

2010
ANNUAL REPORT
FARM CREDIT OF ENID, ACA

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2010	2009	2008	2007	2006
Statement of Condition Data					
Loans	\$ 160,040	\$ 156,614	\$ 145,837	\$ 135,674	\$ 114,106
Less allowance for loan losses	1,904	2,089	1,570	884	951
Net loans	158,136	154,525	144,267	134,790	113,155
Investment in U.S. AgBank, FCB	4,070	3,814	3,327	3,317	3,318
Other assets	7,205	8,082	8,032	8,633	6,865
Total assets	\$ 169,411	\$ 166,421	\$ 155,626	\$ 146,740	\$ 123,338
Obligations with maturities of one year or less	\$ 1,174	\$ 1,216	\$ 1,251	\$ 2,046	\$ 1,531
Obligations with maturities longer than one year	126,690	125,676	116,173	108,001	86,768
Total liabilities	127,864	126,892	117,424	110,047	88,299
Protected borrower stock	16	19	26	38	42
Capital stock	615	634	648	671	690
Unallocated retained earnings	40,901	38,856	37,529	35,986	34,307
Accumulated other comprehensive income/(loss)	15	20	(1)	(2)	-
Total shareholders' equity	41,547	39,529	38,202	36,693	35,039
Total liabilities and shareholders' equity	\$ 169,411	\$ 166,421	\$ 155,626	\$ 146,740	\$ 123,338
For the Year Ended December 31					
	2010	2009	2008	2007	2006
Statement of Income Data					
Net interest income	\$ 4,499	\$ 4,477	\$ 4,123	\$ 3,967	\$ 3,796
Patronage distribution from U.S. AgBank, FCB	165	51	545	636	601
(Loan loss reversal)/Provision for loan losses	(177)	519	686	(67)	-
Gain on sale of building	-	-	479	-	-
Noninterest expense, net	2,346	2,432	2,417	2,436	2,169
Net income	\$ 2,495	\$ 1,577	\$ 2,044	\$ 2,234	\$ 2,228
Key Financial Ratios					
For the Year					
Return on average assets	1.51%	0.98%	1.36%	1.69%	1.85%
Return on average shareholders' equity	6.09%	4.04%	5.36%	6.14%	6.51%
Net interest income as a percentage of average earning assets	2.90%	2.96%	2.96%	3.25%	3.33%
Net charge-offs/(recoveries) as a percentage of average net loans	0.01%	-	-	-	<(0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	24.52%	23.75%	24.55%	25.01%	28.41%
Debt as a ratio to shareholders' equity	3.08:1	3.21:1	3.07:1	3.00:1	2.52:1
Allowance for loan losses as a percentage of loans	1.19%	1.33%	1.08%	0.65%	0.83%
Permanent capital ratio	22.93%	21.56%	23.18%	25.05%	25.59%
Total surplus ratio	22.56%	21.18%	22.76%	24.57%	25.03%
Core surplus ratio	22.41%	21.18%	22.76%	23.95%	25.03%
Net Income Distribution					
Cash patronage distributions paid	\$ 250	\$ 500	\$ 555	\$ 560	\$ 610
Cash patronage declared	\$ 450	\$ 250	\$ 500	\$ 555	\$ 560
Other					
Loans serviced for U.S. AgBank, FCB	\$ 71	\$ 97	\$ 118	\$ 164	\$ 221

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Enid, ACA for the year ended December 31, 2010. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The accompanying financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.fcenid.com, or upon request. We are located at 1605 W. Owen K. Garriott Road, Enid, Oklahoma 73703 or may be contacted by calling (580) 233-3489 or (800) 814-6407.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of approximately 90 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of north-central Oklahoma. The counties in our territory are listed in Note 1 of the accompanying financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, mortgage life and disability insurance, multi-peril crop and crop hail insurance, leasing services and appraisal services. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

We obtain the funding for our lending and operations from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which we are a member. AgBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District. We are materially affected by AgBank's financial condition and results of operations. The AgBank and AgBank District quarterly and annual reports are available free of charge by accessing AgBank's website, www.usagbank.com, or may be obtained at no charge by contacting us at 1605 W. Owen K. Garriott Road, Enid, Oklahoma 73703 or calling (580) 233-3489 or (800) 814-6407. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

In November of 2010, the AgBank Board of Directors voted to pursue a merger with CoBank, ACB, another Farm Credit System Bank. The proposed merger is targeted to be effective on October 1, 2011. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current Services Agreement with AgVantis expires on December 31, 2011. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

For many years, agriculture experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity, our financial results were positively impacted. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. In the past 2 ½ years, conditions in the general economy and agricultural economy have been less favorable with the recent instability in the global markets and volatility in production costs. Particularly affected has been dairy, poultry, hogs, fed cattle, timber, nurseries and ethanol operations. The negative impact to us from these less favorable conditions is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers. Some borrowers who are reliant on off-farm income sources have also been more adversely impacted due to the weakened general economy.

During 2010, economic conditions in our region strengthened. Major factors impacting economic conditions were higher cattle prices and weaker grain prices for much of the year, with grains rising during the latter part of 2010. Weather, governmental policies, interest rate trends, and land values all were supportive of a strengthening agriculture economy during 2010.

LOAN PORTFOLIO

Total loan volume was \$160.0 million at December 31, 2010, an increase of \$3.4 million, or 2.19%, from loans at December 31, 2009 of \$156.6 million, and an increase of \$14.2 million, or 9.74%, from loans at December 31, 2008 of \$145.8 million. The increase in loans was due to customer demand. The types of loans outstanding at December 31 are reflected in the following table.

<i>(dollars in thousands)</i>	2010		2009		2008	
	Volume	Percent	Volume	Percent	Volume	Percent
Real estate mortgage loans	\$ 114,190	71.3%	\$112,051	71.5%	\$108,048	74.1%
Production and intermediate-term loans	34,531	21.6%	32,264	20.6%	24,765	17.0%
Agribusiness loans to:						
Cooperatives	3,457	2.2%	283	0.2%	387	0.3%
Process and marketing	7,572	4.7%	9,026	5.8%	9,748	6.7%
Farm related business	—	—	2,651	1.7%	2,672	1.8%
Rural residential real estate loans	290	0.2%	339	0.2%	217	0.1%
Total	\$ 160,040	100.0%	\$ 156,614	100.0%	\$ 145,837	100.0%

Real estate mortgage volume increased to \$114.2 million, compared with \$112.1 million at year-end 2009, primarily due to lower interest rates and demand for credit. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies.

The production and intermediate-term volume increased 7.03% to \$34.5 million compared with 2009 loan volume of \$32.3 million, primarily due to increased demand for machinery and equipment financing and operating loans. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

A decrease of \$931 thousand was noted in agribusiness loan volume. At December 31, 2010, all agribusiness, approximately 32% of real estate mortgage and approximately 21% of production and intermediate-term volume consisted of purchased interests in loans.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by participations purchased and sold, geographic locations served and commodities financed, as illustrated in the following three tables.

We purchase participation interests in loans and leases from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with lending limits we have established.

Our volume of participations purchased and sold as of December 31 follows.

<i>(dollars in thousands)</i>	2010	2009	2008
Participations purchased	\$ 84,452	\$ 85,812	\$ 79,986
Participations sold	\$ 34,595	\$ 36,767	\$ 35,823

We have no loans sold with recourse, retained subordinated participation interests in loans sold or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loans outside our territory which are included in the Other categories in the following table. In 2010, further breakdown of loans purchased outside our territory was obtained. Prior year information has been reclassified to conform with the current year presentation.

	2010	2009	2008
Alfalfa	8.66%	9.16%	8.52%
Garfield	20.03%	15.74%	15.45%
Grant	9.14%	9.84%	10.70%
Major	7.95%	9.30%	9.01%
Other Oklahoma	27.03%	31.50%	30.82%
Other Kansas	9.02%	6.38%	3.84%
Other Texas	5.08%	6.43%	5.52%
Other	13.09%	11.65%	16.14%
Total	100.00%	100.00%	100.00%

The increase in Garfield County was primarily due to increased marketing efforts resulting in the financing of an additional large farming complex.

We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, Kansas and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security or location of a headquarters. This Agreement can be terminated upon the earlier to occur of:

- 1) the time when all but one association has withdrawn as a party to the Agreement; or
- 2) December 31, 2025, or
- 3) when requested by FCA.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

SIC Category	December 31		
	2010	2009	2008
Wheat	23.30%	23.92%	24.64%
Cow/Calf	20.97%	22.66%	24.17%
Beef (excluding Cow/Calf)	16.47%	16.32%	12.67%
Corn	7.48%	5.51%	5.83%
Cash Rent	6.37%	6.44%	7.50%
Industrial organic chemicals (Biofuels)	4.05%	4.96%	5.55%
Other	21.36%	20.19%	19.64%
Total	100.00%	100.00%	100.00%

Our loan portfolio contains a concentration of wheat, cow/calf and beef. Other classification contains no single commodity concentration greater than 4.00%. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our loan volume at December 31, 2010, approximately 35% consists of borrowers with income not solely from agricultural sources, an increase from 32% for 2009, and a decrease from 38% for 2008.

The principal balance outstanding at December 31, 2010 for loans less than \$250 thousand accounted for 38.45% of loan volume and 88.65% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31.

<i>(dollars in thousands)</i>	2010		2009		2008	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250	\$ 61,531	953	\$ 63,691	948	\$ 59,038	945
\$251 - \$500	19,239	54	17,578	49	17,088	48
\$501 - \$1,000	27,613	39	26,642	37	31,131	43
\$1,001 - \$5,000	51,657	29	48,703	29	38,580	22
Total	\$ 160,040	1,075	\$ 156,614	1,063	\$145,837	1,058

Approximately 12% of our loan volume is attributable to five borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of \$957 thousand at year-end 2010, \$1.4 million at year-end 2009 and \$1.3 million at year-end 2008 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated 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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2010.

<i>(dollars in thousands)</i>	Less than 1 year	1 – 3 years	Over 5 years	Total
Commitments to extend credit	\$ 13,154	\$ 3,206	\$ 1,795	\$ 18,155
Standby letters of credit	70	5	–	75
Total commitments	\$ 13,224	\$ 3,211	\$ 1,795	\$ 18,230

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition 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 we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

<i>(dollars in thousands)</i>	2010	2009	2008
Nonaccrual loans:			
Real estate mortgage	\$ 1,092	\$ 1,603	\$ 1,499
Production and intermediate-term	70	1,116	2,764
Total nonaccrual loans	1,162	2,719	4,263
Accruing restructured loans:			
Real estate mortgage	41	70	82
Total high risk assets	\$ 1,203	\$ 2,789	\$ 4,345
Nonaccrual loans to total loans	0.73%	1.74%	2.92%
High risk assets to total loans	0.75%	1.78%	2.98%
High risk assets to total shareholders' equity	2.90%	7.06%	11.37%

We had no loans classified as 90 days past due still accruing interest and no other property owned for the years presented.

Total high risk assets decreased \$1.6 million, or 56.87%, to \$1.2 million at December 31, 2010 compared with year-end 2009. Contributing to the decrease in our high risk assets was the refinancing of loans to borrowers by an outside lender or borrowers that sold assets to reduce debt.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased \$1.6 million compared with December 31, 2009 due to reductions resulting from payoffs and transfers to accrual status. During 2010, one customer involved in the grain, livestock, and trucking industries refinanced through an outside lender. In addition, loans to two customers involved in raising crops and livestock were reinstated to accrual status. One customer comprises approximately 71% of total nonaccrual volume at December 31, 2010. This customer is involved in fruit and nut production which has been negatively impacted by the general economy and slow real estate market. The following table provides additional information on nonaccrual loans as of December 31.

<i>(dollars in thousands)</i>	2010	2009	2008
Nonaccrual loans current as to principal and interest	\$ 1,092	\$ 1,311	\$ 4,045

For the years presented, we had no cash basis nonaccrual loans and no restructured loans in nonaccrual status.

Accruing restructured loans including related accrued interest decreased \$29 thousand during 2010 primarily as a result of repayments. The restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Restructured loans do not include loans on which extensions or other non-monetary concessions have been granted, or restructured loans on which monetary concessions have been granted but which remain in nonaccrual status.

High risk asset volume is anticipated to fluctuate in the future. Stress in the general economy and potential for increased input costs will be reflected in loan classifications.

Credit Quality

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

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31.

	2010	2009	2008
Acceptable	94.81%	88.35%	95.09%
OAEM	3.93%	6.93%	0.88%
Substandard	1.26%	4.72%	4.03%
Total	100.00%	100.00%	100.00%

During 2010, overall credit quality improved. Loans classified as Acceptable and OAEM were 98.74% at December 31, 2010 and 95.28% at December 31, 2009. We had no loans classified as Doubtful or Loss for any of the three years presented. Credit quality improved during 2010 due to loan payoffs of substandard volume and loan upgrades.

With our borrowers' generally strong financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio remains strong. Agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. While credit quality is anticipated to remain sound in 2011, we expect that the less favorable economic conditions and less government support programs may lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.05% at December 31, 2010, compared with 0.49% at December 31, 2009.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors.

The following table provides relevant information regarding the allowance for loan losses as of December 31.

<i>(dollars in thousands)</i>	2010	2009	2008
Balance at beginning of year	\$ 2,089	\$ 1,570	\$ 884
Charge-offs:			
Real estate mortgage	5	—	—
Production and intermediate-term	3	—	—
Total charge-offs	8	—	—
(Loan loss reversal) Provision for loan losses	(177)	519	686
Balance at December 31	\$ 1,904	\$ 2,089	\$ 1,570
Net charge-offs to average net loans	0.01%	—	—

The following table presents the allowance for loan losses by loan type as of December 31.

<i>(dollars in thousands)</i>	2010	2009	2008
Real estate mortgage	\$ 308	\$ 478	\$ 512
Production and intermediate-term	1,198	1,017	697
Agribusiness	397	593	360
Rural residential real estate	1	1	1
Total	\$ 1,904	\$ 2,089	\$ 1,570

The allowance for loan losses decreased \$185 thousand from December 31, 2009, to \$1.9 million at December 31, 2010. The decrease in allowance for loan losses was primarily due to the net loan loss reversals totaling \$177 thousand that were recorded due to improvement in the portfolio credit quality of the livestock and grain industries. Net charge-offs of \$8 thousand were recorded during 2010 primarily due to the liquidation of an undersecured mortgage loan and the sale of a loan participation below book value. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2010	2009	2008
Allowance as a percentage of:			
Loans	1.19%	1.33%	1.08%
Impaired loans	158.27%	74.90%	36.13%
Nonaccrual loans	163.86%	76.83%	36.83%

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. We encourage the financing of YBS farmers, ranchers and producers or harvesters of aquatic products. We have developed a program to meet the needs of these applicants to the fullest extent of their creditworthiness. We support government efforts to provide beginning farmer assistance through special programs. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2007 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a loan may be included in multiple categories as each would be included in each category in which the definition was met.

	USDA	2010	2009	2008
Young	9.86%	20.69%	22.20%	22.18%
Beginning	30.05%	29.95%	31.73%	32.07%
Small	92.90%	61.07%	64.75%	68.21%

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

During 2010 we directed expertise and financial resources to meet qualitative goals. Efforts included accomplishing recordkeeping awards, livestock judging awards, citizenship awards, as well as showmanship awards for local FFA and 4-H chapters and livestock shows. Scholarships for leadership training and college education were provided. We also worked with other agricultural organizations and other Farm Credit Associations in outreach and assisting YBS farmer groups. These efforts allowed us to effectively serve this group.

Quarterly reports are provided to our Board of Directors detailing the number and volume of our YBS customers. We have developed quantitative targets to monitor our progress.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory; and
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory.

<i>(dollars in thousands)</i>	Number		Volume (in millions)	
	Target	Actual	Target	Actual
New loans to young farmers	15	54	\$ 2.50	\$ 9.80
Total loans to young farmers	175	229	\$ 14.00	\$ 24.31
New loans to beginning farmers	22	60	\$ 6.00	\$ 10.70
Total loans to beginning farmers	265	327	\$ 25.00	\$ 42.90
New loans to small farmers	70	105	\$ 9.00	\$ 12.00
Total loans to small farmers	625	667	\$ 46.00	\$ 65.06

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training and insurance services for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 25% of our permanent capital. Through lending delegations, AgBank restricts individual loan size limits to one borrower to 15% of our permanent capital; exceptions must be reported to AgBank. Within these parameters, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type and special lending programs. We have adopted an individual lending limit maximum of 14% of permanent capital for our highest quality borrowers.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is also typically secured. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance which estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The PDs and LGDs are utilized in loan and portfolio management processes and are partially utilized for the allowance for loan losses estimate. This Model also serves as the basis for economic capital modeling.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; 5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; 15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; 20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; 25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS**Earnings Summary**

In 2010, we recorded net income of \$2.5 million, compared with \$1.6 million in 2009, and \$2.0 million in 2008. The increase in 2010 was primarily due to an increase in noninterest income, net interest income and a decrease in provision for loan losses. The following table presents the changes in the significant components of net income from the previous year.

<i>(dollars in thousands)</i>	2010 vs. 2009	2009 vs. 2008
Net income, prior year	\$ 1,577	\$ 2,044
Increase/(Decrease) from changes in:		
Interest income	(67)	(367)
Interest expense	89	721
Net interest income	22	354
Provision for loan losses	696	167
Noninterest income	294	(952)
Noninterest expense	(94)	(36)
Total increase/(decrease) in net income	918	(467)
Net income, current year	\$ 2,495	\$ 1,577

Return on average assets increased to 1.51% from 0.98% in 2009, and return on average shareholders' equity increased to 6.09% from 4.04% in 2008, primarily as a result of higher AgBank patronage and a net loan loss reversal.

Net Interest Income

Net interest income for 2010 was \$4.5 million compared with \$4.5 million for 2009 and \$4.1 million for 2008. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The table below provides an analysis of the individual components of the change in net interest income during 2010 and 2009.

<i>(dollars in thousands)</i>	2010 vs. 2009	2009 vs. 2008
Net interest income, prior year	\$ 4,477	\$ 4,123
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	(394)	(1,296)
Interest rates paid	160	1,084
Volume of interest-bearing assets and liabilities	144	311
Interest income on nonaccrual loans, current period	112	255
Increase in net interest income	22	354
Net interest income, current year	\$ 4,499	\$ 4,477

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2010	2009	2008
Net interest margin	2.90%	2.96%	2.96%
Interest rate on:			
Average loan volume	5.48%	5.67%	6.42%
Average debt	3.28%	3.41%	4.40%
Interest rate spread	2.20%	2.26%	2.02%

The decrease in interest rate spread resulted from a 19 basis point decrease in interest rates on average loan volume and a 13 basis point decrease in interest rates on average debt. The decrease in net interest margin was due to the change in spread. The spread compression was caused by several factors. The spread was negatively impacted by an increase charged by AgBank of 10 basis points effective July 1, 2009 and another 10 basis points effective January 1, 2010 through September 30, 2010. During 2010, there was a shift in the loan portfolio to administered variable rate products from prime and fixed rate products by borrowers. Fixed rate products typically do not have as high a spread as variable rate products. Additionally, as the Federal Reserve lowered rates in 2008, we typically lowered our rates; however, our cost of funds did not decline as much due to spreads widening on debt.

Provision for Loan Losses/(Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable losses in our loan portfolio. We recorded net loan loss reversals of \$177 thousand in 2010, compared with net provision for loan losses of \$519 thousand in 2009 and \$686 thousand in 2008. The loan loss reversals recorded during 2010 were primarily due to improved credit quality in the livestock and grain industries. The provision for loan losses recorded in 2009 was primarily due to decreased loan portfolio credit quality, stress in the ethanol industry and general economic outlook.

Noninterest Income

During 2010, we recorded noninterest income of \$446 thousand, compared with \$152 thousand in 2009 and \$1.1 million in 2008. Patronage distributions from AgBank are our primary source of noninterest income. Beginning in 2009, patronage from AgBank was determined annually instead of quarterly and, except for certain priority patronage, paid after the end of the year. As a result, our patronage income increased in 2010, compared with 2009 where only priority patronage was paid. Patronage received was \$165 thousand in 2010, \$51 thousand in 2009, and \$545 thousand in 2008. AgBank patronage was paid in cash. During 2010, we received from Farm Credit System Insurance Company (FCSIC) a distribution of \$153 thousand representing our allocated portion of the excess amount in the System's insurance fund above the 2% secure base amount. As a result, our noninterest income increased compared with 2009. Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2010 were \$40 thousand, a decrease of \$12 thousand, from 2009, primarily due to competitive pressures. Other noninterest income was \$61 thousand in 2010, an increase of \$48 thousand from 2009 primarily due to a legal settlement regarding a breakage charge and a gain on sale of fixed assets.

Noninterest Expense

Noninterest expense for 2010 increased \$94 thousand, or 3.71%, to \$2.6 million compared with 2009. Noninterest expense for each of the three years ended December 31 is summarized below:

<i>(dollars in thousands)</i>	Percent of Change				
	2010	2009	2008	2010/2009	2009/2008
Salaries & employee benefits	\$ 1,373	\$ 1,201	\$ 1,114	14.3%	7.8%
Occupancy & equipment	213	208	275	2.4%	(24.4%)
Purchased services from AgVantis	220	195	179	12.8%	8.9%
Supervisory & examination costs	66	60	56	10.0%	7.1%
Other	622	607	664	2.5%	(8.6%)
Total operating expense	2,494	2,271	2,288	9.8%	(0.7%)
Farm Credit Insurance Fund premium	69	262	209	(73.7%)	25.4%
Conversion fee expense	64	-	-	100.0%	-
Total noninterest expense	\$ 2,627	\$ 2,533	\$ 2,497	3.7%	1.4%

For the year ended December 31, 2010, total operating expense increased \$223 thousand, or 9.82%, compared with the year ended December 31, 2009. Salaries and employee benefits increased primarily due to the addition of one employee for most of the year and an increase in pension funding. Purchased services from AgVantis increased due to increased costs of technology services.

Insurance Fund premium decreased \$193 thousand to \$69 thousand due to a decrease in the premium rate offset by an increase in volume. As of July 1, 2008, the FCSIC began charging premiums based on debt rather than loan volume. Rates were decreased to 5 basis points during 2010 compared with 20 basis points during 2009. Premium rates were 15 basis points on average loan volume during the first six months of 2008. During the last six months of 2008 premiums were charged on average debt at 15 basis points for the third quarter and 18 basis points for the fourth quarter. Additionally, we were assessed a \$64 one-time conversion fee expense from AgBank for loans converted to fixed options.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with AgBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to maximize debt reduction. Our direct loan with AgBank, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with AgBank. Our note payable to AgBank is collateralized by a pledge to AgBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA). The GFA is subject to renewal at its expiration date of April 30, 2012 in accordance with normal business practices. We expect renewal of the GFA after the expiration date. The annual average principal balance of the note payable to AgBank was \$122.1 million in 2010, \$119.9 million in 2009 and \$109.2 million in 2008.

We plan to continue to fund lending operations through the utilization of our borrowing relationship with AgBank, retained earnings from current and prior years and from borrower stock investments. AgBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets have experienced significant volatility in 2008 and 2009, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with AgBank which allows for loans to be match-funded. Borrowings from AgBank match the pricing, maturity, and option characteristics of our loans to borrowers. AgBank manages interest rate risk through the direct loan pricing and their asset/liability management processes. Although AgBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess funds with AgBank at a fixed rate as a part of AgBank's Earnings Stabilization Management Program (ESMP). This enables us to stabilize earnings without significantly increasing our overall interest rate risk position.

Our ESMP commitment balance and the average interest rate as of December 31 in the various maturities are reflected below:

<i>(dollars in thousands)</i>	2010		2009		2008	
	Balance	Average Rate	Balance	Average Rate	Balance	Average Rate
Maturing in 1 year or less	\$ 4,600	1.28%	\$ 4,800	1.54%	\$ 1,400	4.43%
Maturing in 1 to 3 years	5,700	1.66%	3,000	2.26%	800	3.74%
Maturing in over 3 years	900	3.20%	800	3.30%	—	—
Total	\$ 11,200	1.63%	\$ 8,600	1.95%	\$ 2,200	4.18%

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by AgBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2010 totaled \$41.5 million, compared with \$39.5 million at December 31, 2009 and \$38.2 million at December 31, 2008. The increase of \$2.0 million in shareholder's equity reflects net income, partially offset by patronage refunds, net stock retirements and a decrease in accumulated other comprehensive income. Our capital position is reflected in the following ratio comparisons.

	2010	2009	2008
Debt to shareholders' equity	3.08:1	3.21:1	3.07:1
Shareholders' equity as a percent of net loans	26.27%	25.58%	26.48%
Shareholders' equity as a percent of total assets	24.52%	23.75%	24.55%

Debt to shareholders' equity decreased and shareholders' equity as a percent of net loans and of total assets increased from 2009 primarily due to net income and a slower growth in new loan volume during 2010.

Retained Earnings

Our retained earnings increased \$2.0 million to \$40.9 million at December 31, 2010 from \$38.9 million at December 31, 2009. The increase was a result of net income of \$2.5 million, partially offset by \$450 thousand of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, this includes increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of \$250 thousand in 2010, \$500 thousand in 2009 and \$555 thousand in 2008.

Stock

Our total stock decreased \$22 thousand to \$631 thousand at December 31, 2010, from \$653 thousand at December 31, 2009. The decrease was due to \$84 thousand of stock retirements, partially offset by \$62 thousand of stock issuances. We require a stock investment for each borrower. The current initial investment requirement is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive income/loss totaled \$15 thousand at December 31, 2010, a decrease of \$5 thousand compared with year-end 2009. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). FASB guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow.

	Regulatory Minimum	2010	2009	2008
Permanent capital ratio	7.00%	22.93%	21.56%	23.18%
Total surplus ratio	7.00%	22.56%	21.18%	22.76%
Core surplus ratio	3.50%	22.41%	21.18%	22.76%

As of December 31, 2010, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2011. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2010, we have exceeded our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

REGULATORY MATTERS

As of December 31, 2010, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

The FCA is considering the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital structure would be similar to the capital tiers delineated in the Basel Accord that the other

Federal financial regulatory agencies have adopted for the banking organizations they regulate. Comments on the advance notice of proposed rulemaking are due in May 2011.

On June 16, 2008, the FCA published a proposed rule in the Federal Register that would authorize Banks, Associations or service corporations to invest in rural communities, i.e., communities that have fewer than 50,000 residents and are outside of an urbanized area, under certain conditions. The proposed rule would authorize two types of rural community investments: (1) investment in debt securities that would involve projects or programs that benefit the public in rural communities, and (2) equity investment in venture capital funds, which funds create economic opportunities and jobs in rural communities by providing capital to small or start-up businesses. Under the proposed rule, these investments would be limited to 150% of the institution's total surplus. The comment period closed August 15, 2008. A date for final action on the rule has not been determined.

GOVERNANCE

Board of Directors

We are governed by a five member board that provides direction and oversees our management. Of these directors, four are elected by the shareholders and one is appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of five members of the Board of Directors. During 2010, ten meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of the full Board. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints,
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer,
- open lines of communication between the independent auditors, management, and the Audit Committee,
- “plain English” disclosures,
- officer certification of accuracy and completeness of the consolidated financial statements, and
- information disclosure through our website.

FORWARD-LOOKING INFORMATION

Our discussion 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,” and “will,” or other variations of these terms are intended to identify 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, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to determination of the allowance for loan losses follows.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historic charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower’s overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers’ nonpublic information.



Farm Credit of Enid, ACA
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REPORT OF MANAGEMENT

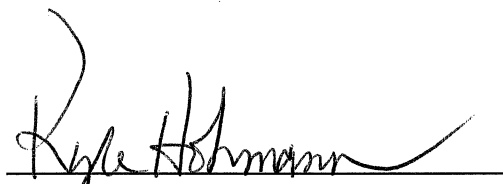
The financial statements of Farm Credit of Enid, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2010 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, U.S. AgBank, FCB's Risk Management staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Farm Credit of Enid, ACA Annual Report has been reviewed, 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 our knowledge and belief.


Lyndal Skaggs
Chairman of the Board


Kyle Hohmann
President and Chief Executive Officer


Karen Pittman
Chief Financial Officer

March 11, 2011



Farm Credit of Enid, ACA
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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes all members from the Board of Directors of Farm Credit of Enid, ACA (Association). In 2010, ten Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's 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 responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2010.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2010 were \$12,372 for audit services, and \$6,100 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

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. PwC 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 these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's financial statements for the year ended December 31, 2010 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2010.

Dennis Schultz, Chairman of the Audit Committee

Audit Committee Members

David Martens, Vice Chairman
Dale Hayes, Member
Bryan Fischer, Member
Lyndal Skaggs, Member

March 11, 2011

Consolidated Statement of Condition

	December 31		
	2010	2009	2008
(Dollars in Thousands)			
ASSETS			
Loans	\$ 160,040	\$ 156,614	\$ 145,837
Less allowance for loan losses	1,904	2,089	1,570
Net loans	158,136	154,525	144,267
Cash	914	1,283	903
Accrued interest receivable	2,077	2,492	2,728
Investment in U.S. AgBank, FCB	4,070	3,814	3,327
Premises and equipment, net	3,849	3,917	4,045
Prepaid benefit expense	196	231	201
Other assets	169	159	155
Total assets	\$ 169,411	\$ 166,421	\$ 155,626
LIABILITIES			
Note payable to U.S. AgBank, FCB	\$ 125,264	\$ 124,114	\$ 114,004
Advance conditional payments	62	141	15
Accrued interest payable	1,426	1,562	2,169
Patronage distributions payable	450	250	500
Accrued benefits liability	85	90	108
Other liabilities	577	735	628
Total liabilities	127,864	126,892	117,424
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	16	19	26
Capital stock	615	634	648
Unallocated retained earnings	40,901	38,856	37,529
Accumulated other comprehensive income/(loss)	15	20	(1)
Total shareholders' equity	41,547	39,529	38,202
Total liabilities and shareholders' equity	\$ 169,411	\$ 166,421	\$ 155,626

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

Consolidated Statement of Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2010	2009	2008
INTEREST INCOME			
Loans	\$ 8,502	\$ 8,569	\$ 8,936
Total interest income	8,502	8,569	8,936
INTEREST EXPENSE			
Note payable to U.S. AgBank, FCB	4,001	4,090	4,808
Other	2	2	5
Total interest expense	4,003	4,092	4,813
Net interest income	4,499	4,477	4,123
(Loan loss reversal)/Provision for loan losses	(177)	519	686
Net interest income after (loan loss reversal)/provision for loan losses	4,676	3,958	3,437
NONINTEREST INCOME			
Financially related services income	27	36	12
Loan fees	40	52	57
Patronage distribution from U.S. AgBank, FCB	165	51	545
Farm Credit Insurance Fund distribution	153	-	-
Gain on sale of building	-	-	479
Other noninterest income	61	13	11
Total noninterest income	446	152	1,104
NONINTEREST EXPENSE			
Salaries and employee benefits	1,373	1,201	1,114
Occupancy and equipment	213	208	275
Purchased services from AgVantis, Inc.	220	195	179
Farm Credit Insurance Fund premium	69	262	209
Supervisory and examination costs	66	60	56
Conversion fee expense	64	-	-
Other noninterest expense	622	607	664
Total noninterest expense	2,627	2,533	2,497
Net income	\$ 2,495	\$ 1,577	\$ 2,044

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2007	\$ 38	\$ 671	\$ 35,986	\$ (2)	\$ 36,693
Adjustment to beginning balance due to pension accounting change			(1)		(1)
Balance at January 1, 2008	38	671	35,985	(2)	36,692
Comprehensive income					
Net income			2,044		
Change in retirement obligation				1	
Total comprehensive income					2,045
Stock issued	-	74			74
Stock retired	(12)	(97)			(109)
Patronage distributions: Cash			(500)		(500)
Balance at December 31, 2008	26	648	37,529	(1)	38,202
Comprehensive income					
Net income			1,577		
Change in retirement obligation				21	
Total comprehensive income					1,598
Stock issued	-	68			68
Stock retired	(7)	(82)			(89)
Patronage distributions: Cash			(250)		(250)
Balance at December 31, 2009	19	634	38,856	20	39,529
Comprehensive Income					
Net income			2,495		
Change in retirement obligation				(5)	
Total comprehensive income					2,490
Stock issued	-	62			62
Stock retired	(3)	(81)			(84)
Patronage distributions: Cash			(450)		(450)
Balance at December 31, 2010	\$ 16	\$ 615	\$ 40,901	\$ 15	\$ 41,547

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,495	\$ 1,577	\$ 2,044
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	125	139	181
(Loan loss reversal)/Provision for loan losses	(177)	519	686
Gains on sales of premises and equipment	(13)	(2)	(479)
Change in assets and liabilities:			
Decrease in accrued interest receivable	415	236	95
Decrease/(Increase) in prepaid benefit expense	35	(30)	(46)
(Increase)/Decrease in other assets	(10)	(4)	16
Decrease in accrued interest payable	(136)	(607)	(469)
(Decrease)/Increase in accrued benefits liability	(10)	3	(13)
(Decrease)/Increase in other liabilities	(158)	107	(150)
Total adjustments	71	361	(179)
Net cash provided by operating activities	2,566	1,938	1,865
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(3,434)	(10,777)	(10,163)
Increase in investment in U.S. AgBank, FCB	(256)	(487)	(10)
(Expenditures for)/Sales of premises and equipment, net	(44)	(9)	486
Net cash used in investing activities	(3,734)	(11,273)	(9,687)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to U.S. AgBank, FCB	1,150	10,110	8,641
(Decrease)/Increase in advance conditional payments	(79)	126	(577)
Protected borrower stock retired	(3)	(7)	(12)
Capital stock retired	(81)	(82)	(97)
Capital stock issued	62	68	74
Cash patronage distributions paid	(250)	(500)	(555)
Net cash provided by financing activities	799	9,715	7,474
Net (decrease)/increase in cash	(369)	380	(348)
Cash at beginning of year	1,283	903	1,251
Cash at end of year	\$ 914	\$ 1,283	\$ 903
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for interest	\$ 4,139	\$ 4,699	\$ 5,282
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Net charge-offs	\$ 8	\$ -	\$ -
Patronage distributions payable	\$ 450	\$ 250	\$ 500
Change in accumulated other comprehensive income/(loss)	\$ (5)	\$ 21	\$ 1

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

- A. Organization: Farm Credit of Enid, ACA and its subsidiaries, Farm Credit of Enid, FLCA, (Federal Land Credit Association) (FLCA)) and Farm Credit of Enid, PCA, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Alfalfa, Garfield, Grant, and Major in the state of Oklahoma.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2010, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and approximately 90 associations.

U.S. AgBank, FCB (AgBank), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. AgBank provides the majority of funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to AgBank and certain associations. On December 31, 2010, the District consisted of AgBank, 24 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), two FLCAs and AgVantis.

In November of 2010, the AgBank Board of Directors voted to pursue a merger with CoBank, ACB, another Farm Credit System Bank. The proposed merger is targeted to be effective on October 1, 2011. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and 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 institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets 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 Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2 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. AgBank passes this premium expense through to each Association based on the Association’s average adjusted note payable with AgBank.

- B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided 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, their cooperatives, rural residents and farm-related businesses.

The Association also offers credit life insurance, mortgage life and disability insurance, multi-peril crop and crop hail insurance and provides additional services to borrowers such as appraisal services and leasing services.

The Association's financial condition may be impacted by factors affecting AgBank. Certain District expenses are allocated to the Associations. Disclosure of certain accounting policies related to these costs is included in the U.S. AgBank District Annual Report to Shareholders (District's Annual Report). The District's Annual Report is available free of charge on AgBank's website, www.usagbank.com; or may be obtained at no charge by contacting the Association at 1605 W. Owen K. Garriott Road, Enid, Oklahoma 73703 or calling (580) 233-3489 or (800) 814-6407. Upon request, Association shareholders will be provided with a copy of the District's Annual Report, which includes the combined financial statements of AgBank and its related Associations, and AgVantis. The District's Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities by the Insurance Corporation.

The lending and financial services offered by AgBank are described in Note 1 of AgBank's Annual Report.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires Association management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statement presentation.

The consolidated financial statements include the accounts of Farm Credit of Enid, FLCA and Farm Credit of Enid, PCA. All significant inter-company transactions have been eliminated in consolidation. Recently issued or adopted accounting pronouncements follow.

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 non-public entities, all disclosures 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.

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 were 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 expanded 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. 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.

Below is a summary of our significant accounting policies.

- A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that all principal and interest will not 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 contract 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 is collected in full or otherwise discharged.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

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.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, prior charge-offs have been recovered in full, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified Doubtful or Loss under the Uniform Classification System (UCS).

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

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

A specific allowance may be established for impaired loans under GAAP. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, by the loan's observable market price, or fair value of the collateral, if the loan is collateral dependent.

- B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions.
- C. Investment in AgBank: The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 5.00 percent of average direct loan volume, net of excess investment. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock.
- D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense and improvements above certain thresholds are capitalized.
- E. Other Assets and Other Liabilities: Other assets are comprised primarily of prepaid expenses and investment in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable and employee benefits.
- F. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Unrestricted advanced conditional payments are included in other interest bearing liabilities. Restricted advanced conditional payments are primarily associated with mortgage loans, while non-restricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.
- G. Employee benefit plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. Detailed financial information for the Pension Plan may be found in the District's Annual Report.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

- H. Patronage Distribution from AgBank: Patronage distributions are made by AgBank annually, except for certain priority patronage. The Association records patronage distributions from AgBank upon receipt of the distribution.
- I. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated 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 taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

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 distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association 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, the deferred tax assets 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.

- J. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.
- K. Fair Value Measurement: 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 include assets held in trust funds which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets include certain loans and other property owned.

The fair value disclosures are presented in Note 14.

- L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is

essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2010	2009	2008
Real estate mortgage	\$ 114,190	\$ 112,051	\$ 108,048
Production and intermediate-term Agribusiness:	34,531	32,264	24,765
Loans to cooperatives	3,457	283	387
Process and marketing	7,572	9,026	9,748
Farm related business	–	2,651	2,672
Rural residential real estate	290	339	217
Total loans	\$ 160,040	\$ 156,614	\$ 145,837

The Association's concentration of credit risk in various agricultural commodities is shown in the following table.

SIC Category	December 31					
	2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
Wheat	\$ 37,289	23.30%	\$ 37,462	23.92%	\$ 35,934	24.64%
Cow/Calf	33,560	20.97%	35,489	22.66%	35,249	24.17%
Beef (excluding Cow/Calf)	26,359	16.47%	25,559	16.32%	18,478	12.67%
Corn	11,971	7.48%	8,629	5.51%	8,502	5.83%
Cash rent	10,195	6.37%	10,086	6.44%	10,938	7.50%
Industrial organic chemicals (Biofuels)	6,482	4.05%	7,768	4.96%	8,094	5.55%
Other	34,184	21.36%	31,621	20.19%	28,642	19.64%
Total	\$ 160,040	100.00%	\$ 156,614	100.00%	\$ 145,837	100.00%

While the percentages shown in the previous table represent the relative amounts of the Association's potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the Association's current loss exposure is indicated in the consolidated financial statements in the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed or enhanced 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 loan to value ratios in excess of the regulatory maximum.

Credit enhancements with government agencies of \$957 at year-end 2010, \$1,414 at year-end 2009 and \$1,334 at year-end 2008 were outstanding.

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

	December 31		
	2010	2009	2008
Nonaccrual loans:			
Current as to principal and interest	\$ 1,092	\$ 1,311	\$ 4,045
Past due	70	1,408	218
Total nonaccrual loans	1,162	2,719	4,263
Impaired accrual loans:			
Restructured	41	70	82
Total impaired loans	\$ 1,203	\$ 2,789	\$ 4,345

There were no loans classified as accruing loans 90 days or more past due for the years presented.

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans and average impaired loans.

	Year Ended December 31		
	2010	2009	2008
Interest income recognized on:			
Nonaccrual loans	\$ 112	\$ 255	\$ 45
Restructured accrual loans	1	3	4
Accrual loans 90 days or more past due	1	14	1
Interest income recognized on impaired loans	\$ 114	\$ 272	\$ 50
Average impaired loans	\$ 2,469	\$ 4,562	\$ 1,122

No impaired loans had a related allowance for the periods presented.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	Year Ended December 31		
	2010	2009	2008
Interest income which would have been recognized under the original loan terms	\$ 156	\$ 276	\$ 235
Less: interest income recognized	113	258	49
Foregone interest income	\$ 43	\$ 18	\$ 186

A summary of the changes in the allowance for loan losses follows.

	2010	2009	2008
Balance at beginning of year	\$ 2,089	\$ 1,570	\$ 884
Charge-offs:			
Real estate mortgage	5	-	-
Production and intermediate-term	3	-	-
Total charge-offs	8	-	-
(Loan loss reversal)/Provision for loan losses	(177)	519	686
Balance at December 31	\$ 1,904	\$ 2,089	\$ 1,570
Net charge-offs to average net loans	0.01%	-	-

A breakdown of the allowance for loan losses by type of loan and the percent of total allowance follows.

	December 31					
	2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage	\$ 308	16.18%	\$ 478	22.88%	\$ 512	32.61%
Production and intermediate-term	1,198	62.92%	1,017	48.68%	697	44.40%
Agribusiness	397	20.85%	593	28.39%	360	22.93%
Rural residential real estate	1	0.05%	1	0.05%	1	0.06%
Total	\$ 1,904	100.00%	\$ 2,089	100.00%	\$ 1,570	100.00%

NOTE 4 – INVESTMENT IN AGBANK

The Association is required to maintain an investment in AgBank equal to 5.00 percent of average direct loan volume, net of excess investment. The Association's investment in AgBank may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock. The Association's stock investment in AgBank is in the form of Class A Stock. The investment in AgBank is adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances. If needed to meet capital adequacy requirements, AgBank may require the Association to purchase at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve month period.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2010	2009	2008
Land	\$ 408	\$ 408	\$ 408
Building and leasehold improvements	3,659	3,659	3,659
Furniture, equipment and automobiles	396	391	382
	4,463	4,458	4,449
Less: accumulated depreciation	614	541	404
Total	\$ 3,849	\$ 3,917	\$ 4,045

NOTE 6 – NOTE PAYABLE TO AGBANK

The Association's indebtedness to AgBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for a \$135.0 million line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2010. Substantially all borrower loans are match-funded with AgBank. Payments and disbursements are made on the note payable to AgBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The weighted average interest rate was 3.28 percent for the year ended December 31, 2010. The line of credit expires on April 30, 2011; however, the Association expects renewal of the line of credit. Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire. So long as the Association is not in material default under the GFA, AgBank will continue to make advances (that do not exceed the amount payable under the promissory note) for undisbursed outstanding commitments on borrower loans which are not in default. The note payable to AgBank will continue until it has been fully discharged.

The Association has the opportunity to commit funds with AgBank in the Earnings Stabilization Management Program at a fixed rate for a specified timeframe. Participants in the program receive a fixed rate credit on the committed funds balance classified as a reduction of interest expense. These committed funds, which are netted against the note payable to AgBank, as of December 31, follow.

	2010	2009	2008
Committed funds	\$ 11,200	\$ 8,600	\$ 2,200
Average rates	1.63%	1.95%	4.18%

Under the Farm Credit Act, the Association is obligated to borrow only from AgBank, unless AgBank gives approval to borrow elsewhere. AgBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, the Association's notes payable are within the specified limitations.

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Protected Stock

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

B. Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2010, the Association's permanent capital ratio was 22.93 percent, total surplus ratio was 22.56 percent and core surplus ratio was 22.41 percent.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2010. Unless otherwise indicated all classes of stock have a par value of \$5.00.

Class A Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.

Class B Common Stock (Voting, at-risk, 122,597 shares outstanding) – Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or

harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

- Class C Common Stock (Nonvoting, at-risk, 342 shares outstanding) – Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class D Common Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) – Issued to AgBank or to any person through direct sale.
- Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and AgBank) – Issued only to AgBank in consideration of financial assistance to the Association from AgBank. Retirement is at the sole discretion of the Board of Directors.
- Class F Common Stock (Voting, protected, 3,104 shares outstanding) – Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class G Common Stock (Nonvoting, protected, no shares outstanding) – Issued only to those individuals and entities who held the same class of stock in a predecessor to the Association and as necessary for conversions from Class F Common Stock. No further shares of Class G Common Stock will be issued. It must be retired upon repayment of the loan.

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of \$250 in 2010, \$500 in 2009 and \$555 in 2008. The Association declared a cash patronage of \$450 in 2010 for distribution in 2011.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a

qualified/cash patronage refund. For 2010, the Association allocated 18.03 percent of its patronage-sourced net income to its patrons.

F. Other Comprehensive Income/Loss

The Association reports other comprehensive income/loss in its Consolidated Statement of Changes in Shareholder's Equity. As more fully described in Note 2, other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits of income of \$15 in 2010 and \$20 in 2009 and loss of \$1 in 2008. There were no other items affecting comprehensive income or loss.

NOTE 8 – PATRONAGE DISTRIBUTION FROM AGBANK

The patronage distribution from AgBank was distributed in cash. Patronage paid by AgBank to the Association was \$165 in 2010, \$51 in 2009 and \$545 in 2008.

NOTE 9 – INCOME TAXES

The Association recorded no provision for income taxes for the years presented. The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows.

	Year Ended December 31		
	2010	2009	2008
Federal tax at statutory rate	\$ 848	\$ 536	\$ 695
Effect of nontaxable entity	(842)	(651)	(867)
Increase in valuation allowance	(6)	52	172
Prior year provision difference	–	63	–
Provision for income taxes	\$ –	\$ –	\$ –

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2010	2009	2008
Deferred income tax assets:			
Allowance for loan losses	\$ 115	\$ 125	\$ 81
Nonaccrual loan interest	1	20	1
Net operating loss carryforwards	1,408	1,385	1,390
Gross deferred tax assets	1,524	1,530	1,472
Deferred tax asset valuation allowance	(1,412)	(1,418)	(1,360)
Deferred income tax liabilities:			
Investment in AgBank	(112)	(112)	(112)
Gross deferred tax liability	(112)	(112)	(112)
Net deferred tax asset	\$ –	\$ –	\$ –

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income. The expected future tax rates are based upon enacted tax laws.

The Association recorded a valuation allowance of \$1,412 during 2010, \$1,418 during 2009 and \$1,360 during 2008. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2010, the Association had federal net operating loss carryforwards that expire from 2021 to 2030.

The Association has no uncertain tax positions as of December 31, 2010, 2009 or 2008. The tax years that remain open for federal and major state income tax jurisdictions are 2007 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

The employees of the Association may participate in the District's defined benefit pension plan (Pension Plan). The Pension Plan is noncontributory and covers a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plan, the Association funded \$93 for 2010, \$115 for 2009 and \$117 for 2008, through its note payable to AgBank. Pension Plan expenses included in salaries and employee benefits expense were \$128 for 2010, \$85 for 2009 and \$72 for 2008. Additional financial information for the Pension Plan may be found in the District's Annual Report.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits) included in salaries and employee benefits were \$2 for 2010, \$7 for 2009 and \$6 for 2008. During 2008, the life insurance benefit in the plan was funded by a one-time buy-out contribution with an insurance company resulting in income recognition of \$2 and additional cash contributions of \$14. Additional financial information for this plan may be found in the District's Annual Report.

The Association participates in a District-wide non-qualified defined benefit Pension Restoration Plan that is unfunded. The purpose of the Pension Restoration Plan is to supplement a participant's benefits under the District's other retirement plans to the extent that such benefits are reduced by the limitations imposed by the Internal Revenue Code. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were income of \$5 for 2010 and expenses of \$2 for 2009 and 2008.

FASB guidance requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans as an asset or liability with an offsetting adjustment to accumulated other comprehensive income on the balance sheet. This guidance also requires that the benefit obligation and plan assets be measured as of the fiscal year-end for years ending after December 15, 2008. The guidance provided two approaches for an employer to transition to a fiscal year end measurement date. The District applied the second approach which allowed for the use of the measurements determined for the prior year end. Under this second approach, pension benefit expense 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 \$1, net of tax and increased the pension restoration liability by \$1.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan follows:

	Nonqualified Pension Benefits		
	2010	2009	2008
Change in benefit obligation:			
Benefit obligation at the beginning of the period	\$ -	\$ 19	\$ 17
Service cost	-	1	1
Interest cost	-	1	2
Actuarial gain	-	(21)	(1)
Benefit obligation at the end of the period	\$ -	\$ -	\$ 19
Fair value of plan assets at the end of the period	-	-	-
Funded status of the plan	\$ -	\$ -	\$ (19)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	\$ -	\$ -	\$ 19
Net amount recognized	\$ -	\$ -	\$ 19

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31:

	2010	2009	2008
Net actuarial gain/(loss)	\$ 15	\$ 20	\$ (1)
Total amount recognized in AOCI/(loss)	\$ 15	\$ 20	\$ (1)

An estimated net actuarial gain of \$4 and no prior service cost for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2010	2009	2008
Projected benefit obligation	\$ -	\$ -	\$ 19
Accumulated benefit obligation	\$ -	\$ -	\$ 10

The net periodic pension expense for the defined benefit pension restoration plan included in the Consolidated Statement of Income is comprised of the following at December 31.

	Pension Benefits		
	2010	2009	2008
Components of net periodic benefit cost/(income)			
Service cost	\$ -	\$ 1	\$ 1
Interest cost	-	1	1
Net amortization and deferral	(5)	-	-
Net periodic benefit (income)/cost	\$ (5)	\$ 2	\$ 2

The adjustment to retained earnings due to the change in measurement date is detailed below.

	2008
Interest cost	\$ (1)
Total adjustment to retained earnings	\$ (1)

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2010	2009	2008
Current year net actuarial gain	\$ -	\$ 21	\$ 1
Amortization of net actuarial gain/(loss)	(5)	-	-
Total recognized in other comprehensive income	\$ (5)	\$ 21	\$ 1

Weighted average assumptions used to determine benefit obligation at December 31:

	Pension Benefits		
	2010	2009	2008
Discount rate	5.30%	5.65%	6.35%
Rate of compensation increase	5.00%	5.00%	5.00%

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

	Pension Benefits		
	2010	2009	2008
Discount rate	5.65%	6.35%	6.35%
Rate of compensation increase	5.00%	5.00%	5.00%

The Association does not expect to contribute to the pension restoration plan in 2011.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to this plan were \$74 in 2010, \$67 in 2009 and \$72 in 2008.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2010	2009	2008
New loans	\$ 113	\$ 150	\$ 46
Repayments	\$ 105	\$ 110	\$ 146
Ending balance	\$ 483	\$ 476	\$ 868

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2010 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid \$220 in 2010, \$195 in 2009 and \$179 in 2008 to AgVantis for technology services and \$29 in 2010, \$30 in 2009 and \$26 in 2008 to AgBank for operational services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2010, \$18,155 of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments 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 credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2010, \$75 of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from July 2011 to February 2012. The maximum potential amount of future payments the Association is required to make under the guarantees is \$75. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

NOTE 14 – 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. The fair value measurement is not an indication of liquidity. See Note 2 for additional information. Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2010	\$ 76	\$ –	\$ –	\$ 76
2009	\$ 69	\$ –	\$ –	\$ 69
2008	\$ 70	\$ –	\$ –	\$ 70

During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

The Association has no assets or liabilities measured at fair value on a non-recurring basis for any of the periods presented.

Valuation Techniques

As more fully discussed in Note 2, 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 presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

NOTE 15 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31. Quoted market prices are generally not available for certain financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments follow.

	December 31					
	2010		2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	\$ 158,136	\$ 159,790	\$ 154,525	\$ 156,500	\$ 144,267	\$ 147,113
Cash	\$ 914	\$ 914	\$ 1,283	\$ 1,283	\$ 903	\$ 903
Investment in AgBank	\$ 4,070	\$ 4,070	\$ 3,814	\$ 3,814	\$ 3,327	\$ 3,327
Assets held in nonqualified benefits trust	\$ 76	\$ 76	\$ 69	\$ 69	\$ 70	\$ 70
Financial liabilities:						
Note payable to AgBank	\$ 125,264	\$ 127,707	\$ 124,114	\$ 125,528	\$ 114,004	\$ 117,033
Advance conditional payments	\$ 62	\$ 62	\$ 141	\$ 141	\$ 15	\$ 15
Commitments to extend credit	\$ –	\$ –	\$ –	\$ NA	\$ –	\$ NA
Standby letters of credit	\$ –	\$ 1	\$ –	\$ NA	\$ –	\$ NA

NA – Not available

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 the value follows.

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

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which 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, which 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 the net realizable value.

- B. Cash: The carrying value is a reasonable estimate of fair value.
- C. Investment in AgBank: Estimating the fair value of the Association's investment in AgBank is not practicable because the stock is not traded. As described in Note 4, the investment is a requirement of borrowing from AgBank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 0.64 percent of the issued stock of AgBank as of December 31, 2010. As of that date, AgBank's assets total \$25.39 billion and shareholders' equity totaled \$1.37 billion. AgBank's earnings were \$136.6 million during 2010.
- D. Assets held in nonqualified benefits trusts: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 14, the fair value of these assets is determined by quoted net asset values.
- E. Notes payable to AgBank: The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets), which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current interest rate that would be charged for borrowings. For purposes of this estimate, it is assumed the cash flow on the notes payable is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable.
- F. Advance conditional payments: The carrying value is a reasonable estimate of fair value as these funds are held in cash.
- G. Commitments to Extend Credit and Standby Letters of Credit: The fair value of commitments reflects the estimated gain/(loss) assuming undrawn loan commitments are recorded as new loan volume on the fair value measurement date, and considers the difference between current levels of interest rates and the committed rates. The fair value of the standby letters of credit represents discounted fee income cash flows. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,077	\$ 1,096	\$ 1,119	\$ 1,207	\$ 4,499
(Loan loss reversal)/Provision for loan losses	(70)	(46)	(62)	1	(177)
Noninterest expense, net	253	565	501	862	2,181
Net income	\$ 894	\$ 577	\$ 680	\$ 344	\$ 2,495

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,039	\$ 1,081	\$ 1,102	\$ 1,255	\$ 4,477
Provision for loan losses/(Loan loss reversal)	106	270	182	(39)	519
Noninterest expense, net	474	533	580	794	2,381
Net income	\$ 459	\$ 278	\$ 340	\$ 500	\$ 1,577

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,051	\$ 1,048	\$ 982	\$ 1,042	\$ 4,123
Provision for loan losses/(Loan loss reversal)	51	(108)	93	650	686
Noninterest expense/(income), net	474	423	(51)	547	1,393
Net income/(loss)	\$ 526	\$ 733	\$ 940	\$ (155)	\$ 2,044

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 11, 2011, which is the date the financial statements were issued, and no material subsequent events were identified.



Report of Independent Auditors

To the Board of Directors and Shareholders of
Farm Credit of Enid, ACA:

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows present fairly, in all material respects, the financial position of Farm Credit of Enid, ACA and subsidiaries (the Association) at December 31, 2010, 2009 and 2008, and the results of its operations and its 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 11, 2011

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and 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 financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
1605 W. Owen K. Garriott Road Enid, Oklahoma 73703	Office Building	Owned

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, "Regulatory Enforcement Matters," and Note 13 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 6 to the financial statements, "Note Payable to AgBank," included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," to the financial statements, included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 included in this annual report to shareholders.

SELECTED FINANCIAL DATA

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following reflects the past 5 years business experience for each director and senior officer and represents certain information regarding the directors and senior officers of the Association.

DIRECTORS

- Lyndal Skaggs - Chairman. Mr. Skaggs is a farmer and rancher and is also employed by ConocoPhillips Pipeline Company. He was first elected to the board in 1987. He is a partner of Skaggs Brothers, a mineral rights purchasing business. He was serving a three-year term expiring in 2012 prior to resigning from the board in 2009. He was appointed by the board November 20, 2009 to complete the remainder of a three-year term of the appointed director expiring in 2010. Mr. Skaggs is serving a three year term expiring in 2013.
- David Martens - Vice-Chairman. Mr. Martens is a farmer, rancher and oil and gas producer, serving a three-year term expiring in 2011. He was first elected to the board in 1993. Mr. Martens also serves on the board for Major County EMS, whose principal business is providing emergency medical services in Major County, Oklahoma. He is a partner of Pam-Mar Production, an oil and gas production business.
- Bryan Fischer - Director. Mr. Fischer is a farmer and rancher serving a three-year term expiring in 2013. He was first elected to the board in 2001. He is a member of Alfalfa County Farm Service Agency Committee, which provides oversight of Farm Service Agency at the county level.
- Dale Hayes - Director. Mr. Hayes is a farmer and rancher serving a three-year term expiring in 2011. He was first elected to the board in 1989. Mr. Hayes also serves on the AgBank District Nominating Committee and is the Association's Stockholder Advisory Committee Representative on the AgBank Farm Credit Council Board.
- Dennis Schultz - Director. Mr. Schultz is a farmer and rancher serving a three-year term expiring in 2012. He was first elected to the board in 2003.

SENIOR OFFICERS

- Kyle Hohmann - President and Chief Executive Officer. Mr. Hohmann has served in the Farm Credit System since August 6, 1984. He has served as Chief Executive Officer since 1992. Mr. Hohmann is also a member of the board for Autry Technology Center, a vocational-technical school in Enid, Oklahoma.
- Fred Slater - Vice President and Chief Credit Officer. Mr. Slater has served in the Farm Credit System since April 24, 1995. He has served as Chief Credit Officer since June 1, 2008. Mr. Slater is a member of the board for Major County Farm Bureau, a service-oriented organization. Mr. Slater is also on the Major County Fair Board involved in the planning and organizing of the county fair.
- Karen Pittman - Vice President and Chief Financial Officer. Mrs. Pittman has served in the Farm Credit System since August 25, 1975. She has served as Chief Financial Officer since 1998.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of \$500 per day, and were reimbursed mileage at the rate of \$0.50 per mile during 2010 while on official business. The Compensation and Audit committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director is provided below:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Total Compensation Paid During 2010
Lyndal Skaggs	9	6	\$ 7,500
David Martens	9	13	11,000
Bryan Fischer	9	7	8,000
Dale Hayes	9	14	11,500
Dennis Schultz	9	9	9,000
Total Compensation			\$ 47,000

Directors and senior officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were and \$37,350 in 2010, \$40,223 in

2009 and \$38,564 in 2008. The Association also provided a personal computer allowance totaling \$1,400 for two directors during 2010. Noncash or other compensation paid to directors as a group was less than \$1,000.

The Annual Meeting Information Statement is available for public inspection at the Association office. Required senior officer compensation information is included in the Association's Annual Meeting Information Statement mailed to all stockholders. Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included, is available and will be disclosed to shareholders upon request.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

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 11 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

RELATIONSHIP WITH U.S. AGBANK, FCB (AGBANK)

The Association is materially affected by AgBank's financial condition and results of operations.

The Association's statutory obligation to borrow from AgBank is discussed in Note 6. Financial assistance agreements between the Association and AgBank are discussed in Note 7. Association requirement to invest in AgBank and AgBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in AgBank." AgBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

AgBank is required to distribute its Annual Report to shareholders of the Association if a "significant event," as defined by FCA regulations occurs.

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2011, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

AGBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of AgBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with AgBank's Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 1605 W. Owen K. Garriott Road, Enid, Oklahoma 73703-5602, or may be contacted by calling (580) 233-3489 or (800) 814-6407. The reports may also be obtained free of charge by visiting AgBank's website at www.usagbank.com.