



Mississippi Land Bank, ACA
2010 Annual Report
December 31, 2010



Part of the Farm Credit System

Table of Contents

Report of Management	2
Report of Audit Committee	3
Five-Year Summary of Selected Consolidated Financial Data	4
Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	6
Report of Independent Auditors	12
Consolidated Financial Statements.....	13
Notes to Consolidated Financial Statements.....	17
Disclosure Information and Index	37

REPORT OF MANAGEMENT

The consolidated financial statements of Mississippi Land Bank, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

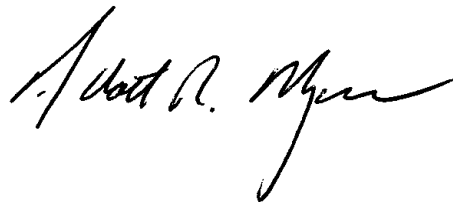
The board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that this annual report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge or belief.



Gary L. Gaines, Chief Executive Officer

March 3, 2011



Abbott R. Myers, Chairman, Board of Directors

March 3, 2011



J. Matthew Walden, Chief Financial Officer

March 3, 2011

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Lawson McClellan, Jan Hill, Abbott Myers and Alan Blaine. In 2010, five Committee meetings were held. The Committee oversees the scope of Mississippi Land Bank, ACA's (Association) system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the Association's website. The Committee approved the appointment of PricewaterhouseCoopers LLP for 2010.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the Committee. PricewaterhouseCoopers LLP is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing the processes.

In this context, the Committee reviewed and discussed the Association's consolidated audited financial statements for the year ended December 31, 2010 (audited financial statements), with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed under authoritative guidance, "The Auditor's Communication with Those Charged with Governance," and both PricewaterhouseCoopers LLP's and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PricewaterhouseCoopers LLP its independence from the Association. The Committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in the Association's Annual Report to Stockholders for the year ended December 31, 2010.

Lawson McClellan
Jan Hill
Abbott Myers
Alan Blaine

Audit Committee Members

March 3, 2011

MISSISSIPPI LAND BANK, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(dollars in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 54	\$ 1,097	\$ 1,847	\$ 1,513	\$ 2,709
Loans	457,375	422,706	409,681	355,615	319,846
Less: allowance for loan losses	701	2,243	383	338	123
Net loans	456,674	420,463	409,298	355,277	319,723
Investment in and receivable from the Bank	8,279	7,304	6,606	5,650	5,181
Other property owned, net	982	371	99	-	-
Other assets	12,343	13,222	12,782	10,839	9,424
Total assets	<u>\$ 478,332</u>	<u>\$ 442,457</u>	<u>\$ 430,632</u>	<u>\$ 373,279</u>	<u>\$ 337,037</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 5,013	\$ 2,728	\$ 5,562	\$ 4,851	\$ 5,994
Obligations with maturities greater than one year	400,778	373,574	360,942	307,582	269,534
Total liabilities	405,791	376,302	366,504	312,433	275,528
<u>Members' Equity</u>					
Capital stock and participation certificates	2,546	2,356	2,305	2,145	1,988
Unallocated retained earnings	69,993	63,622	61,614	58,401	59,521
Accumulated other comprehensive income (loss)	2	177	209	300	-
Total members' equity	72,541	66,155	64,128	60,846	61,509
Total liabilities and members' equity	<u>\$ 478,332</u>	<u>\$ 442,457</u>	<u>\$ 430,632</u>	<u>\$ 373,279</u>	<u>\$ 337,037</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 11,811	\$ 10,146	\$ 9,768	\$ 9,353	\$ 8,989
(Provision for loan losses) or loan loss reversal	552	(2,504)	(45)	(5,029)	25
Income from the Bank	2,129	1,753	1,326	1,138	1,070
Other noninterest income	827	844	1,267	950	769
Noninterest expense	(7,371)	(8,231)	(7,866)	(5,923)	(5,177)
Net income (loss)	<u>\$ 7,948</u>	<u>\$ 2,008</u>	<u>\$ 4,450</u>	<u>\$ 489</u>	<u>\$ 5,676</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	1.8%	0.5%	1.1%	0.1%	1.8%
Return on average members' equity	11.4%	3.1%	7.0%	0.8%	9.5%
Net interest income as a percentage of average earning assets	2.7%	2.4%	2.5%	2.8%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	0.2%	0.2%	0.0%	1.4%	0.0%

MISSISSIPPI LAND BANK, ACA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
(dollars in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	15.2%	15.0%	14.9%	16.3%	18.3%
Debt as a percentage of members' equity	559.4%	568.8%	571.5%	513.5%	447.9%
Allowance for loan losses as a percentage of loans	0.2%	0.5%	0.1%	0.1%	0.0%
Permanent capital ratio	14.1%	13.3%	14.2%	15.5%	17.2%
Core surplus ratio	13.6%	12.8%	13.6%	14.9%	16.7%
Total surplus ratio	13.6%	12.8%	13.6%	14.9%	16.7%
<u>Net Income Distribution</u>					
Cash dividends paid	\$ -	\$ -	\$ 296	\$ -	\$ -
Special capital distribution	-	-	825	-	-
Patronage refunds:					
Cash	-	1,227	489	1,418	666

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Mississippi Land Bank, ACA, including its wholly-owned subsidiaries Mississippi, PCA and Mississippi Land Bank, FLCA (collectively called the Association), for the years ended December 31, 2010, 2009 and 2008, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying consolidated financial statements were prepared under the oversight of the Association's Audit Committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In December 2010 the Association received a direct loan patronage of \$1,898,068 from the Bank, representing 50 basis points on the average daily balance of the Association's direct loan with the Bank. During 2010, the Association received \$225,529 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a participations patronage of \$40,102 from the Bank, representing 65 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In September 2010 the Association moved one participation loan to acquired property. As a result of the transaction, the Association recorded a charge-off of \$626,481 and a reversal of provision for loan losses of \$754,263.

As discussed in the legal proceedings section below, on June 4, 2010, the Association recorded its share of a recovery from the sale of the final tract of land. The Association's share of the recovery was \$525,293 and was the result of the sale of collateral.

On April 30, 2010, the Association received its share of insurance premium refund from the Farm Credit System Insurance Corporation. The Association's share of the refund was \$439,109.

On January 4, 2010, pursuant to a restructuring plan approved by the Farm Credit Administration (FCA) and the Association's shareholders, the Association reorganized to form an Agricultural Credit Association (ACA). Pursuant to the restructuring plan, a Production Credit Association (PCA) was formed, Mississippi, PCA (PCA), which, together with Mississippi Land Bank, FLCA (FLCA) became wholly-owned subsidiaries of the Association. The formation of the ACA and creation of the PCA enables the Association to make short- and intermediate-term loans for agricultural production or operating purposes through the PCA, while maintaining the tax-exempt status of long-term mortgage interest for loans generated by the FLCA.

For over 20 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Legal Proceedings:

It has previously been reported that a large credit to one borrower was made through the Capital Markets of the South (CMS) joint venture and was participated to several other associations. The credit subsequently was discovered to be fraudulent and resulted in significant charge-offs. In 2007, the lead lender initiated legal proceedings to pursue collection of the loan balance and defend against counterclaims of the borrower. In 2009, a court judgment was rendered in the lead lender's favor in the amount of \$124,647,710. The judgment was affirmed on appeal and is now final. Additionally, all counterclaims against the lead lender have been dismissed, and there are no actions remaining, or any that can be commenced, related to the judgment. On June 3, 2010, the Association recorded its share of a recovery from the sale of the final tract of land. The Association's share of the recovery was \$525,293 and was the result of the sale of collateral. The Association currently holds one remaining commercial property, valued at \$99,077, related to this participation loan.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-based interest rates. Loan maturities range from one to 30 years, with short-term loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of \$457,375,250, \$422,705,982 and \$409,681,482 as of December 31, 2010, 2009 and 2008, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

As discussed in "Legal Proceedings" above, in 2005, 12 associations in the District, along with two other Farm Credit associations, participated in a loan to one borrower with the original funded balance of \$68.5 million. The Association owned approximately 5.56 percent of the loan. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant under-collateralized position and a credit default. The lead lending association pursued collection efforts and in the third quarter of 2007 liquidated part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, in the second half of 2007 the Association, along with the four other CMS member associations, repurchased, on a pro rata basis, the portions of the loan held by all other non-CMS participants. As part of the loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan. In 2008, collection efforts continued, resulting in legal judgments against the borrowers and allowing the lead lender to foreclose on portions of the real estate collateral, with sales proceeds being applied against the outstanding balance of the loan. On October 10, 2008, the foreclosed property was sold to a third party for \$7,001,000. The sale was consummated by the middle of November 2008, and the lead lender received \$6,971,336. Later, on June 3, 2010, the Association recorded its share of a recovery from the sale of the second and final tract of land. In addition, the borrowers surrendered various other real and personal properties, which have been liquidated and applied against the loan balance. The Association currently holds one remaining commercial property, valued at \$99,077, related to this participation loan.

During 2007 net charge-offs of \$28.9 million were recognized on the loan; the Association's portion of the 2007 charge-offs was \$4.8 million. No further charge-offs or allowance reserves were required to be recognized in 2008. As of December 31, 2010, the book balance and specific reserves on this loan were zero. For more information on impaired loans and the allowance for loan losses, see Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

Purchase and Sales of Loans:

During 2010, 2009 and 2008, the Association was participating in loans with other lenders. As of December 31, 2010, 2009 and 2008, these participations totaled \$15,886,882, \$23,336,359 and \$28,041,082, or 3.5 percent, 5.5 percent and 6.8 percent of loans, respectively. All of these loans are participations purchased from entities within the Tenth District. The Association has also sold participations of \$8,162,385, \$8,373,807 and \$8,759,330 as of December 31, 2010, 2009 and 2008, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 4,870,858	79.8%	\$ 5,532,054	92.1%	\$ 1,246,585	79.8%
90 days past due and still accruing interest	253,753	4.1%	104,503	1.7%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	217,549	13.9%
Other property owned, net	982,318	16.1%	370,782	6.2%	99,076	6.3%
Total	\$ 6,106,929	100.0%	\$ 6,007,339	100.0%	\$ 1,563,210	100.0%

At December 31, 2010, 2009 and 2008, loans that were considered impaired were \$5,124,611, \$5,636,557 and \$1,464,134, representing 1.1 percent, 1.3 percent and 0.4 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of or for the year ended, December 31:

	2010	2009	2008
Allowance for loan losses	\$ 701,332	\$ 2,242,753	\$ 382,665
Allowance for loan losses to total loans	0.2%	0.5%	0.1%
Allowance for loan losses to nonaccrual loans	14.4%	40.5%	30.7%
Allowance for loan losses to impaired loans	13.7%	39.8%	26.1%
Net charge-offs to average loans	0.2%	0.2%	0.0%

Each quarter the Association employs a rigorous allowance evaluation model consisting of four facets, each related to the allowance for loan losses, in order to determine an appropriate level of allowance to carry on the Association's balance sheet. The first facet is a general allowance calculation based upon the risk rating of each individual loan in the Association's portfolio. The second is a specific allowance calculation derived from calculations, analyses and communications among the branch vice presidents, chief credit officer, chief financial officer and chief executive officer. The third facet is based upon the results of the quarterly stress test model performed by the branch vice presidents, chief credit officer, chief financial officer and chief executive officer. The fourth facet is a general economy and commodity evaluation in which the chief credit officer, chief financial officer and chief executive officer evaluate the current market for each commodity, as well as general economic factors such as unemployment. Management also evaluates the Association's historical losses and the relationship of these losses to the current level of allowance. The final results are evaluated for reasonableness by the Association's Asset-Liability Committee. The decrease in the allowance in 2010 over 2009 is primarily the result of charge-offs related to two participation loans. The increased allowance in 2009 over 2008 is a result of impairments of two participation loans.

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$701,332, \$2,242,753 and \$382,665 at December 31, 2010, 2009 and 2008, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations:

The Association's net income for the year ended December 31, 2010, was \$7,948,365 as compared to \$2,008,074 for the year ended December 31, 2009, reflecting an increase of \$5,940,291, or 295.8 percent. The Association's net income for the year ended December 31, 2008 was \$4,449,659. Net income decreased \$2,441,585, or 54.9 percent, in 2009 versus 2008.

Net interest income for 2010, 2009 and 2008 was \$11,810,532, \$10,145,706 and \$9,768,474, reflecting increases of \$1,664,826, or 16.4 percent, for 2010 versus 2009 and \$377,232, or 3.9 percent, for 2009 versus 2008. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2010		2009		2008	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 433,792,241	\$ 23,621,372	\$414,672,720	\$ 24,095,471	\$384,322,954	\$ 25,566,728
Interest-bearing liabilities	379,631,738	11,810,840	366,070,713	13,949,765	334,582,873	15,798,254
Impact of capital	\$ 54,160,503		\$ 48,602,007		\$ 49,740,081	
Net interest income		\$ 11,810,532		\$ 10,145,706		\$ 9,768,474
	Average Yield		Average Yield		Average Yield	
Total yield on loans	5.45%		5.81%		6.65%	
Cost of interest-bearing liabilities	3.11%		3.81%		4.72%	
Interest rate spread	2.34%		2.00%		1.93%	

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 1,110,978	\$ (1,585,077)	\$ (474,099)	\$ 2,018,988	\$ (3,490,245)	\$ (1,471,257)
Interest expense	516,770	(2,655,695)	(2,138,925)	1,486,793	(3,335,282)	(1,848,489)
Net interest income	\$ 594,208	\$ 1,070,618	\$ 1,664,826	\$ 532,195	\$ (154,963)	\$ 377,232

Interest income decreased by \$474,099, or 2.0 percent, compared to 2009, primarily due to lower interest rates, partially offset by increased loan volume. Interest expense for 2010 decreased by \$2,138,925, or 15.3 percent, compared to 2009 due to significant decreases in the Association's cost of funds, partially offset by increases in the Association's direct note. The interest rate spread increased by 34 basis points to 2.34 percent in 2010 from 2.00 percent in 2009, primarily due to a large number of conversions during the year. The interest rate spread increased by 7 basis points to 2.00 percent in 2009 from 1.93 percent in 2008, primarily because of conversions to lower interest rates, as well as lower cost of funds.

Noninterest income for 2010 increased by \$366,334, or 14.1 percent, compared to 2009, due primarily to an increase of \$376,227 in patronage income from the Bank, a gain of \$150,975 on the sale of property owned and \$439,109 in refunds from the System captive insurance fund. These increases were partially offset by a decrease of \$511,133 in loan fees, primarily due to the adoption of authoritative guidance related to the capitalization of loan origination fees and costs, which is discussed below in further detail. Noninterest income for 2009 increased by \$3,695, or 0.1 percent, compared to 2008, due primarily to a 10-basis-point increase in the direct note patronage received from the Bank, partially offset by a decrease of \$504,054 of loan fees due to significantly lower loan growth.

The \$439,109 refund distributions are from the Farm Credit System Insurance Corporation (FCSIC) reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System Banks. See Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Overall expenses for 2010, 2009 and 2008 were \$7,252,817, \$8,224,984 and \$7,866,831. The increase in 2010 compared to 2009 was primarily due to a decrease of \$514,098 in FCSIC insurance fund premiums and a decrease of \$763,912 in salaries and benefits due to authoritative accounting guidance related to the capitalization of loan origination fees and costs, which was implemented during 2010 and is discussed in more detail below. The \$514,098 decrease in premiums to the Insurance Fund was the result of a decrease in the premium rates from 20 basis points in 2009 to 5 basis points in 2010.

In 2010 the Association implemented authoritative accounting guidance requiring that fee income and direct costs related to the successful origination of loans be capitalized and amortized over the life of the loans as an adjustment to yield. Examples of the types of fee income required to be capitalized are loan origination fees and loan processing fees. Direct costs requiring capitalization consist primarily of salaries and benefits related to the origination of loans. See Note 2, “Summary of Significant Accounting Policies,” included in this annual report. The following table reflects the impact of the implementation of this guidance during 2010:

	2010	2009	2008
Fee income capitalized	\$ (613,246)	\$ -	\$ -
Direct costs capitalized	763,912	-	-
Increase in net income	<u>\$ 150,666</u>	<u>\$ -</u>	<u>\$ -</u>
Annual amortization of deferred costs	\$ 5,996	\$ -	\$ -

Allowance for loan losses decreased by \$1,541,421 or 68.7 percent, compared to 2009, due primarily to reversals of \$2,337,908 related to loans charged off during the year, partially offset by \$616,754 of recoveries during the year and a net \$179,733 of additional allowances added during the year.

For the year ended December 31, 2010, the Association’s return on average assets was 1.8 percent, as compared to 0.5 percent and 1.1 percent for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2010, the Association’s return on average members’ equity was 11.4 percent, as compared to 3.1 percent and 7.1 percent for the years ended December 31, 2009 and 2008, respectively. The primary reason for the increase from 2009 to 2010 and the decrease from 2008 to 2009 was due to significant additional provisions for loan losses on ethanol participations taken in 2009. Other reasons for the increase from 2009 to 2010 were insurance refunds received in 2010, an increase in patronage income received from the Bank and an increase in net interest income as a result of higher spreads on loans.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar effect on the operations of the Association.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association’s loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$397,694,702, \$372,505,676 and \$359,552,371 as of December 31, 2010, 2009 and 2008, respectively, is recorded as a liability on the Association’s balance sheet. The note carried a weighted average interest rate of 2.68 percent, 3.38 percent and 4.42 percent at December 31, 2010, 2009 and 2008, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association’s assets to the Bank and is governed by a financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2009, is due to loan growth in 2010. The Association’s own funds, which represent the amount of the Association’s loan portfolio funded by the Association’s equity, were \$57,331,830, \$50,200,306 and \$50,036,656 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was \$460,936,314 as defined by the general financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2011. As borrower payments are received, they are applied to the Association’s note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$72,540,733, \$66,154,964 and \$64,128,233 at December 31, 2010, 2009 and 2008, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA.

The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 14.1 percent, 13.3 percent and 14.2 percent, respectively.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2010, 2009 and 2008 was 13.6 percent, 12.8 percent and 13.6 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2010, 2009 and 2008 was 13.6 percent, 12.8 percent and 13.6 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The Association did not pay a patronage distribution in 2010. In 2009 the Association paid a patronage distribution of \$1,227,000, and in 2008 the Association paid patronage, dividend and special distributions of \$489,465, \$296,154 and \$824,633, respectively. In December 2010 the board of directors approved a \$1,578,000 patronage distribution to be paid in February 2011. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship with the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank allocates District expenses to the associations, such as the FCSIC insurance premiums.

Summary:

Over the past 20 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

Report of Independent Auditors

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

PricewaterhouseCoopers LLP

March 3, 2011

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2010	2009	2008
<u>Assets</u>			
Cash	\$ 54,073	\$ 1,097,183	\$ 1,847,311
Loans	457,375,250	422,705,982	409,681,482
Less: allowance for loan losses	701,332	2,242,753	382,665
Net loans	456,673,918	420,463,229	409,298,817
Accrued interest receivable	8,670,976	9,429,830	9,118,066
Investment in and receivable from the Bank:			
Capital stock	7,558,095	7,298,520	6,600,020
Other	720,785	5,864	6,069
Other property owned, net	982,318	370,782	99,076
Premises and equipment	3,422,254	3,595,669	3,460,792
Other assets	249,567	196,217	201,661
Total assets	\$ 478,331,986	\$ 442,457,294	\$ 430,631,812
<u>Liabilities</u>			
Note payable to the Bank	\$ 397,694,702	\$ 372,505,676	\$ 359,552,371
Guaranteed obligations to government entities	2,156,009	-	-
Accrued interest payable	923,452	1,068,305	1,389,256
Drafts outstanding	780,035	442,143	1,572,136
Patronage distributions payable	1,578,000	-	1,227,000
Other liabilities	2,659,055	2,286,206	2,762,816
Total liabilities	405,791,253	376,302,330	366,503,579
<u>Members' Equity</u>			
Capital stock and participation certificates	2,546,170	2,355,990	2,304,985
Unallocated retained earnings	69,992,480	63,622,115	61,614,041
Accumulated other comprehensive income	2,083	176,859	209,207
Total members' equity	72,540,733	66,154,964	64,128,233
Total liabilities and members' equity	\$ 478,331,986	\$ 442,457,294	\$ 430,631,812

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2010	2009	2008
<u>Interest Income</u>			
Loans	\$ 23,621,372	\$ 24,095,471	\$ 25,566,728
Total interest income	23,621,372	24,095,471	25,566,728
<u>Interest Expense</u>			
Note payable to the Bank	11,810,840	13,949,765	15,798,254
Net interest income	11,810,532	10,145,706	9,768,474
<u>Provision for Losses</u>			
Provision for loan losses	(551,804)	2,503,745	44,886
Provision for acquired property losses	120,000	5,500	-
Net interest income after provision for losses	12,242,336	7,636,461	9,723,588
<u>Noninterest Income</u>			
Income from the Bank:			
Patronage income	2,129,246	1,753,019	1,326,235
Loan fees	193,102	704,235	1,208,289
Refunds from Farm Credit System Insurance Corporation	439,109	-	-
Financially related services income	4,488	4,610	5,532
Gain on other property owned, net	150,975	-	-
(Loss) gain on sale of premises and equipment, net	(674)	7,187	13,311
Other noninterest income	46,685	127,546	39,535
Total noninterest income	2,962,931	2,596,597	2,592,902
<u>Noninterest Expenses</u>			
Salaries and employee benefits	4,871,771	5,145,720	4,817,154
Directors' expense	93,691	120,106	101,092
Purchased services	541,091	755,076	882,621
Travel	290,112	347,700	374,195
Occupancy and equipment	338,183	296,832	244,416
Communications	76,593	83,626	62,953
Advertising	270,635	251,161	258,052
Public and member relations	124,105	118,666	127,277
Supervisory and exam expense	157,683	140,409	144,980
Insurance Fund premiums	185,170	699,268	600,786
Other noninterest expense	303,783	266,420	253,305
Total noninterest expenses	7,252,817	8,224,984	7,866,831
Income before income taxes	7,952,450	2,008,074	4,449,659
Provision for income taxes	4,085	-	-
Net income	\$ 7,948,365	\$ 2,008,074	\$ 4,449,659

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2007	\$ 2,145,585	\$ 58,400,708	\$ 299,795	\$ 60,846,088
Adjustment to beginning balance due to FAS No. 158 accounting change	-	(9,326)	-	(9,326)
Balance at January 1, 2008	2,145,585	58,391,382	299,795	60,836,762
Comprehensive income				
Net income	-	4,449,659	-	4,449,659
Amortization of costs in postretirement benefit plans	-	-	(90,588)	(90,588)
Total comprehensive income	-	4,449,659	(90,588)	4,359,071
Capital stock/participation certificates issued	447,455	-	-	447,455
Capital stock/participation certificates retired	(288,055)	-	-	(288,055)
Patronage refunds:				
Cash	-	(1,227,000)	-	(1,227,000)
Balance at December 31, 2008	2,304,985	61,614,041	209,207	64,128,233
Comprehensive income				
Net income	-	2,008,074	-	2,008,074
Amortization of costs in postretirement benefit plans	-	-	(32,348)	(32,348)
Total comprehensive income	-	2,008,074	(32,348)	1,975,726
Capital stock/participation certificates issued	314,635	-	-	314,635
Capital stock/participation certificates reduction	(263,630)	-	-	(263,630)
Balance at December 31, 2009	2,355,990	63,622,115	176,859	66,154,964
Comprehensive income				
Net income	-	7,948,365	-	7,948,365
Amortization of costs in postretirement benefit plans	-	-	(174,776)	(174,776)
Total comprehensive income	-	7,948,365	(174,776)	7,773,589
Capital stock/participation certificates issued	416,390	-	-	416,390
Capital stock/participation certificates retired	(226,210)	-	-	(226,210)
Patronage refunds:				
Cash	-	(1,578,000)	-	(1,578,000)
Balance at December 31, 2010	\$ 2,546,170	\$ 69,992,480	\$ 2,083	\$ 72,540,733

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 7,948,365	\$ 2,008,074	\$ 4,449,659
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	(551,804)	2,503,745	44,886
Provision for acquired property	120,000	5,500	-
Gain on other property owned, net	(150,975)	(4,390)	-
Depreciation	253,965	264,095	197,215
Gain on sale of premises and equipment, net	(674)	(7,187)	(13,311)
Decrease (increase) in accrued interest receivable	759,735	(311,763)	(489,550)
(Increase) decrease in other receivables from the Bank	(714,921)	205	181
(Increase) decrease in other assets	(53,349)	5,444	(84,233)
(Decrease) increase in accrued interest payable	(144,853)	(320,951)	28,010
Increase (decrease) in other liabilities	197,996	(514,460)	561,258
Net cash provided by operating activities	<u>7,663,485</u>	<u>3,628,312</u>	<u>4,694,115</u>
Cash flows from investing activities:			
Increase in loans, net	(34,851,969)	(14,148,212)	(54,066,006)
Cash recoveries of loans previously charged off	616,754	107,679	-
Purchases of investment in the Bank	(259,575)	(698,500)	(956,295)
Purchases of premises and equipment	(121,377)	(415,784)	(1,716,266)
Proceeds from sales of premises and equipment	41,500	24,000	65,004
Proceeds from sales of other property owned	150,976	105,060	-
Net cash used in investing activities	<u>(34,423,691)</u>	<u>(15,025,757)</u>	<u>(56,673,563)</u>
Cash flows from financing activities:			
Net draws on note payable to the Bank	25,189,025	12,953,305	53,331,283
Increase (decrease) in drafts outstanding	337,891	(1,129,993)	433,195
Issuance of capital stock and participation certificates	416,390	314,635	447,455
Retirement of capital stock and participation certificates	(226,210)	(263,630)	(288,055)
Cash dividends paid	-	-	(296,154)
Special distributions paid	-	-	(824,633)
Patronage distributions paid	-	(1,227,000)	(489,465)
Net cash provided by financing activities	<u>25,717,096</u>	<u>10,647,317</u>	<u>52,313,626</u>
Net (decrease) increase in cash	(1,043,110)	(750,128)	334,178
Cash at the beginning of the year	1,097,183	1,847,311	1,513,133
Cash at the end of the year	<u>\$ 54,073</u>	<u>\$ 1,097,183</u>	<u>\$ 1,847,311</u>
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	731,537	372,376	99,076
Loans charged off	1,606,371	751,336	-
Patronage distributions declared	1,578,000	-	1,227,000
Supplemental cash information:			
Cash paid during the year for:			
Interest	\$ 11,955,693	\$ 14,270,716	\$ 15,826,264

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

MISSISSIPPI LAND BANK, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Mississippi Land Bank, ACA, including its wholly-owned subsidiaries Mississippi, PCA and Mississippi Land Bank, FLCA (collectively called the Association), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Alcorn, Attala, Benton, Bolivar, Calhoun, Chickasaw, Choctaw, Clay, Coahoma, DeSoto, Itawamba, Lafayette, Lee, Lowndes, Marshall, Monroe, Noxubee, Oktibbeha, Panola, Pontotoc, Prentiss, Quitman, Sunflower, Tallahatchie, Tate, Tippah, Tishomingo, Tunica, Union, Webster, Winston and Yalobusha in the state of Mississippi.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that 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 (Act). At December 31, 2010, the System consisted of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the District. The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2010, the District consisted of the Bank, 1 FLCA and 16 ACA parent companies, which have two wholly-owned subsidiaries, a FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act of 1971, as amended (Act), FCA regulations and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (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, (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 the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and covering the operating expenses of the FCSIC. 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 monies in the Insurance Fund reach the “secure base amount,” which 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 other such 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 FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services that 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 makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas' and District Associations' Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1, "Organization and Operations," of the District's annual report to stockholders.

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 consolidated 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 could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Mississippi, PCA and Mississippi Land Bank, FLCA. All significant intercompany transactions have been eliminated in consolidation.

- A. Recently Issued or Adopted Accounting Pronouncements: In July 2010 the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including, among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending after December 15, 2011. The adoption of this Standard will not have an impact on the Association's financial condition or results of operations but will result in additional disclosures.

In January 2010 the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust 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 standard had no impact on the Association's financial condition and results of operations but resulted in additional disclosures.

In June 2009 the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities 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 provided in the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010, was immaterial to the Association's financial condition and results of operations.

In June 2009 the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. System institutions reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010, was immaterial to the Association's financial condition and results of operations.

- B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. Investment Securities: The Association, as permitted under the FCA regulations, can hold investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. Currently, the Association does not hold any investment securities.
- D. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding, adjusted for charge-offs and deferred loan fees or costs.

Authoritative accounting guidance requires that fee income and direct costs related to the successful origination of loans, if material, be capitalized and the net fee or cost be amortized over the life of the related loan as an adjustment to yield. Prior to 2010 this guidance was not implemented due to its immaterial effect on the Association's financial position or results of operation for any year presented. The guidance was implemented in 2010 for loans closed in 2010, resulting in the capitalization of a portion of fee income, such as loan origination and processing fees, and of direct origination costs, primarily salaries and benefits, related to the origination of loans. The net adjustment to yield on loans will be amortized over the average life of the loans.

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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model as described below. Impaired loans include nonaccrual loans, restructured loans and 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 a result of past-due status, is collected or otherwise discharged in full.

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 prior years).

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. 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, the interest portion of payments is recognized as current interest income. 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 as “doubtful” or “loss.” If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

Loans are charged off at the time they are determined to be uncollectible.

The Bank and related associations use 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 (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) 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 maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, 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.

Each quarter the Association employs a rigorous allowance evaluation model consisting of four facets, each related to the allowance for loan losses, in order to determine an appropriate level of allowance to carry on the Association’s balance sheet. The first facet is a general allowance calculation based upon the risk rating of each individual loan in the Association’s portfolio. The second is a specific allowance calculation derived from calculations, analyses and communications among the branch vice presidents, chief credit officer, chief financial officer and chief executive officer. The third facet is based upon the results of the quarterly stress test model performed by the branch vice presidents, chief credit officer, chief financial officer and chief executive officer. The fourth facet is a general economy and commodity evaluation in which the chief credit officer, chief financial officer and chief executive officer evaluate the current market for each commodity, as well as general economic factors such as unemployment. Management also evaluates the Association’s historical losses and the relationship of these losses to the current level of allowance. The final results are evaluated for reasonableness by the Association’s Asset-Liability Committee.

- E. Capital Stock Investment in the Bank: The Association’s investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association’s proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2.0 percent of the Association’s average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an Association from 2.0 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5.0 percent of the average outstanding balance of borrowings from the Bank.

- F. Other Property Owned, Net: Other property owned, net, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the Statement of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the consolidated statement of income.
- G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- H. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance 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 liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- I. Employee Benefit Plans: Employees of the Association participate in either the District defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2010, made on their behalf into various investment alternatives.

The structure of the District's DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$71,059, \$71,843 and \$66,434 for the years ended December 31, 2010, 2009 and 2008, respectively. For the DB Plan, the Association recognized pension costs of \$1,225,459, \$1,488,642 and \$828,979 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$87,704, \$101,728 and \$92,773 for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition to the DB Plan, the DC Plan and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheets in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were \$14,000, \$6,000 and \$0 for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

- J. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. The FLCA

subsidiary serves as the paymaster and charges the PCA subsidiary a management fee based on relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will, therefore, impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

- K. Patronage Refunds From the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank upon receipt of the patronage.
- L. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value, are included in Level 3.

The fair value disclosures are presented in Note 11, "Fair Value Measurements."

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 429,866,778	94.0%	\$ 403,707,437	95.5%	\$ 389,770,291	95.3%
Production and intermediate term	8,765,589	1.9%	1,571,319	0.4%	1,833,205	0.4%
Agribusiness:						
Processing and marketing	3,591,563	0.8%	2,103,874	0.5%	2,546,921	0.6%
Farm-related business	6,273,058	1.4%	6,646,670	1.6%	7,099,568	1.7%
Energy	-	0.0%	1,447,614	0.3%	1,575,066	0.4%
Rural residential real estate	8,815,416	1.9%	7,124,617	1.7%	6,665,100	1.6%
International	62,846	0.0%	104,451	0.0%	106,050	0.0%
Lease receivables	-	0.0%	-	0.0%	85,281	0.0%
Total	\$ 457,375,250	100.0%	\$ 422,705,982	100.0%	\$ 409,681,482	100.0%

Geographic Distribution:

County	2010	2009	2008
Noxubee	7.4%	7.4%	8.0%
Tate	6.1%	5.9%	5.2%
Sunflower	5.9%	5.1%	5.6%
Bolivar	5.9%	6.3%	6.2%
Tallahatchie	5.1%	4.1%	3.1%
Marshall	4.8%	4.7%	4.6%
Panola	4.5%	5.0%	5.3%
Coahoma	4.5%	4.5%	4.3%
Oktibbeha	4.3%	4.6%	4.9%
Quitman	3.8%	3.6%	2.4%
Lee	3.1%	3.4%	3.8%
Alcorn	3.0%	3.0%	2.8%
Pontotoc	3.0%	2.7%	2.6%
Clay	2.9%	2.1%	2.2%
Chickasaw	2.6%	2.7%	3.0%
De Soto	2.5%	2.1%	1.9%
Lafayette	2.4%	2.0%	1.9%
Monroe	2.4%	2.0%	2.1%
Tunica	2.2%	3.1%	3.7%
Yalobusha	1.7%	1.4%	1.4%
Union	1.4%	1.3%	1.3%
Benton	1.3%	1.3%	1.3%
Prentiss	1.2%	1.3%	1.4%
Choctaw	1.2%	1.2%	1.1%
Tippah	1.1%	1.2%	1.2%
Winston	1.0%	0.8%	0.7%
Lowndes	1.0%	1.1%	1.1%
Calhoun	1.0%	1.0%	1.1%
Other Counties	4.5%	4.5%	4.7%
Other States	8.2%	10.6%	11.1%
Totals	100.0%	100.0%	100.0%

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 information regarding participations purchased and sold:

	Participations Purchased	Participations Sold
Real estate mortgage	\$ 11,238,816	\$ 8,122,385
Production and intermediate term	1,088,639	-
Agribusiness	3,559,427	40,000
Total	<u>\$ 15,886,882</u>	<u>\$ 8,162,385</u>

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Operation/Commodity	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Timber	\$ 111,262,119	24.3%	\$ 94,823,860	22.4%	\$ 89,008,675	21.7%
Livestock, except dairy and poultry	103,203,931	22.6%	102,331,876	24.2%	102,088,838	24.9%
Field crops, except cash grains	94,321,356	20.6%	75,123,836	17.8%	66,963,724	16.3%
Cotton	56,262,990	12.3%	56,351,485	13.3%	53,805,051	13.1%
Rice	39,039,366	8.5%	31,819,898	7.5%	27,582,152	6.7%
Poultry and eggs	14,678,709	3.2%	13,736,292	3.2%	14,711,449	3.6%
Other	12,698,895	2.8%	14,880,052	3.5%	19,237,719	4.7%
Recreational property	7,679,067	1.7%	6,590,723	1.6%	7,059,015	1.7%
Rural home loans	7,418,468	1.6%	8,621,187	2.0%	8,378,103	2.0%
Catfish	6,892,786	1.5%	11,951,566	2.8%	13,282,089	3.2%
Ethanol	3,917,563	0.9%	6,475,207	1.5%	7,564,667	1.8%
Total	<u>\$ 457,375,250</u>	<u>100.0%</u>	<u>\$ 422,705,982</u>	<u>100.0%</u>	<u>\$ 409,681,482</u>	<u>100.0%</u>

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

Asset Quality:

	2010	2009	2008
Acceptable	96.9%	96.4%	98.5%
Special mention	0.9%	0.7%	0.5%
Substandard	2.2%	2.9%	1.0%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	\$ 1,728,315	33.7%	\$ 3,154,087	56.0%	\$ 775,186	52.9%
Past due	3,142,543	61.3%	2,377,967	42.1%	471,399	32.2%
Total nonaccrual loans	<u>4,870,858</u>	<u>95.0%</u>	<u>5,532,054</u>	<u>98.1%</u>	<u>1,246,585</u>	<u>85.1%</u>
Accrual loans						
90 days or more past due	253,753	5.0%	104,503	1.9%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	217,549	14.9%
Total impaired accrual loans	<u>253,753</u>	<u>5.0%</u>	<u>104,503</u>	<u>1.9%</u>	<u>217,549</u>	<u>14.9%</u>
Total impaired loans	<u>\$ 5,124,611</u>	<u>100.0%</u>	<u>\$ 5,636,557</u>	<u>100.0%</u>	<u>\$ 1,464,134</u>	<u>100.0%</u>

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

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	2010	2009	2008
Interest income recognized on nonaccrual loans	\$ 61,173	\$ 121,624	\$ 20,115
Interest income recognized on impaired accrual loans	10,762	7,462	22,630
Interest income recognized on impaired loans	<u>\$ 71,935</u>	<u>\$ 129,086</u>	<u>\$ 42,745</u>

A summary of the allowance for loan losses as of December 31 follows:

	Year Ended December 31,		
	2010	2009	2008
Balance at beginning of year	\$ 2,242,753	\$ 382,665	\$ 337,779
Charge-offs:			
Production agriculture:			
Real estate mortgage	1,606,371	751,336	-
Recoveries:			
Production agriculture:			
Real estate mortgage	(616,754)	(107,679)	-
Net charge-offs (recoveries)	<u>989,617</u>	<u>643,657</u>	<u>-</u>
Loan loss (reversal) or provision for loan losses	(551,804)	2,503,745	44,886
Balance at end of year	<u>\$ 701,332</u>	<u>\$ 2,242,753</u>	<u>\$ 382,665</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.23%	0.16%	0.00%

The following table presents information concerning impaired loans as of December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Impaired loans with related allowance	\$ 1,832,282	\$ 4,945,682	\$ 471,399
Impaired loans with no related allowance	3,292,329	690,875	992,735
Total impaired loans	<u>\$ 5,124,611</u>	<u>\$ 5,636,557</u>	<u>\$ 1,464,134</u>
Allowance on impaired loans	<u>\$ 461,288</u>	<u>\$ 2,083,394</u>	<u>\$ 289,207</u>

The following table summarizes impaired loan information for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Average impaired loans	<u>\$ 5,153,995</u>	<u>\$ 2,792,548</u>	<u>\$ 2,078,537</u>

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest income which would have been recognized under the original terms	\$ 226,074	\$ 757,234	\$ 742,753
Less: interest income recognized	(71,935)	(129,086)	(42,745)
Foregone interest income	<u>\$ 154,139</u>	<u>\$ 628,148</u>	<u>\$ 700,008</u>

NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 1,324,877	\$ 1,324,877	\$ 1,324,877
Building and improvements	2,007,184	1,950,769	1,918,382
Furniture and equipment	325,251	328,565	243,061
Computer equipment and software	145,214	125,018	134,971
Automobiles	608,304	710,323	536,169
	<u>4,410,830</u>	<u>4,439,552</u>	<u>4,157,460</u>
Accumulated depreciation	(988,576)	(843,883)	(696,668)
Total	<u>\$ 3,422,254</u>	<u>\$ 3,595,669</u>	<u>\$ 3,460,792</u>

The Association leases office space in Clarksdale, Cleveland, Indianola, Houston, New Albany, Kosciusko and Louisville. Lease expense was \$51,035, \$51,775 and \$63,000 for 2010, 2009 and 2008, respectively. Minimum annual lease payments for 2011 are \$3,400. This is because all but one contractual lease have expired, and the Association is now on a month-to-month basis for the majority of its rented offices. The Association cannot estimate future annual lease payments because the month-to-month arrangements allow for either party to exit the agreement at any time.

NOTE 5 – OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Gain (loss) on sale, net	\$ 150,975	\$ 4,390
Operating income (expense), net	(6,367)	(7,782)
Net gain (loss) on other property owned	<u>\$ 144,608</u>	<u>\$ (3,392)</u>

There were no gains or losses on other property owned in 2008.

NOTE 6 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers.

The total amount and the weighted average interest rate of the Association's direct loan from the bank at December 31, 2010, 2009 and 2008, were \$397,694,702 at 2.68 percent, \$372,505,676 at 3.38 percent and \$359,552,371 at 4.42 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was \$460,936,314, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness and reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2010 and 2008, the Association was not subject to remedies associated with the covenants in the financing agreement. The Association was subject to remedies as of December 31, 2009, due to falling below the minimum standard for return on assets outlined in the financing agreement. The Association submitted an action plan to remedy the covenant which was approved by the Bank.

NOTE 7 — MEMBERS' EQUITY:

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

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans) or participation certificates (for rural home and farm-related business loans) is equal to 2.0 percent of the loan amount, up to a maximum amount of \$1,000 per loan for loans made under the FLCA. Under the PCA, the investment in Class A capital stock or participation certificates is equal to 2.0 percent of the loan amount, up to a maximum amount of \$1,000 per customer. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10.0 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

All borrower stock is at-risk. As such, losses that result from impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2010, 2009 and 2008, respectively:

Date Declared	Date Paid	Patronage	Dividend	Special Distribution
December 2010	February 2011	\$ 1,578,000	\$ -	\$ -
December 2008	January 2009	1,227,000	-	-
December 2007	January 2008	489,465	296,154	824,633

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2010, the Association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2010, are as follows:

	2010	2009	2008
Permanent Capital	14.1	13.3	14.2
Core Surplus	13.6	12.8	13.6
Total Surplus	13.6	12.8	13.6

The board of directors of the Association has promulgated a detailed and specific Capital Adequacy Plan (Plan) to address the current and future needs of its borrowers. The framework of the Plan is based on both the specific circumstances of the Association and its borrowers, as well as regulatory requirements of the FCA. The Plan defines and measures the Association's goals and performance in large part based on the District's financial performance standards for FLCAs. At least quarterly, management and the board of directors review the Association's financial performance, key capital ratios, asset quality, the adequacy of the allowance for loan losses, the sufficiency of liquid funds and internal controls. The objectives of the board of directors, as outlined in the Plan, include, but are not limited to, sustained profitability and reasonable protection against risks inherent in the Association's operations, exceeding all minimum regulatory requirements and maximizing return on capital. A strong capital base, as outlined in the Plan, will afford the Association an opportunity to position itself to address the changing lending environment and provide the highest quality service to its stockholders.

An FCA regulation empowers the FCA 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.

At December 31, the Association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of \$5 per share:

	2010	2009	2008
Class A stock	493,620	457,861	448,409
Participation certificates	15,614	13,337	12,588
Total	509,234	471,198	460,997

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net actuarial loss	\$ -	\$ -	\$ 90,530
Prior service cost	(214,905)	(257,322)	(299,737)
Net transition obligation	212,822	80,463	-
Total	<u>\$ (2,083)</u>	<u>\$ (176,859)</u>	<u>\$ (209,207)</u>

NOTE 8 — INCOME TAXES:

The provision for (benefit from) income taxes follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Deferred:			
Federal	\$ 3,538	\$ -	\$ -
State	547	-	-
Total deferred	<u>4,085</u>	<u>-</u>	<u>-</u>
Total provision for (benefit from) income taxes	<u>\$ 4,085</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2010, the Association has a net loss carryforward of \$245,119 available to offset future taxable income that will expire in 2030.

The provision for (benefit from) 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 for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal tax at statutory rate	\$ 2,703,833	\$ -	\$ -
State tax, net	262,431	-	-
Effect of nontaxable FLCA subsidiary	(3,057,694)	-	-
Change in valuation allowance	95,515	-	-
Provision for (benefit from) income taxes	<u>\$ 4,085</u>	<u>\$ -</u>	<u>\$ -</u>

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 839	\$ -	\$ -
Loss carryforwards	94,676	-	-
Gross deferred tax assets	<u>95,515</u>	<u>-</u>	<u>-</u>
Deferred tax asset valuation allowance	<u>(95,515)</u>	<u>-</u>	<u>-</u>
<u>Deferred Tax Liabilities</u>			
Other	(4,085)	-	-
Gross deferred tax liabilities	<u>(4,085)</u>	<u>-</u>	<u>-</u>
Net deferred tax asset (liability)	<u>\$ (4,085)</u>	<u>\$ -</u>	<u>\$ -</u>

The Association recorded valuation allowances of \$95,515 during 2010. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

NOTE 9 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, “Summary of Significant Accounting Policies.” The Association’s postretirement benefit obligation was \$1,261,231, \$1,056,157 and \$988,335 at December 31, 2010, 2009 and 2008, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and, consequently, the liability for these benefits is included in other liabilities.

In September 2006 the FASB issued guidance which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also required 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, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007, to December 31, 2007 (determined using the September 2007 measurement date), was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings \$9,326 and increased the pension and other postretirement benefit liabilities by \$9,326.

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association’s other postretirement benefits:

Disclosure Information Related to Retirement Benefits	2010	2009	2008
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,056,157	\$ 988,335	\$ 859,690
Service cost	24,142	26,753	30,215
Interest cost	63,596	62,007	69,544
Plan participants' contributions	-	-	1,080
Plan amendments	132,359	(10,068)	-
Special termination benefits	1,168	1,140	-
Actuarial loss (gain)	(16,191)	(12,010)	37,458
Benefits paid	-	-	(9,652)
Accumulated postretirement benefit obligation, end of year	<u>\$ 1,261,231</u>	<u>\$ 1,056,157</u>	<u>\$ 988,335</u>
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	15,023	10,870	8,572
Plan participants' contributions	1,168	1,140	1,080
Benefits paid	(16,191)	(12,010)	(9,652)
Plan assets at fair value, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status of the plan	<u>\$ (1,261,231)</u>	<u>\$ (1,056,157)</u>	<u>\$ (988,335)</u>
Amounts Recognized in Statement of Financial Position			
Other liabilities	<u>\$ (1,261,231)</u>	<u>\$ (1,056,157)</u>	<u>\$ (988,335)</u>
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	-	-	90,530
Prior service cost (credit)	(214,905)	(257,322)	(299,737)
Net transition obligation (asset)	212,822	80,463	-
Total	<u>(2,083)</u>	<u>(176,859)</u>	<u>(209,207)</u>
Additional Information			
Increase in minimum liability included in other comprehensive income	<u>\$ 174,776</u>	<u>\$ 32,348</u>	<u>\$ 90,588</u>
Weighted-Average Assumptions Used to Determine Obligations at Year-end			
Measurement date	12/31/2010	12/31/2009	12/31/2008
Discount rate	5.70%	6.05%	6.30%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.5%/6.5%	8.0%/7.0%	8.5%/6.5%
Health care cost trend rate assumed for next year - Rx	10.00%	10.50%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2017	2015

Total Cost	2010	2009	2008
Service cost	\$ 24,142	\$ 26,753	\$ 24,172
Interest cost	63,596	62,007	55,635
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(42,417)	(42,417)	(43,014)
Unrecognized net loss (gain)	-	-	512
Net postretirement benefit cost	<u>45,321</u>	<u>46,343</u>	<u>37,305</u>
Adjustment to retained earnings for 2008 due to change in measurement date	N/A	N/A	\$ 9,326
Accounting for settlements/curtailments/special termination benefits	\$ -	\$ -	\$ -
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	\$ 132,359	\$ (10,069)	\$ 37,458
Amortization of net actuarial loss (gain)	-	-	(640)
Prior service cost (credit)	-	-	-
Amortization of prior service cost	42,417	42,417	53,770
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	<u>\$ 174,776</u>	<u>\$ 32,348</u>	<u>\$ 90,588</u>
AOCI Amounts Expected to be Amortized into Expense in 2011			
Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(41,320)	(42,417)	(42,417)
Unrecognized net loss (gain)	<u>10,586</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (30,734)</u>	<u>\$ (42,417)</u>	<u>\$ (42,417)</u>
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	12/31/2009	12/31/2008	9/30/2007
Discount rate	6.05%	6.30%	6.50%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.0%/7.0%	8.50%/6.50%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	10.50%	11.00%	13.00%
Ultimate health care cost trend rate	5.00%	5.00%	4.75%
Year that the rate reaches the ultimate trend rate	2017	2015	2016
Expected Future Cash Flows			
Expected Benefit Payments (net of employee contributions)			
Fiscal 2011	\$ 27,247		
Fiscal 2012	39,828		
Fiscal 2013	54,922		
Fiscal 2014	72,273		
Fiscal 2015	91,525		
Fiscal 2016–2020	453,760		
Expected Contributions			
Fiscal 2011	\$ 27,247		

NOTE 10 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to \$11,564,292, \$11,427,556 and \$10,277,935 at December 31, 2010, 2009 and 2008, respectively. During 2010, \$1,425,216 of new loans were made and repayments totaled \$1,223,159. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$311,374, \$336,040 and \$318,800 in 2010, 2009 and 2008, respectively.

The Association received patronage payments from the Bank totaling \$2,163,699, \$1,753,019 and \$1,326,235 during 2010, 2009 and 2008, respectively.

NOTE 11 — FAIR VALUE MEASUREMENTS:

Accounting 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. See Note 2, "Summary of Significant Accounting Policies," for additional information.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2010, for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 4,663,323
Other property owned	-	-	982,318

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the Bank and associations for assets and liabilities:

Loans

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 12 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, \$9,920,487 of commitments and no commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At December 31, 2010, \$215,036 of standby letters of credit, primarily revolving lines of credit, was issued by the Association, primarily in conjunction with participation loans.

NOTE 13 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying amounts and estimated 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, discount rates, 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 as of December 31 follow:

	2010		2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 54,073	\$ 54,073	\$ 1,097,183	\$ 1,097,183	\$ 1,847,311	\$ 1,847,311
Loans, net	456,673,918	453,276,264	420,463,229	411,373,109	409,298,817	418,508,040
Financial liabilities						
Note payable to the Bank	397,694,702	394,735,853	372,505,676	364,452,365	359,552,371	367,642,299

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, Federal Funds Sold and Securities Purchased Under Resale Agreements:

For cash and overnight investments, the carrying amount is a reasonable estimate of fair value. The fair value of term federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

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. Since the discount rates are based on the Association's loan rates, as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

C. Investment in the 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 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 3.3 percent of the issued common stock of the Bank as of December 31, 2010. As of that date, the Bank's assets totaled \$14.1 billion and members' equity totaled \$1.2 billion. The Bank's earnings were \$168.5 million during 2010.

D. Note payable to the Bank:

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates, as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

E. Commitments to extend credit and standby letters of credit:

The Association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded.

NOTE 14 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,770	\$ 2,860	\$ 3,017	\$ 3,164	\$ 11,811
(Provision for) reversal of loan losses	72	145	517	(302)	432
Noninterest income (expense), net	(1,322)	(1,144)	(1,472)	(357)	(4,295)
Net income	<u>\$ 1,520</u>	<u>\$ 1,861</u>	<u>\$ 2,062</u>	<u>\$ 2,505</u>	<u>\$ 7,948</u>

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,448	\$ 2,505	\$ 2,538	\$ 2,655	\$ 10,146
(Provision for) reversal of loan losses	(469)	(2,043)	2	-	(2,510)
Noninterest income (expense), net	(1,673)	(1,745)	(1,608)	(602)	(5,628)
Net income	<u>\$ 306</u>	<u>\$ (1,283)</u>	<u>\$ 932</u>	<u>\$ 2,053</u>	<u>\$ 2,008</u>

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,396	\$ 2,466	\$ 2,475	\$ 2,432	\$ 9,769
(Provision for) reversal of loan losses	(4)	(5)	(1)	(35)	(45)
Noninterest income (expense), net	(1,214)	(1,230)	(1,379)	(1,451)	(5,274)
Net income	<u>\$ 1,178</u>	<u>\$ 1,231</u>	<u>\$ 1,095</u>	<u>\$ 946</u>	<u>\$ 4,450</u>

NOTE 15 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 3, 2011, which is the date the financial statements were issued or available to be issued.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in patronage policies or practices, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Mississippi Land Bank, ACA (Association) serves its 32-county territory through its main administrative and lending office at 5509 Highway 51 North, P.O. Box 667, Senatobia, Mississippi 38668-0667, (662) 562-9671. Additionally, there are seven primary branch lending offices and four part-time branches located throughout the territory. The Association owns the office buildings in Senatobia, Starkville, Tupelo and Corinth, free of debt. The Association leases the office buildings in Clarksdale, Cleveland, Houston, Indianola, Kosciusko, Louisville and New Albany. In 2006 the Association purchased a lot in Tupelo. Construction was completed in November 2008, and the Tupelo branch moved from its leased building into the new office building in December 2008. In 2007, the Association purchased a lot in Starkville. Construction was completed in December 2008, and the Starkville branch moved from its leased building into the new office building in December 2008.

LEGAL PROCEEDINGS

In the ordinary course of business, the Association is involved in various legal proceedings. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the financial statements of the Association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 12 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or by calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing fcf@farmcreditbank.com. The District's annual and quarterly stockholder reports are also available on its website at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Mississippi Land Bank, ACA, 5509 Highway 51 North,

P.O. Box 667, Senatobia, Mississippi 38668-0667 or by calling (662) 562-9671. The Association’s quarterly stockholder report is available on its website at *www.mslandbank.com*. The Association’s annual stockholder report is available on its website at *www.mslandbank.com* 75 days after the fiscal year end. Copies of the Association’s annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2010, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

“Management’s Discussion and Analysis,” which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association’s member-elected and director-elected board of directors and senior officers are as follows:

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
Abbott Myers	Chairman	2008	2011
Alan Blaine	Vice Chairman	2009	2012
Calvin W. Ozier, Jr.	Director	2009	2013
Jan D. Hill	Director	2008	2011
James Ed Hester	Director	2009	2012
James Gordon Robison	Director	2007	2013
Keith Morton	Director	2008	2011
Lawson McClellan	Director-Elected Director	2009	2012
Gary L. Gaines	President and Chief Executive Officer	1990	
Craig B. Shideler	Executive Vice President and Chief Credit Officer	1990	
J. Matthew Walden	Chief Financial Officer	2003	

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Abbott Myers, age 60. Mr. Myers owns and operates a 6,500 acre farm in Tunica County, farming rice, cotton and soybeans. He serves on the board of directors of Tunica Academy. He is the district chairman of Soil Conservation and a member of the Farm Bureau and of the American Soybean Association. He also serves as an elder of the Tunica Presbyterian Church.

Alan Blaine, age 51. Dr. Blaine has a Ph.D. in agronomy from Mississippi State University. He recently retired as head of the North Mississippi Research and Extension Center in Verona, Mississippi. Dr. Blaine owns and operates a timber, hay and cattle farm in central Mississippi. Dr. Blaine is a Certified Crop Adviser (CCA). He is currently a partner in a crop consulting firm, Southern Ag Consulting, Inc.

Calvin W. Ozier, Jr., age 61. Mr. Ozier is the president of UWT Logistics, LLC. He raises beef cattle and timber on 400 acres in Marshall County. He is a member of First Evangelical Church in Memphis, Marshall County Mississippi Forestry Association, Marshall County Cattlemen’s Association, and past president of Southeastern Warehouse Association.

Jan D. Hill, age 61. Mr. Hill has been a full-time farmer since 1970. He owns and operates a farm in Chickasaw County, raising beef cattle, cotton, soybeans, wheat and corn on 3,000 acres. He is a deacon of Pleasant Grove Baptist Church, a director on the Farm Bureau board and a member of the ASCS County committee.

James Ed Hester, age 80. Mr. Hester is a full-time farmer in Bolivar County, farming approximately 4,400 acres of cotton, soybeans and rice. He is a member of Bolivar County Farm Bureau and Bolivar County ASCS. He is also a board member of the American Soybean Association, Mississippi Rice Council and Bolivar County Hospital.

James Gordon Robison, age 70. Mr. Robison is the president of Robison Brothers Farms, Incorporated. He is a beef cattle, dairy and row crop farmer of 2,200 acres in northern Lee County. He is a county chairperson of Lee County Farm Service Agency and a board member of the Lee County Cattlemen's Association. He is a board member of Town Creek Master Water Management of Lee, Pontotoc, Union and Prentiss counties. He serves as president of the Lee County Farm Bureau and brotherhood director of Camp Creek Baptist Church.

Keith Morton, age 39. Mr. Morton started farming with his father, Billy Morton, in 1987. Keith and his wife, Beth, together own and operate Morton Farms, Incorporated. Keith has served on the Mississippi Farm Bureau Federation board of directors and as president of the Mississippi Soybean Association, where he is on the board of directors. He is currently serving as vice chairman of the Mississippi Soybean Promotion Board, as the MS Farm Bureau Soybean Commodity Chairman and as Tippah County Farm Bureau President. In 2004 Keith and Beth Morton received the prestigious Mississippi Farm Bureau "Young Farmers and Ranchers Achievement Award."

Lawson McClellan, age 68. Mr. McClellan began working with Renasant Bank (formerly The Peoples Bank and Trust) in 1965, working his way up to chief information officer and, finally, property management manager before fully retiring in March of this year. He was born in Corinth, Miss., and graduated from Tupelo High School and Mississippi State University. He has served on several community service boards and civic clubs. Lawson and Betty McClellan are members of Camp Creek Baptist Church in Guntown, MS.

Gary L. Gaines, age 60. Mr. Gaines has worked with the Farm Credit System for 32 years. He was formerly president of the FLBA of Senatobia and vice president of supervision over 33 associations in the states of Mississippi, Alabama and Louisiana for the FLBA of Jackson. He has served as president and chief executive officer of the Association since January 1, 1990.

Craig B. Shideler, age 56. Mr. Shideler has worked with the Farm Credit System since June 1978. He was formerly the president of the FLBA of Senatobia and divisional vice president for North Mississippi for both the FLCA and PCA operations. He has been employed with the Association since January 1, 1990, serving as senior vice president until he was promoted to executive vice president on January 1, 2001.

J. Matthew Walden, age 38. Mr. Walden joined the Farm Credit System in December 2003 as controller. He formerly served in tax accounting and financial reporting with International Paper Company. He holds a license as a certified public accountant in the state of Tennessee.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$500 per day, except for the chairmen who received \$600 per day, for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2010 was paid at the IRS-approved rate of 50 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

The aggregate compensation paid to directors in 2010, 2009 and 2008 was \$52,300, \$75,400 and \$60,200, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table below) is as follows:

Name	Number of Days Served				Compensation for Committee Service	Total Compensation in 2010
	Board Meetings	Audit Committee	Compensation Committee	Other Official Activities		
Abbott Myers	7	8	2	7	\$ 2,500	\$ 11,200
Alan Blaine	7	8	2	3	2,500	7,000
Jan D. Hill	7	8	2	4	3,000	8,100
Lawson McClellan	7	8	2	4	1,500	7,500
James Ed Hester	7	0	2	0	-	3,500
James Gordon Robison	7	0	2	3	-	5,000
Keith Morton	7	0	2	3	-	5,000
Calvin Ozier, Jr.	7	0	2	3	-	5,000
					<u>\$ 9,500</u>	<u>\$ 52,300</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$41,391, \$44,706 and \$40,892 in 2010, 2009 and 2008, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

Association employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan. The term of the plan is each calendar year beginning January 1 through December 31. The plan is based upon the achievement of predetermined Association performance goals for return on assets, noninterest income, efficiency ratio, net loan growth, credit quality, delinquency volume and public relations. The plan places more emphasis on earnings than any other factor in the plan and is approved by the board of directors annually. All full-time employees that have been employed at least three months are eligible to earn an individual incentive based upon their individual performance objectives. The following criteria is also used for determining eligibility for the incentive pay: (1) the Association must not be in default of the general financing agreement with the Farm Credit Bank of Texas; (2) the Association cannot receive an overall rating of “unsatisfactory” on credit administration by the Internal Credit Review and/or FCA examinations; (3) the employee’s branch office cannot receive an overall rating of “unsatisfactory” on credit administration; (4) there must be material income from operations beyond what is needed to fund the incentive Plan; and (5) eligible employees must receive an annual performance rating of “meets standard of good competent performance” on his/her individual performance review.

Chief Executive Officer (CEO) Compensation Table and Policy

The following table discloses total compensation for the Association’s chief executive officer (CEO) and the aggregate total compensation for the Association’s five most highly compensated officers. As explained below, amounts reported in the “Perquisite” and “Other” columns represent value of benefits provided but are not necessarily indicative of cash outlay from the Association directly to the respective employees.

	Year	Salary	Bonus	Change in Pension Value	Perquisite	Other	Total
Gary L. Gaines, President/ Chief Executive Officer	2010	\$ 228,960	\$ 68,688	\$ 208,742	\$ 6,254	\$ 2,105	\$ 306,007
	2009	212,008	21,200	260,729	5,385	1,930	240,523
	2008	198,940	55,705	N/A	5,808	1,796	262,249

Following is a brief description of the items included in the above tables:

- Salary – Compensation earned and paid during the respective year.
- Bonus – Incentive compensation earned in current year but paid to employees in the following year.
- Change in Pension Value – The aggregate increase in actuarial value of all defined benefit and actuarial plans accrued during the year, excluding defined contribution plans. The change in actuarial value would be based on increases in value due to an additional year of service, compensation increases, plan amendments and increases or decreases in value due to interest.
- Perquisite – Benefit derived from personal use of Association-owned vehicles. These amounts are calculated at the IRS-established rate and included in earnings of those employees assigned Association vehicles for use in normal operations.
- Other – Value of group term life insurance provided by the Association on behalf of its employees. According to IRS guidelines, value of insurance provided in excess of \$50,000 must be added to the employees' taxable earnings.

Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2010:

<u>Names</u>	<u>Plan Name</u>	<u>Number of years credited service</u>	<u>Present value of accumulated benefit</u>	<u>Payments during 2010</u>
Gary L. Gaines	Farm Credit Bank of Texas Pension Plan	39.361	\$ 2,171,638	-

Following is a brief description of the assumptions used to determine the present value of accumulated benefits:

- The present value of accumulated benefits is based on immediate retirement; otherwise, present value is based on a benefit payable at age 65.
- The following FAS87 assumptions as of 12/31/2010 were used to determine the above present values:
 - Discount rate of 5.50 percent
 - Payment shown in normal form (Qualified Joint and 50 percent Survivor Annuity assuming a spouse two years younger)
 - Mortality based on the RP2000 combined healthy table with mortality improvements projected to 2021.
- No termination, withdrawal, or disability is assumed before retirement age.

Pension Benefits Table Narrative Disclosure for the CEO

The CEO of the Association participates in the Farm Credit of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items (ii) "Years of Benefit Service" (not to exceed 35). The present value of the CEO's accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the five highest paid officers of the Association during 2010, 2009 and 2008. Amounts reflected in the table are presented in the year the compensation was earned.

	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Perquisite</u>	<u>Other</u>	<u>Total</u>
Five highest levels of compensation paid (exclusive of CEO)	2010	\$ 761,720	\$ 278,846	\$ 13,722	\$ 5,213	\$ 1,059,501
	2009	730,068	104,959	15,117	3,917	854,061
	2008	686,800	375,211	15,226	2,833	1,080,070

Following is a brief description of the items included in the above tables:

- Salary – Compensation earned and paid during the respective year.
- Bonus – Incentive compensation earned in current year but paid to employees in the following year.
- Perquisite – Benefit derived from personal use of Association-owned vehicles. These amounts are calculated at the IRS-established rate and included in earnings of those employees assigned Association vehicles for use in normal operations.
- Other – Value of group term life insurance provided by the Association on behalf of its employees. According to IRS guidelines, value of insurance provided in excess of \$50,000 must be added to the employees' taxable earnings.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobile for business purposes were reimbursed during 2010 at the IRS-approved rate of 50 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2010.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

The Association has no directors, director nominees or senior officers involved in certain legal proceedings described in FCA Regulation §620.5(k) within the previous five years. Legal proceedings include, but are not limited to, bankruptcy, conviction or naming in a criminal proceeding, and judgment or finding limiting a right to engage in a business.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association engaged the independent accounting firm of PricewaterhouseCoopers LLP to perform the annual audit of the Association's consolidated financial statements included in this annual report. During 2010, the Association incurred audit fees totaling \$33,500 to PricewaterhouseCoopers LLP. No other services were performed by PricewaterhouseCoopers LLP during the reporting period.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 3, 2011, and the report of management in this annual report to stockholders, are incorporated herein by reference.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The Association is committed to meeting the needs of Young, Beginning and Small (YBS) farmers and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association’s underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture.

Definitions for “young,” “beginning” and “small” farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than \$250,000 in annual gross sales of agricultural products

The June 2009 demographic study indicated that compared to the 2007 USDA Census of Agriculture for Mississippi (Census), the Association’s borrowers classified as “young,” “beginning” and “small” represent 4.3 percent, 26.9 percent and 93.5 percent respectively of total farm operators in the Association’s territory. The Census uses categories that are slightly different from the FCA definitions of YBS farmers, but the Census is the best available measure of our marketplace. USDA defines a farm as “any place from which \$1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the census year.” The Association’s minimum standards for YBS lending require the following:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	>10%	>10%
Beginning	>10%	>10%
Small	>30%	>30%

The Association’s YBS loans for the past three years are presented in the table below as a percentage of the total number of loans outstanding on December 31, 2010.

	Young	Beginning	Small
2010	21.0%	50.4%	74.0%
2009	20.6%	48.9%	70.1%
2008	21.3%	47.4%	69.4%

The Association’s goal over the succeeding three-year period is to reach the following percentages of its number of loans outstanding in young, beginning and small farmer loans as shown below.

	Young	Beginning	Small
2011	21.2%	50.7%	74.0%
2012	21.5%	51.0%	74.2%
2013	21.8%	51.3%	74.5%

The Association continues to provide credit to YBS farmers and ranchers at high levels, as presented by the above comparative data. Emphasis on this area of the Association’s lending business will continue to be a priority.