent 15 years working at a commercial bank occupying various positions. The last five years he was a VP & Manager for Small and Middle-Market Comercial Lending.
Sonia C. Arteaga	*Vice President & CCO* resigned August 2, 2010
Victor Arroyo	*Vice President & CCO* since April 2011 He has been with the Association for the past nine years working as Manager for the loan participations and rural housing loan portfolios.
Nydia J. Acevedo	*Controller* since October 16, 2006
Jorge A. Dulzaides	*Regional Lending Manager* since January 2000

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

Aggregate Number of Senior Officers	Year	Salary	Exec. Compens.	Other Bonus	Total
William A. Garrahan	2010	$150,000	$ –	$ 346,269	$496,869
William A. Garrahan	2009	$300,012	$ –	$ 600	$300,612
William A. Garrahan	2008	$300,012	$ 64,400	$ 600	$365,012
5	2010	$507,735	$ –	$ 8,000	$515,735
5	2009	$569,612	$ –	$ 3,000	$572,612
5	2008	$572,316	$ 110,400	$ 3,000	$685,716

For all three years, the Association has had no plans in place or provisions which would allow for or facilitate the deferral of compensation, either salary or bonus. During 2010, the Board reached a severance agreement with Mr. Garrahan, which included the payment of one year salary. Also included in the other bonus category for Garrahan was payment of accrued annual leave and the Commonwealth Christmas bonus.

For the five other senior officers, other bonus equates to the mandatory payment of a Christmas Bonus required by Commonwealth law. For 2008, the Board authorized payment of executive compensation in December of the year earned, as performance measures were finalized. For 2009, given the Association's net operating loss, no consideration was given by the

Board to the payment of executive compensation, as there was no accrual or expense recorded for the plan. For 2010, there was no executive compensation plan adopted by the Board of Directors.

The executive compensation plan (the plan) has been normally adopted on an annual basis for the current year. Actual payment was generally decided upon at the December's Board meeting, but can be any other date as the board decides, based upon whether performance measures are calculable and reportable. Compensation amounts were estimated, accrued and expensed on a monthly basis. The plan not only covered the Association's senior officers, but also included department managers. The objectives of the plan were to tie management compensation directly to organizational performance, focusing attention on both short-term and long-term results. For both 2009 and 2008, the Board of Directors adopted plans which contained the same quantifiable categories, and included a fourth discretionary category that was not quantifiably measurable. Each performance area had a defined payout amount assigned with measurable performance targets established. For 2010, the Board did not adopt any plan.

The following chart describes the weighted significance of each performance category was assigned by the Board of Directors for 2008 and 2009:

	2008	2009
Business loan volume	25%	–%
Quality control	5%	–%
Financial performance	5%	–%
Individual contribution	65%	100%

Within each major performance category there were specific objectives established which were designed to motivate performance that exceeded the most likely goals of the related annual business plan. These objectives include return on assets, credit quality, and delinquency, growth in loan volume, examination results and control of operating expenses.

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

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, laundry, registration fees, and other expenses associated with the travel on official business.

A copy of the policy is available to the Associations' stockholders upon request.

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $68,808 for 2010, $51,789 for 2009 and $71,808 for 2008. It is the practice of the Association not to provide noncash compensation to directors. For 2010, there was no noncash compensation provided.

Subject to approval of the Board of Directors, the chairman was compensated at a per diem rate of $400 for all official activities. The other elected, stockholder directors were compensated at a per diem rate of $375. Honorarium for the independent, external directors was at a per diem rate of $1,000 for Marichal and $375 for Oramas. Directors are also paid honorarium at the per diem rate on a full day basis for normal travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity.

In addition, all directors were paid quarterly a retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee was $875 per quarter and $750 per quarter for all the other directors, including the external directors.

Additional information for each Director is provided below:

	No. of Days Served			
Name of Director	Regular Board Meetings	Other Official Activities	Committee Assignments	Total Honoraria During 2010
Juan A. Santiago	15	26	Governance/Compensation Audit	$ 19,900
Damián Rivera	13	16	Governance - Chairman	13,875
Felipe Ozonas-Morell	14	23	Governance Compensation - Chairman	16,875
Carlos A. Rodriguez	14	18	Credit Review	15,000
Victor M. Ayala	13	19	Credit Review/Audit	15,000
Robert G. Miller	10	6	Audit/Governance	8,250
Antonio Marichal *	13	18	Audit – Chairman Compensation	34,000
Francisco Del Rio **	3	1		4,875
Pablo Rodriguez **	3	1	Credit Review	2,250
Francisco Oramas ***	5	2	Compensation	3,375
				$ 133,400

* *Audit Committee financial expert as determined by the Board of Directors*
** *Francisco del Rio resigned on June 24, 2010. The board voted to install Pablo Rodriguez to serve until the next annual meeting of stockholders.*
*** *In September 2010, the Board of Directors amended the Bylaws to expand the number of external directors from one to two.*

Additionally, during February 2011, the Board of Directors approved special honoraria compensation for directors Santiago and Marichal as reimbursement in consideration of the additional time spent in various extraordinary matters delegated to each of them by the Board of Directors. Specifically Mr. Santiago and Mr. Marichal were compensated $25,600 and $29,490, respectively. These amounts were in addition to those documented in the table above.

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any two directors along with the President/CEO shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings. The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Mr. Juan A. Santiago, 46, Chairman, owns and operates a 240-acre floriculture, plantain and beef cattle farm. Mr. Santiago is an agronomist and is a member of the Puerto Rico Farm Bureau, President of the Puerto Rico Agronomist Association, and the Audubon Society. His term of office is 2010 – 2013. He was first elected to the Board in 1992.

Mr. Damián Rivera, 57, owns and operates a 502 acre dairy and dairy herd replacement farm. He is an agronomist, and is a

member of the Puerto Rico Agronomist Association and a member of the Mill Agro Group (livestock feed). His term of office is 2009 – 2012. He was first elected to the Board in 1994.

Mr. Felipe Ozonas-Morell, 49, Vice Chairman, operates a farm in Castañer, Adjuntas producing Arábiga and Robusta coffee and production, packing and marketing of citrus. He completed advanced studies in livestock engineering in Spain and is a member of the Puerto Rico Farm Bureau. His term of office is 2009 – 2012. He was first elected to the Board in 2000.

Mr. Victor M. Ayala, 62, owns and operates a dairy farm in Humacao. He attended University of Puerto Rico – Mayaguez Campus, where he obtained a degree in Civil Engineering. His memberships include College of Engineers and Surveyors, Puerto Rico Farm Bureau, Asociación Pecuaria del Este, Federación de Asociaciones Pecuarias de PR, Inc. and Fondo de Estabilización de Precios de la Industria Lechera. His term of office is 2008 – 2011. He was first elected to the Board in 2004.

Mr. Carlos A. Rodríguez, *60*, owns and operates a dairy farm in Morovis. He has a bachelor's degree in Business Administration from the University of Puerto Rico. His memberships include the Puerto Rico Farm Bureau, board member of the "Junta Fondo Estabilización de Precios de la Industria Lechera" and Puerto Rico Dairy Herd Improvement Association. His term of office is 2008 – 2011. He was first elected to the Board in 2002.

Mr. Robert G. **Miller**, 56, owns and operates commercial layer operations in Aibonito and Orocovis. The egg production is processed, packed and distributed under the Asomante brand name. He is a member of the "Fondo del Fomento Industria del Huevo" and of the Puerto Rico Farm Bureau. His term of office is 2010- 2013. He was first elected to the Board in 2010.

Mr. Antonio E. Marichal, 60, External Director, is an accountant and licensed attorney. For the past 25 years he has been a partner in a law firm, specializing in business, tax and corporate law. He is very familiar with agriculture, especially the dairy sector. His memberships include Puerto Rico Bar Association, American Bar Association, Asociación de Notarios de PR, among others. His term of office is 2009 – 2012. He was first appointed to the Board in 2006.

Mr. Pablo Rodriguez-Morales, *47*, owns and operates a farm in San Sebastian, with more than twenty years experience producing oranges, plantains, bananas and coffee. . He is a member of the Puerto Rico Agronomists Association. His term of office expires with the 2011 annual meeting. He was first elected to the Board in 2010.

Mr. Francisco Oramas, 45, External Director, is a Vice-President of Hills Brothers, a fruits and vegetables distributor. He was a former under Secretary of Agriculture from 2005 to 2007. He is a member of the Puerto Rico Agronomists Association and has worked with the milk industry. His term of office is 2010-2013. He was first appointed to the Board in 2010.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 12 of the Consolidated Financial Statements, *"Related Party Transactions,"* included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2010, between the Association and senior officers or directors, their immediate family members or any organizations with which they are

affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2010.

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 the generally accepted accounting principles or financial statement disclosures during this period.

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

	2010
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 55,200
Total	$ 55,200

Audit services 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 July 11, 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 1-787-753-5435, or writing Nydia J. Acevedo, Controller, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.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 Association.

When it became apparent to management that the Financial Statements for 2010 would not be available in a timely manner as required by FCA Regulations, management informed FCA that it would not be able to comply with FCA's regulations. The reason for the delay was because a review of the specific allowance for certain nonaccrual loans led management to question the market value of collateral properties securing these nonaccrual loans. The timeframe required to complete the appraisal reports and recalculate the specific allowance for these nonaccrual loans did not allow management, for the first time, to comply with these regulations.

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 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 Puerto Rico Farm Credit, 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 reviewed, amended and approved by the Board of Directors in 2011. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

During 2009 and 2010 the Association operated under two FCA Supervisory Letters which required compliance with certain matters covered in such letter, mostly related to board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality deterioration, allowance for loan losses and collateral risk management, and capital markets and participation activities.

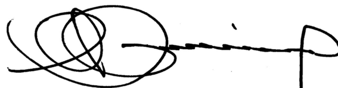
As a subsequent event to the end of the fiscal year covered by this report, the Board of Directors of the Association entered into a Supervisory Agreement with FCA, which substantially collapsed the mentioned supervisory letters of 2009 and 2010 into the agreement, along with, certain additional findings and compliance matters. Please refer to the following sections of the Annual Report, as all these matters are fully discussed in the section of Regulatory Matters of the Management's Discussion & Analysis of Financial Condition & Results of Operations and Note 17, Subsequent Events, of the Notes to the Consolidated 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*). During this discussion PwC and the Audit Committee discussed an internal control weakness identified by management regarding collateral risk management. The Association needed to strengthen the appraisal process required to update collateral value, particularly farm values. Management has taken actions to correct the internal control weakness, and the Committee will continue to monitor the new controls established in 2011. 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.

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

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 Audit Committee:



Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Victor M. Ayala, Director
Carlos A. Rodríguez, Director
Juan A. Santiago, Director

July 11, 2011

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Puerto Rico Farm Credit, ACA

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

PricewaterhouseCoopers LLP

July 11, 2011

PricewaterhouseCoopers LLP, 401 E. Las Olas Boulevard, Suite 1800, Fort Lauderdale FL 33301
T: (954) 764-7111, F: (954) 525-4453, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2010	December 31, 2009	December 31, 2008
Assets			
Cash	$ 928	$ 162	$ 290
Loans	188,406	227,226	260,905
Less: allowance for loan losses	4,003	2,720	1,254
Net loans	184,403	224,506	259,651
Notes receivable from other Farm Credit institutions (Note 5)	10,000	10,000	10,000
Accrued interest receivable	579	864	1,244
Investments in other Farm Credit institutions	3,162	3,679	3,517
Premises and equipment, net	980	1,116	1,241
Other property owned	2,443	521	—
Due from AgFirst Farm Credit Bank	1,658	1,845	1,605
Other assets	2,036	2,261	2,286
Total assets	$ 206,189	$ 244,954	$ 279,834
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 156,743	$ 187,237	$ 219,092
Accrued interest payable	334	375	551
Patronage refund payable	—	615	2,000
Other liabilities	2,763	2,053	1,922
Total liabilities	159,840	190,280	223,565
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	679	721	779
Unallocated retained earnings	45,878	53,208	54,577
Accumulated other comprehensive income (loss)	(208)	745	913
Total members' equity	46,349	54,674	56,269
Total liabilities and members' equity	$ 206,189	$ 244,954	$ 279,834

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

Consolidated Statements of Operations

(dollars in thousands)	For the year ended December 31, 2010	2009	2008
Interest Income			
Investment securities	$ —	$ —	$ 1
Loans	7,248	8,802	13,605
Notes receivable from other Farm Credit institutions (Note 5)	900	900	240
Total interest income	8,148	9,702	13,846
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	4,252	5,157	8,326
Net interest income	3,896	4,545	5,520
Provision for loan losses	9,390	3,312	926
Net interest income after provision for loan losses	(5,494)	1,233	4,594
Noninterest Income			
Loan fees	342	352	396
Patronage rebate fees	226	233	156
Patronage refund from other Farm Credit institutions	1,768	1,845	1,605
Gains (losses) on other property owned, net	(114)	89	(50)
Insurance Fund refund	704	—	—
Other noninterest income	73	45	76
Total noninterest income	2,999	2,564	2,183
Noninterest Expense			
Salaries and employee benefits	3,388	3,212	2,600
Occupancy and equipment	251	266	285
Insurance Fund premiums	100	392	337
Other operating expenses	1,108	787	888
Total noninterest expense	4,847	4,657	4,110
Income (loss) before income taxes	(7,342)	(860)	2,667
Provision for income taxes	2	—	—
Net income (loss)	$ (7,344)	$ (860)	$ 2,667

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2007	$ 819	$ 53,880	$ 862	$ 55,561
Comprehensive income				
Net income		2,667		2,667
Employee benefit plans adjustments (Note 11)		(17)	51	34
Total comprehensive income				2,701
Capital stock/participation certificates issued/(retired), net	(40)			(40)
Patronage distribution				
Cash		(2,000)		(2,000)
Patronage distribution adjustment		47		47
Balance at December 31, 2008	779	54,577	913	56,269
Comprehensive loss				
Net loss		(860)		(860)
Employee benefit plans adjustments (Note 11)			(168)	(168)
Total comprehensive loss				(1,028)
Capital stock/participation certificates issued/(retired), net	(58)			(58)
Patronage distribution				
Cash		(615)		(615)
Patronage distribution adjustment		106		106
Balance at December 31, 2009	721	53,208	745	54,674
Comprehensive loss				
Net loss		(7,344)		(7,344)
Employee benefit plans adjustments (Note 11)			(953)	(953)
Total comprehensive loss				(8,297)
Capital stock/participation certificates issued/(retired), net	(42)			(42)
Patronage distribution adjustment		14		14
Balance at December 31, 2010	$ 679	$ 45,878	$ (208)	$ 46,349

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ (7,344)	$ (860)	$ 2,667
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	150	165	174
Amortization (accretion) of net deferred loan origination costs (fees)	87	96	134
Amortization of premiums on purchased loans	191	260	265
Provision for loan losses	9,390	3,312	926
(Gains) losses on other property owned, net	114	(89)	50
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	285	380	539
(Increase) decrease in due from AgFirst Farm Credit Bank	187	(240)	179
(Increase) decrease in other assets	225	25	(437)
Increase (decrease) in accrued interest payable	(41)	(176)	(407)
Increase (decrease) in other liabilities	(243)	(37)	(32)
Total adjustments	10,345	3,696	1,391
Net cash provided by (used in) operating activities	3,001	2,836	4,058
Cash flows from investing activities:			
Net (increase) decrease in loans	28,237	30,947	(11,287)
(Increase) decrease in notes receivable from other Farm Credit institutions	—	—	(10,000)
(Increase) decrease in investment in other Farm Credit institutions	517	(162)	(118)
Purchases of premises and equipment	(14)	(40)	(439)
Proceeds from sales of other property owned	162	98	23
Net cash provided by (used in) investing activities	28,902	30,843	(21,821)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(30,494)	(31,855)	21,166
Capital stock and participation certificates issued/(retired), net	(42)	(58)	(40)
Patronage refunds paid	(601)	(1,894)	(3,203)
Net cash provided by (used in) financing activities	(31,137)	(33,807)	17,923
Net increase (decrease) in cash	766	(128)	160
Cash, beginning of period	162	290	130
Cash, end of period	$ 928	$ 162	$ 290
Supplemental schedule of non-cash activities:			
Loans transferred to other property owned	$ 2,198	$ 530	$ —
Patronage distributions declared	—	615	2,000
Employee benefit plans adjustments (Note 11)	953	168	(34)
Supplemental information:			
Interest paid	$ 4,293	$ 5,333	$ 8,733
Taxes (refunded) paid, net	2	—	—

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:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

The Association is a lending institution of the Farm Credit System (the 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. At December 31, 2010, the District consisted of the Bank and twenty-two Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

Puerto Rico Farm Credit, ACA holds a charter for each of the two wholly-owned subsidiaries. The Association makes short- and intermediate-term loans for agricultural production or operating purposes, and collateralized long-term real estate mortgage loans, with funding from the Bank. The ACA further participates in certain participation loans acquired on a non-patronage basis to the FLCA.

The Farm Credit Administration 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 or FCSIC) 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 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 to 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 Puerto Rico Farm Credit, FLCA. 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 the Association's depository bank.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans for agricultural purposes may have maturities extending up to 20 years. Long-term real estate loans made for the purpose of rural housing may have original maturities ranging from five to 40 years. Substantially all short and intermediate term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans originated within the Association's chartered territory, Puerto Rico, are generally carried at the principal amount outstanding, net of the unamortized origination cost. The related loan origination fees and direct loan origination costs are netted and deferred and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Certain participation loans are purchased at a premium. These loans are carried at the principal amount outstanding, plus the unamortized premium. Premium is amortized on a monthly basis as an adjustment to interest income. Most of the participation loans purchased at a premium are acquired in the USDA secondary market with both the principal and the interest unconditionally guaranteed by the United States government. Interest on loans, both originated and purchased participations, is accrued and credited to interest income based upon the daily principal amount outstanding.

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 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.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured 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 either 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 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 allowance for loan losses is maintained at a level considered adequate by management to provide for probable 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.

C. **Investment in AgFirst Farm Credit Bank:** The Association is required to maintain ownership in the Bank. Such ownership investment in the Bank is in the form of Class C stock. This investment may be adjusted periodically. Accounting for this investment is on the purchased cost basis.

D. **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 of the fair value less costs 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.

E. **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.

F. **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.

G. **Employee Benefit Plans:** 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 both Plans' participants.

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. The 401(k) plan also qualifies in Puerto Rico with the Department of the Treasury (Hacienda) as an 1165(e) plan. 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 contributions are not to exceed the maximum contribution as established by Hacienda. On a monthly basis, plan administrative costs are accrued and/or expensed when incurred, depending upon the individual vendor providing services.

The Association provides 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. Refer to Note 11 for the impact of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans and for more detail on costs directly related to employee benefit plans.

H. **Income Taxes:** The Association operates as a cooperative that qualifies for federal tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the ACA can exclude from taxable income amounts distributed as qualified patronage refunds. Provisions for federal income tax will be calculated and recorded only on those earnings not distributed. The Association distributes 100 percent of patronage sourced earnings on the basis of federal taxable income.

As previously described, the ACA operates with one wholly-owned subsidiary. The FLCA is exempt from federal and other income taxes as provided in the Farm Credit Act. The ACA is subject to federal income tax. The Association accounts for income taxes under the asset and liability method.

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced

income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

For Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

I. **Patronage Refund from AgFirst:** The Association records patronage refunds from the Bank on an accrual basis.

J. **Fair Value Measurement:** Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 14.

K. **Recently Issued Accounting Pronouncements:** The Financial Accounting Standards Board (FASB) issued guidance "Accounting for Transfers of Financial Assets," which amended previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective January 1, 2010. This guidance must be applied to transfers occurring on or after the effective date. Additionally, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting guidance) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance that requires consolidation. The Association evaluated the impact of adoption on its loan participation agreements to ensure that loan participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This guidance was effective January 1, 2010. The Association does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the Association.

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 14).

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

Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31, 2010	2009	2008
Real estate mortgage	$ 113,847	$ 128,614	$ 141,716
Production and intermediate-term	30,692	41,361	52,737
Agribusiness			
Loans to cooperatives	–	42	–
Processing and marketing	15,228	26,221	32,374
Farm-related business	1,326	2,227	4,369
Total agribusiness	16,554	28,490	36,743
Communication	5,175	4,987	5,024
Energy	2,711	2,875	2,000
Rural residential real estate	19,427	20,899	22,685
Total Loans	$ 188,406	$ 227,226	$ 260,905

A substantial portion of the Association's chartered territory 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 FCA has in place regulations which limit the total amount of principal and commitment a direct lender association may make available to an individual loan relationship. The regulatory limit is 25 percent of permanent capital. In response to these regulations, the Association has adopted an administratively set limit significantly lower than the regulatory maximum limit.

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 the principal balance of participations purchased and sold at December 31, 2010:

	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	$ 2,036	$ 10,464	$ 1,230	$ –	$ 2,043	$ –	$ 5,309	$ 10,464
Production and intermediate-term	16,323	–	2,320	–	1,459	–	20,102	–
Agribusiness								
Processing and marketing	14,376	–	–	–	902	–	15,278	–
Farm-related business	170	–	–	–	1,128	–	1,298	–
Total agribusiness	14,546	–	–	–	2,030	–	16,576	–
Communication	5,188	–	–	–	–	–	5,188	–
Energy	2,719	–	–	–	–	–	2,719	–
Total	$ 40,812	$ 10,464	$ 3,550	$ –	$ 5,532	$ –	$ 49,894	$ 10,464

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

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 21,351	$ 53,205	$ 39,291	$ 113,847
Production and intermediate term	20,767	7,677	2,248	30,692
Agribusiness				
Processing and marketing	11,961	1,744	1,523	15,228
Farm-related business	192	6	1,128	1,326
Total agribusiness	12,153	1,750	2,651	16,554
Communication	5,175	–	–	5,175
Energy	2,711	–	–	2,711
Rural residential real estate	297	347	18,783	19,427
Total Loans	$ 62,454	$ 62,979	$ 62,973	$ 188,406

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	83.56%	85.85%	89.60%
OAEM	3.39	4.29	1.46
Substandard/doubtful/loss	13.05	9.86	8.94
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	66.47%	64.61%	78.38%
OAEM	19.10	11.41	–
Substandard/doubtful/loss	14.43	23.98	21.62
	100.00%	100.00%	100.00%
Agribusiness:			
Loans to cooperatives:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Processing and marketing:			
Acceptable	53.87%	70.58%	78.04%
OAEM	24.14	12.78	2.08
Substandard/doubtful/loss	21.99	16.64	19.88
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	96.82%	100.00%
OAEM	–	3.18	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	2010	2009	2008
Total agribusiness:			
Acceptable	57.56%	72.68%	80.65%
OAEM	22.21	12.01	1.83
Substandard/doubtful/loss	20.23	15.31	17.52
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	100.00%	81.19%
OAEM	–	–	18.81
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	91.29%	90.73%	92.18%
OAEM	1.64	3.54	4.21
Substandard/doubtful/loss	7.07	5.73	3.61
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	79.97%	81.32%	86.24%
OAEM	7.28	6.54	1.73
Substandard/doubtful/loss	12.75	12.14	12.03
	100.00%	100.00%	100.00%

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

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,455	$ 5,673	$ 7,128	$ 107,036	$ 114,164	$ 3
Production and intermediate-term	–	2,388	2,388	28,384	30,772	–
Agribusiness						
Processing and marketing	–	251	251	15,025	15,276	–
Farm-related business	–	–	–	1,329	1,329	–
Total agribusiness	–	251	251	16,354	16,605	–
Communication	–	–	–	5,177	5,177	–
Energy	–	–	–	2,711	2,711	–
Rural residential real estate	603	195	798	18,683	19,481	31
Total	$ 2,058	$ 8,507	$ 10,565	$ 178,345	$ 188,910	$ 34

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

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

(dollars in thousands)	December 31, 2010	2009	2008
Nonaccrual loans:			
Real estate mortgage	$ 7,179	$ 5,053	$ 5,379
Production and intermediate-term	3,706	9,978	4,056
Agribusiness			
Processing and marketing	2,736	3,674	2,788
Rural residential real estate	302	402	403
Total nonaccrual loans	$ 13,923	$ 19,107	$ 12,626
Accruing restructured loans:			
Total accruing restructured loans	$ –	$ –	$ –
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 3	$ –	$ 242
Rural residential real estate	31	–	–
Total accruing loans 90 days or more past due	$ 34	$ –	$ 242
Total nonperforming loans	$ 13,957	$ 19,107	$ 12,868
Other property owned	2,443	521	–
Total nonperforming assets	$ 16,400	$ 19,628	$ 12,868
Nonaccrual loans as a percentage of total loans	7.39%	8.41%	4.84%
Nonperforming assets as a percentage of total loans and other property owned	8.59%	8.62%	4.93%
Nonperforming assets as a percentage of total members' equity	35.38%	35.90%	22.87%

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

(dollars in thousands)	December 31, 2010	2009	2008
Impaired nonaccrual loans:			
Current as to principal and interest	$ 5,561	$ 6,534	$ 9,170
Past due	8,362	12,573	3,456
Total impaired nonaccrual loans	13,923	19,107	12,626
Impaired accrual loans:			
Restructured	–	–	–
90 days or more past due	34	–	242
Total impaired accrual loans	34	–	242
Total impaired loans	$ 13,957	$ 19,107	$ 12,868

Additional impaired loan information is as follows:

	December 31, 2010			Year Ended December 31, 2010	
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 3,361	$ 3,489	$ 540	$ 5,153	$ 87
Agribusiness					
Processing and marketing	2,407	2,604	771	3,690	62
Rural residential real estate	–	–	–	–	–
Total	$ 5,768	$ 6,093	$ 1,311	$ 8,843	$ 149
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,821	$ 6,894	$ –	$ 5,857	$ 99
Production and intermediate-term	3,706	8,900	–	5,681	96
Agribusiness					
Processing and marketing	329	3,604	–	505	9
Rural residential real estate	333	427	–	510	9
Total	$ 8,189	$ 19,825	$ –	$ 12,553	$ 213
Total impaired loans:					
Real estate mortgage	$ 7,182	$ 10,383	$ 540	$ 11,010	$ 186
Production and intermediate-term	3,706	8,900	–	5,681	96
Agribusiness					
Processing and marketing	2,736	6,208	771	4,195	71
Rural residential real estate	333	427	–	510	9
Total	$ 13,957	$ 25,918	$ 1,311	$ 21,396	$ 362

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 loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
	2010	2009	2008
Interest income which would have been recognized under the original loan terms	$ 1,309	$ 836	$ 435
Interest income compromised during collection	6	58	8
Less: interest income recognized	(356)	(468)	(107)
Foregone interest income	$ 959	$ 426	$ 336

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2009	$ 283	$ 44	$ 2,330	$ 19	$ 7	$ 37	$ 2,720
Charge-offs	(2,283)	(5,350)	(488)	–	–	–	(8,121)
Recoveries	14	–	–	–	–	–	14
Provision for loan losses	3,093	5,459	738	(2)	(1)	103	9,390
Balance at December 31, 2010	$ 1,107	$ 153	$ 2,580	$ 17	$ 6	$ 140	$ 4,003
2010 allowance ending balance:							
Individually evaluated for impairment	$ 540	$ –	$ 771	$ –	$ –	$ –	$ 1,311
Collectively evaluated for impairment	$ 567	$ 153	$ 1,809	$ 17	$ 6	$ 140	$ 2,692
Recorded investment in loans outstanding:							
Ending Balance at December 31, 2010	$ 114,164	$ 30,772	$ 16,605	$ 5,177	$ 2,711	$ 19,481	$ 188,910
2010 recorded investment ending balance:							
Loans individually evaluated for impairment	$ 6,596	$ 4,947	$ 1,318	$ –	$ –	$ 31	$ 12,892
Loans collectively evaluated for impairment	$ 107,568	$ 25,825	$ 15,287	$ 5,177	$ 2,711	$ 19,450	$ 176,018

Note 4 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in AgFirst Farm Credit Bank of Class C stock. The Bank may require additional capital contributions to maintain its capital requirements.

At December 31, 2010, the Association's investment in the Bank was composed of purchased Class C stock and totaled $3,162. At December 31, 2009 and 2008, the Association's investment in the Bank was also composed of purchased Class C stock and totaled $3,679 and $3,517, respectively. In 2010, the Association received a refund of excess stock totaling $517. In 2009 and 2008, the Association purchased additional stock which totaled $162 and $118, respectively, as part of the Bank's annual capital equalization program.

Note 5 — Notes Receivable from Other Farm Credit Institutions

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018. The notes receivable are subordinate to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the issuing associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations. As of the end of 2010, one of the two associations' credit portfolio is considered by

management to maintain higher risk than average and than when the debt was purchased. If this note receivable were an eligible loan, it would be a criticized loan impacting the Association's liquidity and ability to fund loan growth. Management expects to collect all interest and principal as contracted. It will also continue to inform the Board of Directors on the financial performance of the Associations on a quarterly basis.

The notes receivable bear interest at an annual fixed rate of 9.00 percent, 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, any applicable minimum regulatory capital ratios are not satisfied by the issuing association(s). A deferral period may not last for more than five consecutive years or beyond the maturity date of the note(s). During such a period, the issuing association(s) 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 note(s) may be redeemed, at the issuing association's(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 issuing association(s) have made payment in full of all amounts then due in respect of their senior indebtedness.

Note 6 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2010	2009	2008
Land and improvements	$ 106	$ 106	$ 106
Buildings and improvements	1,427	1,427	1,458
Furniture and equipment	1,086	1,214	1,282
	2,619	2,747	2,846
Less: accumulated depreciation	1,639	1,631	1,605
Total	$ 980	$ 1,116	$ 1,241

Note 7 — Other Property Owned

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

	December 31, 2010	2009	2008
Gains (losses) on sale, net	$ –	$ –	$ (50)
Carrying value unrealized gains (losses)	(112)	89	–
Operating income (expense), net	(2)	–	–
Gains (losses) onother property owned, net	$ (114)	$ 89	$ (50)

Note 8 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. During 2010 the Association operated under a special credit arrangement pursuant to its GFA and failed to meet its earnings covenant at December 31, 2010. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank has approved a temporary waiver of the default and has allowed the Association to continue to operate under a special credit arrangement pursuant to its GFA. It is expected that the Association will continue to operate under a Special Credit Agreement through August 31, 2011.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.57 percent for LIBOR-based loans, 1.95 percent for Prime-based loans, and the weighted average remaining maturities were 2.1 years and 7.5 years, respectively, at December 31, 2010. The weighted average interest rate on the fixed rate notes payable which are match funded by the Bank was 2.92 percent and the weighted average remaining maturity was 4.6 years at December 31, 2010. The weighted average interest rate on all interest-bearing notes payable was 2.19 percent and the weighted average remaining maturity was 6.1 years at December 31, 2010.

Variable rate and fixed rate notes payable represent approximately 58.52 percent and 41.48 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 and formulas relating primarily to credit quality and financial condition.

Note 9 — Members' Equity

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

A. **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 Class C 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 2.0 percent or $1, whichever is less. 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 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2010, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

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 is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

B. **Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of risk adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements.

The Association is prohibited from reducing permanent capital by retiring equity or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk adjusted assets of 7.00 percent and core surplus as a percentage of risk adjusted assets of 3.50 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2010 were 20.84 percent, 20.49 percent and 20.49 percent, respectively.

A 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.

C. **Description of Equities**

The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Class 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 classes of 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:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	86,058	$ 430
C Participation Certificates/Nonvoting	No	49,685	249
Total Capital Stock and Participation Certificates		135,743	$ 679

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

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account 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.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. For 2010, 2009 and 2008, by adoption of resolutions in December 2009, 2008 and 2007, the Board obligated the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. For all three years, the patronage distributions were authorized to be paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The Board of Directors reserves the right to change the basis for the payment of patronage dividends in future years.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association,

allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution. The Board determined that 100 percent of the 2009 and the 2008 patronage dividend would be paid in cash by check. There was no patronage dividend accrued in 2010, as the Association had no taxable income to distribute.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

1. Classes A and C Common Stock and Class C Participation Certificates
2. Class 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 would be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Class D Preferred Stock
2. Classes A and C Common Stock and Participation Certificates

D. **Accumulated Other Comprehensive Income (Loss)**

The Association reports accumulated other comprehensive income (loss) in its Consolidated Statement of Changes in Members' Equity. At December 31, 2010, 2009 and 2008 the balances recognized were $(208), $745 and $913, respectively. The balances at year end were due to FASB guidance on employers' accounting for other postretirement plans. Refer to Note 11 for additional information.

Note 10 — Income Taxes

For 2010, the Association recognized $2 provision for federal income tax, as not all eligible 2009 patronage sourced income was distributed. As of December 31, 2009 and 2008, the Association recorded no provision or benefit for federal income taxes.

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	$ (2,496)	$ (292)	$ 907
Patronage distributions	–	(209)	(603)
Tax-exempt FLCA earnings (losses)	118	498	(472)
Other	2,380	3	168
Provision (benefit) for income taxes	$ 2	$ –	$ –

As discussed in Note 2(H) Income Taxes, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets.

There were no potential 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 Puerto Rico income tax jurisdictions are 2007 and forward.

Note 11 — Employee Benefit Plans

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

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 $807 for 2010, $958 for 2009, and $500 for 2008, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were $1,079 for 2010, $1,036 for 2009, and $159 for 2008. Additional financial information for the Plans may be found in the District's Annual Report.

The Association participates in a defined contribution Districtwide 401(k) plan. 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 contributions are not to exceed the maximum contribution limit as established by Hacienda. Employer contributions to this plan were $49, $55, and $55 for the years ended December 31, 2010, 2009 and 2008, respectively.

Total retirement benefits expenses of $1,128, $1,091, and $214 for the years ended December 31, 2010, 2009 and 2008, respectively, were included as part of salaries and benefits expense.

The Association also sponsors a fully insured plan providing certain benefits (primarily health and dental care) for its active and retired employees. The measurement date for the plan prior to 2008 was September 30. As required by FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," (see below) the plan measurement date for 2008 was December 31. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits expense were $90 for 2010, $61 for 2009 and $68 for 2008.

Effective January 1, 2008, the Association moved its eligible retiree and long-term disabled participants into a Medicare Advantage Plan, rather than electing to apply for a direct reimbursement of prescription drug claims through Medicare Part D.

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 other postretirement benefit plans. The Standard provided two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allowed for the use of the measurements determined for the prior year end. Under this alternative, 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) was reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings by $17.

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 accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs over time. For 2010, 2009 and 2008, $(953), $(168) and $51 were recognized as net debits and a net credit, respectively, to AOCI to reflect these elements.

The funding status and the amounts recognized in the Consolidated Balance Sheets of the Association for other postretirement benefit plans follows:

	Other Postretirement Benefits		
	2010	**2009**	**2008**
Change in benefit obligation			
Benefit obligation at beginning of year	$ 1,280	$ 1,131	$ 1,199
Service cost	19	19	23
Interest cost	74	69	93
Plan participants' contributions	21	19	26
Plan amendments	–	–	–
Actuarial loss (gain)	950	142	(82)
Benefits paid	(125)	(100)	(128)
Benefit obligation at end of year	$ 2,219	$ 1,280	$ 1,131
Change in plan assets			
Fair value of plan assets, beginning of year	$ –	$ –	$ –
Employer contributions	104	81	102
Plan participants' contributions	21	19	26
Benefits paid	(125)	(100)	(128)
Fair value of plan assets, end of year	$ –	$ –	$ –
Funded Status	$ (2,219)	$ (1,280)	$ (1,131)
Amounts recognized in the balance sheet consist of:			
Other postretirement benefit assets	$ –	–	–
Other postretirement benefit liabilities (included in other liabilities)	(2,219)	(1,280)	(1,131)
Net amount recognized	$ (2,219)	(1,280)	(1,131)

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Other Postretirement Benefits		
	2010	**2009**	**2008**
Net actuarial loss (gain)	$ (25)	$ (1,061)	$ (1,313)
Prior service costs (credit)	142	192	242
Net transition obligation (asset)	91	124	158
Total amount recognized in AOCI	$ 208	$ (745)	$ (913)

Components of net periodic benefit cost and other amounts for all other postretirement benefits plans recognized in the Association's other comprehensive income as of December 31 are as follows:

	Other Postretirement Benefits		
	2010	**2009**	**2008**
Service cost	$ 19	$ 19	$ 18
Interest cost	73	69	75
Amortization of prior service cost	50	50	50
Amortization of transition obligation (asset)	34	33	33
Amortization of net (gain)loss	(86)	(110)	(108)
Net periodic benefit cost	$ 90	$ 61	$ 68
Adjustment to retained earnings for 2008 due to change in measurement date	$ –	$ –	$ 17
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ 951	$ 142	$ (82)
Amortization of prior service cost	(50)	(34)	(62)
Amortization of transition obligation (asset)	(34)	(50)	(42)
Amortization of net actuarial loss (gain)	86	110	135
Total recognized in OCI	953	168	(51)
Total recognized in expense and OCI	$ 1,043	$ 229	$ 34

Accreted into net income during 2011 will be $84 of actuarial income related to other postretirement benefits; specifically, $34 of net transition obligation (asset) and $50 of prior service costs.

Weighted average assumptions used to determine benefit obligations at December 31, 2010, 2009, and 2008 are as follows:

	Other Postretirement Benefits		
	2010	2009	2008
Discount rate	5.60%	6.00%	6.25%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2010	2009	2008
Discount rate	6.00%	6.25%	6.45%

For measurement purposes, annual rates of increase of 6.75 percent through 7.50 percent in the per capita cost of covered health benefits were assumed for 2010. The rates were assumed to step down to 5.00 percent in 2021 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage point change in the assumed healthcare cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total service cost and interest cost components	$ 14	$ (11)
Effect on year-end post-retirement benefit obligation	$ 340	$ (277)

Contributions

The Association expects to contribute $106 to its other postretirement plan in 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Postretirement Benefits
2011	106
2012	113
2013	120
2014	127
2015	129
Years 2016 — 2020	673

Note 12 — Related Party Transactions

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

Total loans to such persons at December 31, 2010 amounted to $3,236. During 2010, $390 of new loans and advances were made and repayments totaled $727. Generally, these loans do not involve more than a normal risk of collectability. However, a long-term mortgage loan totaling $1,598 at December 31, 2010 to one of the Association's directors, Juan Santiago, was classified as OAEM due to more than a normal risk of collectabililty as determined by the Association. This classification was the result of declining debt repayment capacity. The loan is current and adequately secured. The largest outstanding balance on this loan during 2010 was $1,792 and the balance outstanding at May 31, 2011, was $1,508.

Note 13 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and commercial letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, $29,880 of commitments to extend credit on existing loans, $3,592 of commitments on loans not yet closed and no commercial letters of credit were outstanding.

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 $1,295 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 $1,295.

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 $31 and was included in other liabilities.

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.

During 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). At December 31, 2010 there was an outstanding commitment of $40 to make additional equity purchases in the RBIC.

Actions are pending against the Association in which claims for monetary damages are asserted. Upon the basis of current information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

Note 14 — Fair Value Measurement

As described in Note 2, effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of 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 had no Level 1 assets or liabilities at December 31, 2010.

Level 2

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

Level 3

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

Level 3 assets at December 31, 2010 included impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value considered the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned was 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 included standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 31	$ 31
Total Liabilities	$ –	$ –	$ 31	$ 31

December 31, 2009	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 40	$ 40
Total Liabilities	$ –	$ –	$ 40	$ 40

December 31, 2008	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ –	$ –	$ 45	$ 45
Total Liabilities	$ –	$ –	$ 45	$ 45

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	$ 40
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(9)
Transfers in and/or out of level 3	–
Balance at December 31, 2010	$ 31

	Standby Letters Of Credit
Balance at January 1, 2009	$ 45
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(5)
Transfers in and/or out of level 3	–
Balance at December 31, 2009	$ 40

	Standby Letters Of Credit
Balance at January 1, 2008	$ 40
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	5
Transfers in and/or out of level 3	–
Balance at December 31, 2008	$ 45

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

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

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 4,457	$ 4,457	$ (8,003)
Other property owned	$ –	$ –	$ 2,020	$ 2,020	$ (112)

December 31, 2009	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 2,614	$ 2,614	$ (2,319)
Other property owned	$ –	$ –	$ 600	$ 600	$ 89

December 31, 2008	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 2,247	$ 2,247	$ (944)

Note 15 — Disclosures About Fair Value Of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2010, 2009, and 2008.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments,

and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 928	$ 928	$ 162	$ 162
Loans, net of allowance	$ 184,907	$ 175,775	$ 225,295	$ 224,989
Notes receivable from other Farm Credit Institutions	$ 10,075	$ 10,939	$ 10,075	$ 10,617
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 157,077	$ 156,213	$ 187,612	$ 187,910

	December 31, 2008	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 290	$ 290
Loans, net of allowance	$ 260,820	$ 260,658
Notes receivable from other Farm Credit Institutions	$ 10,075	$ 10,716
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 219,643	$ 219,954

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 in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 4, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 0.87 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.

D. **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.

E. **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.

F. **Notes Receivable from Other Farm Credit Institutions:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

Note 16 — Quarterly Financial Information (Unaudited)

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

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,054	$ 1,004	$ 990	$ 848	$ 3,896
Provision for (reversal of allowance for) loan losses	(213)	(20)	430	9,193	9,390
Noninterest income (expense), net	(56)	(848)	(438)	(508)	(1,850)
Net income (loss)	$ 1,211	$ 176	$ 122	$ (8,853)	$ (7,344)

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,144	$ 1,035	$ 1,009	$ 1,357	$ 4,545
Provision for (reversal of allowance for) loan losses	584	1,501	969	258	3,312
Noninterest income (expense), net	(554)	(624)	(522)	(393)	(2,093)
Net income (loss)	$ 6	$ (1,090)	$ (482)	$ 706	$ (860)

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,529	$ 1,322	$ 1,273	$ 1,396	$ 5,520
Provision for (reversal of allowance for) loan losses	–	–	524	402	926
Noninterest income (expense), net	(573)	(525)	(437)	(392)	(1,927)
Net income (loss)	$ 956	$ 797	$ 312	$ 602	$ 2,667

Note 17 – Subsequent Events

The Association has evaluated subsequent events through July 11, 2011, which is the date the financial statements were issued, and has determined that the following event requires disclosure.

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Association to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, perceived weaknesses in board governance, certain internal controls and, reduced earnings and liquidity. The Association has met milestones in compliance with the agreement to correct weaknesses in its board governance and operation, fiduciary duties, nominating committee procedures, development of the business plan, management development, allowance for loan losses and collateral risk management, however, all required measures have not been achieved or completed as of the date of this report.

The Board is addressing the requirements of the SA dated March 17, 2011 as reflected by improved board governance and operation, adoption of a revised and improved collateral risk management policy and procedure, amongst other initiatives. The Board will also continue engaging a board consultant to provide advice to the Board in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement.