2010 Annual Report

December 31, 2010

TEXAS' LARGEST RURAL LENDER

Capital Farm Credit —
Texas' largest rural lender

2010 Financial Highlights

- Total assets: $5.2 billion
- Gross loan volume: $5.1 billion
- Net earnings: $105.9 million
- Patronage declared on 2010 earnings: $105 million

When you need a lender who knows agriculture

We're the answer.

Capital Farm Credit has deep roots in Texas agriculture. Since our establishment in 1917, we have been providing credit to farmers, ranchers and other rural landowners, helping individuals succeed and rural communities stay strong. Although we have grown from humble beginnings into an organization with assets exceeding $5 billion, our commitment to serve agriculture and rural Texas has remained unchanged through all these years.

At Capital Farm Credit, we value our customers and are committed to delivering competitive loan products and services, sharing our earnings with our customers and maintaining an efficient organization. The board and management also feel strongly that staying true to our cooperative principles is in our customers' best interest. Those guiding philosophies influence every decision we make.

We have a mission to use cooperative principles to create opportunities for our stockholders' success.

Full-Service Lending

Capital Farm Credit offers a full line of loan products, from operating lines of credit to mortgage loans. Our experienced lending staff works with customers to create a loan package that best suits their individual needs.

Recent movements and developments in both commodity prices and input costs have resulted in opportunities and challenges in financing today's agricultural operations. Through the wide assortment of financing packages we offer, Capital Farm Credit stands ready to meet its customers' lending needs.

A Tradition of Paying Patronage

In 2010, Capital Farm Credit continued its time-honored tradition of paying patronage. We returned $57.6 million to customers in March based on the association's 2009 earnings. The patronage was paid as 30 percent cash and the remainder as allocated equity. In December, we made a separate patronage payment, after the board of directors voted to retire an additional $15 million in previously-allocated equities.

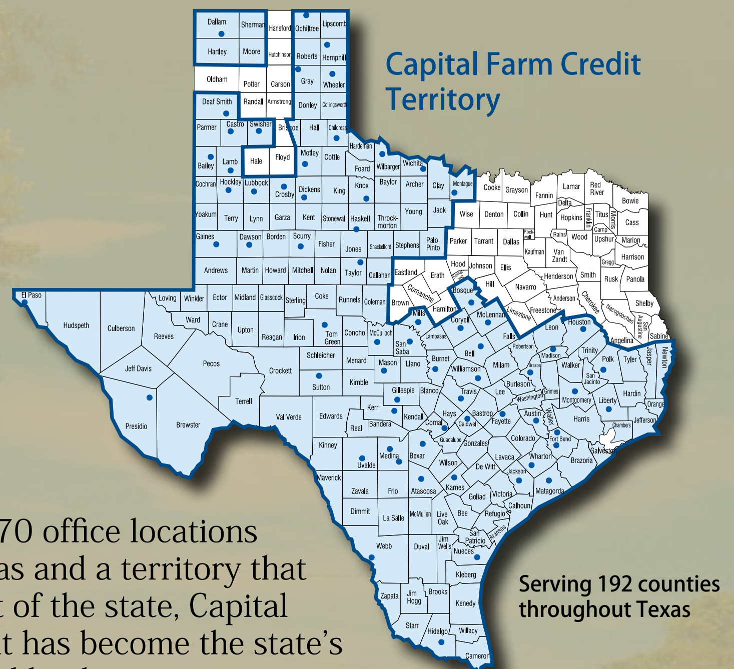
As a result of its 2010 earnings, the board has declared patronage of $105 million. The patronage, which will be paid in the spring of 2011, also will be paid 30 percent in cash and 70 percent as allocated equities. Capital Farm Credit has now declared and paid more than $400 million to customers in recent years. That's a distinct benefit of doing business with Capital Farm Credit.

Great Efficiency for Greater Rewards

The efficiency of Capital Farm Credit's operations contributes to our ability to pay patronage to our customers. We work hard to maintain an organization that runs smoothly and is not wasteful. In 2010, our operating results affirmed our position as one of the most efficient Farm Credit cooperatives in the country. We are proud of that accomplishment, because it ultimately means that by maintaining low operating costs we are able to pass along additional benefits to our stockholders.

Investing in the Future of Texas Agriculture

At Capital Farm Credit, we are not only concerned with meeting the needs of today's agricultural producers, we also care about investing in the future. Our support and sponsorship of youth programs exceeded $340,000 in 2010, on top of the countless hours our employees gave to numerous local organizations and committees.



With over 70 office locations across Texas and a territory that spans most of the state, Capital Farm Credit has become the state's largest rural lender.

Letter From the CEO

Dear Stockholder:

A year can make quite a difference. For Capital Farm Credit and its customers, the lending environment and the agricultural markets both showed improvement in 2010. These were welcome changes, especially after we had endured a troubled financial environment, dry weather and low commodity prices in the previous year. We were very pleased to see positive indicators in the agricultural sector, as higher commodity prices helped to offset input costs for many producers. Capital Farm Credit experienced a good year in 2010, highlighted by record net income of $105.9 million and total assets exceeding $5 billion.

Capital Farm Credit saw evidence of the strong agricultural economy in our lending activities, and as we move forward in 2011, we continue to fulfill our mission of serving Texas' farmers and ranchers, which has never changed in our 95-year history.

At Capital Farm Credit, we believe the best way to serve our customers is to run a financially secure and efficient business. In 2010, our outstanding loan volume and efficiency ratios marked Capital Farm Credit as not only one of the largest but also one of the most efficiently run Farm Credit associations in the country. We are proud of this accomplishment, because it helps us to add value for our customers.

Our customers recognize this value through competitive interest rates and patronage distributions. Last year, we made two separate patronage payments, and based on our 2010 earnings, the board has declared a patronage of $105 million, which will be paid this spring as 30 percent cash and the remainder as allocated equities. With this payment, we will have distributed more than $400 million to customers in recent years.

While we recognize ongoing challenges in the credit and agricultural markets, we continue to be optimistic and look forward to further financial improvement in 2011. We appreciate your membership in our cooperative, and we look forward to sharing the association's success among the membership.

Sincerely,

Ben R. Novosad

Ben R. Novosad
Chief Executive Officer

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REPORT OF MANAGEMENT

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

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

The Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal controls and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

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

Ben R. Novosad, Chief Executive Officer
March 3, 2011

Phillip Munden, Chairman, Board of Directors
March 3, 2011

Don VandeVanter, Chief Financial Officer
March 3, 2011

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process (1) designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, (2) effected by its board of directors, management and other personnel and (3) monitored for adherence to by the board's Audit Committee through the Association's Internal Audit and Credit Review staff to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2010. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Ben R. Novosad, Chief Executive Officer
March 3, 2011

Don VandeVanter, Chief Financial Officer
March 3, 2011

REPORT OF AUDIT COMMITTEE

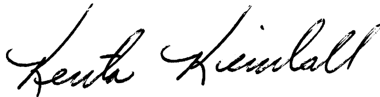
The Audit Committee (committee) is composed of five directors of Capital Farm Credit, ACA (the Association). In 2010, the committee met four times and conducted business by conference call on six occasions. The committee oversees the scope of the Association's internal audit program, the independence 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 all audit activities. The committee's responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the Association's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2010.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. 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 audited consolidated financial statements for the year ended December 31, 2010, with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance, "The Auditor's Communication With Those Charged With Governance," and both PwC and the Association's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Capital Farm Credit, ACA. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the outside auditor's independence. The committee has discussed with management and PwC other matters and received assurances from them as the committee deemed appropriate.

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



Kenton Kimball, Chairman

Members: Richard Counts
Leigh Hudson
Wayne Wilson
Joe David Yates

March 3, 2011

FARM CREDIT ADMINISTRATION REQUIRED DISCLOSURES TO SHAREHOLDERS

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

Capital Farm Credit, ACA (the Association) serves its 192-county territory through its main administrative office at 507 East 26th Street, Bryan, Texas, and through its accounting/administration and marketing/operations offices, which are located in Lubbock, Hondo and Devine, Texas. Additionally, there are 64 lending offices located throughout the territory. The Association owns the office buildings in Alpine, Bellville, Bowie, Brady, Bryan, Canadian, Childress, Clifton, Crosbyton, Dalhart, Dayton, Devine, Dimmitt, Edna, El Campo, Gatesville, Goldthwaite, Hereford, Jourdanton, Kenedy, Kerrville, La Grange, Lamesa, Levelland, Littlefield, Lockhart, Lubbock, Madisonville, Mason, Matador, Muleshoe, Munday, Pampa, Perryton, Rosenberg, San Angelo, San Saba, Snyder, Sonora, Spur, Stamford, Taylor, Temple, Tulia, Uvalde, Vernon, Waco, Wheeler and Wichita Falls, free of debt. The Association leases office buildings in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Graham, Hondo, Katy, Laredo, Livingston, New Braunfels, Round Rock, Robstown, San Antonio and Seminole, Texas.

During 2008, the Association began construction on a new credit office in Dalhart which was completed in the first quarter of 2009. Also during 2008, the Association entered into negotiations for new leased office space for its Edinburg and Robstown locations. The Edinburg office relocated to its new leased space in February 2009 and sold its old building in 2009. The Robstown office began occupancy of its new lease in 2009 and sold its existing building at the end of January 2010.

During 2009, the credit office buildings in Seymour and Sugar Land were closed. Both offices were in proximity to existing credit offices in the Association's territory, and this customer base is serviced from these locations.

During 2010, the Association entered into negotiations for new leased office space for its Hondo location. The Hondo office relocated to its new leased space in March 2010 and sold its old building in November 2010. Also during 2010, the loan processing and credit review staff were consolidated and relocated to new leased office space located in Round Rock. During 2010, the El Campo, Brownfield, Rocksprings and Memphis, Tennessee offices were closed as operations in these areas were consolidated with other offices within the Association's territory.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

The Farm Credit System (System), is a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress. The description of contingent liabilities and intra-System financial assistance rights and obligations required to be disclosed in this section is incorporated herein by reference to Notes 2 and 12 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Capital Farm Credit, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *isela.morales@capitalfarmcredit.com*. The Association's annual stockholder report is available on its website at *www.capitalfarmcredit.com* 75 days after the year end. Copies of the Association's annual stockholder report can also be requested 90 days after the year end.

CAPITAL FARM CREDIT, ACA

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

	December 31,				
	2010	2009	2008	2007	2006
Balance Sheet Data					
Assets					
Loans	**$ 5,096,642**	$ 5,218,700	$ 5,271,307	$ 4,842,335	$ 4,169,237
Less: allowance for loan losses	**(45,294)**	(46,732)	(23,646)	(15,805)	(8,849)
Net loans	**5,051,348**	5,171,968	5,247,661	4,826,530	4,160,388
Investments held-to-maturity	**24,520**	-	-	-	-
Investment in and receivable from the Bank	**96,727**	93,580	90,641	77,377	62,615
Other property owned, net	**16,658**	19,893	689	133	851
Other assets	**71,161**	96,498	100,489	110,625	98,043
Total assets	**$ 5,260,414**	$ 5,381,939	$ 5,439,480	$ 5,014,665	$ 4,321,897
Liabilities					
Obligations with maturities of one year or less	**$ 77,317**	$ 59,596	$ 79,972	$ 90,187	$ 91,526
Obligations with maturities greater than one year	**4,348,643**	4,543,528	4,620,305	4,254,901	3,624,179
Total liabilities	**4,425,960**	4,603,124	4,700,277	4,345,088	3,715,705
Members' Equity					
Capital stock and participation certificates	**22,399**	22,910	23,231	22,681	21,176
Allocated retained earnings	**243,561**	184,905	144,794	76,995	39,455
Unallocated retained earnings	**566,822**	566,647	566,967	565,524	545,561
Accumulated other comprehensive income	**1,672**	4,353	4,211	4,377	-
Total members' equity	**834,454**	778,815	739,203	669,577	606,192
Total liabilities and members' equity	**$ 5,260,414**	$ 5,381,939	$ 5,439,480	$ 5,014,665	$ 4,321,897

	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 157,498**	$ 152,361	$ 144,078	$ 131,581	$ 117,677
Provision for loan losses	**(29,173)**	(58,198)	(14,190)	(8,620)	(3,578)
Income from the Bank	**24,344**	20,121	15,706	14,464	12,092
Other noninterest income	**13,932**	13,129	15,216	14,916	12,688
Noninterest expense	**(60,650)**	(69,780)	(62,293)	(57,342)	(54,433)
(Provision for) benefit from income taxes	**(46)**	(7)	3	(37)	(35)
Net income	**$ 105,905**	$ 57,626	$ 98,520	$ 94,962	$ 84,411
Key Financial Ratios for the Year					
Return on average assets	**2.0%**	1.1%	1.9%	2.0%	2.2%
Return on average members' equity	**13.4%**	7.7%	13.4%	14.9%	14.5%
Net interest margin as a percentage of average earning assets	**3.2%**	3.0%	2.9%	2.9%	3.1%
Net charge-offs as a percentage of average loans	**0.6%**	0.7%	0.1%	0.0%	0.0%

CAPITAL FARM CREDIT, ACA

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

	December 31,				
	2010	2009	2008	2007	2006
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**15.9%**	14.5%	13.6%	13.4%	14.0%
Debt as a percentage of members' equity	**530.4%**	591.0%	635.9%	648.9%	613.0%
Allowance for loan losses as a percentage of loans	**0.9%**	0.9%	0.4%	0.3%	0.2%
Permanent capital ratio	**14.4%**	13.2%	12.5%	12.9%	13.5%
Core surplus ratio	**13.4%**	12.2%	11.4%	12.4%	13.0%
Total surplus ratio	**14.0%**	12.8%	12.1%	12.4%	13.0%
Net Income Distribution/Allocation					
Cash patronage paid	**$ 17,741**	$ 22,784	$ 38,110	$ 25,889	$ 25,277
Cash retirement of nonqualified written notices of allocation	**15,000**	-	-	6,020	-
Nonqualified notices of allocation	**73,662**	39,885	67,799	43,560	39,455

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively referred to as the Association) for the years ended December 31, 2010, 2009 and 2008, and should be read in conjunction with the accompanying consolidated financial statements.

Forward-Looking Information:

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

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

Commodity Review and Outlook:

The geographical dispersion of the Association's territory allows the Association's portfolio to have strong diversity. The primary crops grown will vary by region, but each region has a mixture of corn, cotton, grain sorghum, wheat and grass hay. Some regions also have soybeans, and rice is grown in the coastal plains area. Most of the regions across the southern half of the territory also have livestock production. This includes cattle, sheep and goats, with the vast majority of the value in cattle. While there are some cattle feedyards in the southern region, the vast majority are located in the high plains area. In the eastern part of the state, there is also some timber production.

Signs of improvement in the economy continue to be evident as commodity prices for many producers improve. Crop and pasture conditions through most of the state continue to be favorable. Although the size of the Association's loan portfolio remained flat during this period, the Association experienced a significant decrease compared to the prior year in its loan losses with additional recognized losses primarily associated with the feedlot and lands in transition sectors. Despite the losses, the Association's earnings continue to improve versus the prior year. The Association will continue to maintain more restrictive credit underwriting standards and enhanced portfolio and collateral monitoring practices as the Association works through adverse loans and works toward improvement in its overall credit quality.

Significant Events:

On October 1, 2008, Capital Farm Credit, ACA and First Ag Credit, FCS (First Ag) merged to form Capital Farm Credit, ACA as permitted by the 1987 Act. The merger was accounted for similar to the pooling of interests method of accounting. Accordingly, the accompanying consolidated financial statements and financial information for all years presented have been restated to include the accounts and results of operations of Capital and First Ag as if the merger had been in effect for all periods presented.

The board of directors approved a $105,723 patronage distribution for 2010. $32,061 of this distribution will be paid in cash in April 2011. $73,662 of this distribution was made in the form of nonqualified allocated equity distributions, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the

earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In 2010, the Association received income in the form of a direct loan patronage of $22,231 from the Farm Credit Bank of Texas (Bank), representing .50 percent on the average daily balance of the Association's direct loan with the Bank. During 2010, the Association also received $1,946 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $167 from the Bank in 2010, representing .65 percent on the year's average daily balance of participations in capital markets loans with patronage commitments.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term real estate mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed and index-based interest rates. For all loan products, the Association is able to lock an interest rate spread for the pricing term of the loan. When the pricing term expires on a loan, the Association is subject to a new cost of funds from the Bank. However, the Association is then also able to establish a new interest spread on the loan to the customer. Pricing terms range from one month on index-based products, and from 90 days to 30 years on fixed rate products. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and five- to 20-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The Association's loan growth continued to decline slightly in 2010. During 2010, 2009 and 2008, loan volume decreased 2 percent, decreased 1 percent and increased 9 percent, respectively. The growth in loan volume for 2008 was the result of the strong demand for real estate and funding for agricultural production, and the Association's purchase of loan participations. During 2008, economic conditions weakened across the globe. In response to this change, Association management implemented more restrictive lending standards which, coupled with a slowdown in demand, impacted growth during 2009 and 2010. The Association continues to see some growth in its real estate mortgage portfolio, but has experienced significant decreases in its production and agribusiness portfolios over the last three years. The credit quality of the portfolio has weakened somewhat over the past 12 months, but still remains satisfactory with more than 94 percent of the Association's portfolio assigned a nonadverse credit rating. Overall, there has been no significant change in the geographical distribution of the portfolio or the types of loans that comprise the portfolio. The composition of the Association's loan portfolio, including principal less funds held of $5,096,642, $5,218,700 and $5,271,307 as of December 31, 2010, 2009 and 2008, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses."

At December 31, 2010, 2009 and 2008, the Association held 13, 13 and three transactions respectively, which are reported as loans on the consolidated balance sheet totaling $11,810, $11,869 and $4,302 and with remaining commitments of $3,723, $3,653 and $3,653 extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

Purchase and Sales of Loans:

The Association has obtained loan guarantees from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank in the form of standby commitments to purchase qualifying loans. At December 31, 2010, 2009 and 2008, loans totaling $59,839, $96,830 and $113,151, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $286, $337 and $230 in 2010, 2009 and 2008, respectively, and are reflected in "other noninterest expense" in the consolidated statement of income.

The Association buys and sells loan participations with other lenders in order to diversify its loan portfolio from a commodity and geographical standpoint. As of December 31, 2010, 2009 and 2008, purchased participations totaled $492,541, $598,137 and $721,716, or 9.7 percent, 11.5 percent and 13.7 percent of total loans, respectively. Included in these amounts are participations purchased from entities outside the Bank and its related associations collectively referred to as the "District" of $180,775, $224,508 and $240,801, or 3.5 percent, 4.3 percent and 4.6 percent of total loans, respectively. The Association has also sold loan participations of $79,873, $88,314 and $179,982 as of December 31, 2010, 2009 and 2008, respectively.

Investments:

During 2010, the Association exchanged loans totaling $27,975 for Farmer Mac guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long Term Standby Commitments to Purchase (LTSCP) Agreement with Farmer Mac. These loans were sold to Farmer Mac and then repurchased in the form of a guaranteed AMBS investment. The primary objective in pursuing the AMBS conversion alternative is to reduce the Association's credit exposure to Farmer Mac by putting the Association in a position to benefit from the United States Treasury line of credit (under Section 8.13 of the Farm Credit Act), which is only available for the payment of Farmer Mac's guarantee obligations on securities, not for its obligations under the LTSCP program. No gain or loss was recognized in the financial statements as a result of the exchange transaction. These AMBS are included in the Associations consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $24,520 at December 31, 2010. The Association continues to service the loans included in those transactions.

Risk Exposure:

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

	2010		2009		2008	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 197,002**	**91.2%**	$ 147,883	84.0%	$ 92,126	82.9%
90 days past due and still accruing interest	**1,300**	**0.6%**	7,057	4.0%	13,516	12.2%
Formally restructured	**1,005**	**0.5%**	1,229	0.7%	4,784	4.3%
Other property owned, net	**16,658**	**7.7%**	19,893	11.3%	689	0.6%
Total	**$ 215,965**	**100.0%**	$ 176,062	100.0%	$ 111,115	100.0%

At December 31, 2010, 2009 and 2008, loans that were considered impaired were $199,307, $156,169 and $110,426, representing 3.9 percent, 3.0 percent and 2.1 percent of loan volume, respectively. For 2010, nonaccrual loans increased $49,119, while formally restructured loans decreased $224, and loans 90 days past due but still accruing interest decreased $5,757. Almost all of the increase in nonaccrual loans for 2010 is due to the continued stress in the residential real estate and construction industries. The prolonged downturn in these industries has caused serious income and cash flow problems for borrowers related to those industries. This has led to many of these loans being past due on their payments. Stresses in these industries continue to persist through the end of 2010. The economic recession of 2008 and 2009 also had a significant effect on the Association portfolio. While most industries were negatively impacted during this time, the biofuels, fed cattle, dairy and timber industries experienced a very high level of financial stress. Significant volatility in grain, fuel, milk and meat prices led to significant losses in the respective industries. The stress in these industries was the primary driver that resulted in the increase in nonaccrual loans in 2009 and 2008.

Many agriculture producers enjoyed higher prices and improved yields in 2010, and economic factors in many industries stabilized or improved. However, even with the higher revenues in agriculture, many producers continued to have sluggish loan performance. For those producers who did improve in 2010, the one year's performance alone has not been sufficient to cure adverse conditions that developed in previous years. Similarly, many businesses, both agricultural and other, continued to be unable to perform to an acceptable level. Because of the inability to show quick improvement in financial and loan performance, many borrowers that had their loans downgraded in 2008 or 2009 continued with the same classification.

Management has continued to implement safe and sound lending standards and proactive practices designed to identify and work with distressed borrowers. While these practices alone cannot offset the impact of the adverse economic factors in the past several years, promptly addressing problem loans with restructuring options, instituting monitoring and collection plans and effectively marketing foreclosed properties has allowed the volume of problem assets to remain at a manageable level. Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Except for the relationship between installment due date and seasonal cash-flow capacities of certain borrowers, the Association is not affected by any seasonal characteristics.

Allowance for Loan Losses:

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

	2010	2009	2008
Allowance for loan losses - beginning of year	**$ 46,732**	$ 23,646	$ 15,805
Provision for loan losses	**29,173**	58,198	14,190
Loans charged off	**(32,511)**	(35,457)	(6,510)
Recoveries	**1,900**	345	161
Allowance for loan losses - end of year	**45,294**	46,732	23,646
Allowance for loan losses to total loans	**0.9%**	0.9%	0.4%
Allowance for loan losses to nonaccrual loans	**23.0%**	31.6%	25.7%
Allowance for loan losses to impaired loans	**22.7%**	29.9%	21.4%
Net charge-offs to average loans	**0.6%**	0.7%	0.1%

The year-end allowance for loan losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy specifically, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. The Association calculates its allowance in two parts, specific allowances and a general allowance. The Association evaluates all loans classified as impaired for a specific allowance. This specific allowance is based upon the value of the collateral securing the loan relative to the loan amount outstanding. Allowance for loan losses of $18,181, $20,556 and $10,363 were specifically related to impaired loans totaling $199,307, $156,169 and $110,426 at December 31, 2010, 2009 and 2008, respectively. These specific allowances represent 9.1 percent, 13.2 percent and 9.4 percent of the impaired loans at December 31, 2010, 2009 and 2008, respectively. The Association continues to maintain a high level of specific allowance for loan losses due to the significant loan chargeoffs of $32,511 and $35,457 experienced in 2010 and 2009, respectively. The 2009 loan chargeoffs were sustained in a number of industries, including ethanol, feedlot, timber, real estate surrounding metropolitan areas, dairy and the utilities industry. Most of the significant loan chargeoffs in 2010 were limited to real estate properties surrounding metropolitan areas and the feedlot industry. The Association believes most of these loan losses are a direct result of the financial stress caused by the economic recession in 2009. The recession put the residential and commercial property development businesses into a tailspin. The decline in these industries has led to significant reductions in land prices for areas surrounding large cities and resulted in the losses in the Association's transitional properties. The sharp volatility in commodity prices in 2008 and 2009 also resulted in significant losses for agricultural and biofuel producers. During 2010, high feed grain prices continue to put a strain on the cattle and dairy producers.

While the Association has been watchful to recognize losses on specific loans, action was also taken in 2009 and 2010 to increase its general allowance due to the increased level of nonaccrual loans and other high-risk assets in the Association's portfolio. The Association has increased its general allowance significantly in the last two years to recognize this increased risk. The Association uses industry-based loan pools to calculate its general allowance on the loans that are not analyzed specifically. Risk factors are applied to the loan volume in each industry pool based upon current economic conditions and the credit quality of the loans in that pool. Total allowances on loans not considered impaired were $27,113, $26,176 and $13,283 at December 31, 2010, 2009 and 2008, respectively. The allowance for loan losses at December 31, 2010 is considered adequate by management to recognize for inherent losses in the loan portfolio.

Results of Operations:

The Association's net income for the year ended December 31, 2010, was $105,905 as compared to $57,626 for the year ended December 31, 2009, reflecting an increase of $48,279 or 83.8 percent. The Association's net income for the year ended December 31, 2008 was $98,520. Net income decreased $40,894, or 41.5 percent, in 2009 versus 2008. Changes in net income from year to year were significantly influenced by provision for loan losses recognized each year. Provision for loan loss expense was $29,173, $58,198 and $14,190 in 2010, 2009 and 2008, respectively. The amount of provision for loan loss expense is directly affected by the level of high risk assets in the Association's portfolio and the overall credit quality of the Association's loan portfolio.

Net interest income for 2010, 2009 and 2008 was $157,498, $152,361 and $144,078, reflecting increases of $5,137, or 3.4 percent, for 2010 versus 2009 and $8,283, or 5.7 percent, for 2009 versus 2008. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on loans and cost of debt. During 2010 volume decreased slightly, but the Association benefited from reduced cost of funding from the Bank as funding rates remained low. The Association was able to offer borrowers funding at a reduced rate while still increasing the net spread associated with new loans or refinancing of existing debts. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2010		2009		2008	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 4,982,641**	**$ 289,914**	$ 5,099,015	$ 307,038	$ 5,105,075	$ 339,904
Interest-bearing liabilities	**4,446,023**	**132,416**	4,597,597	154,677	4,470,919	195,826
Impact of capital	**$ 536,618**		$ 501,418		$ 634,156	
Net interest income		**$ 157,498**		$ 152,361		$ 144,078

	2010	2009	2008
	Average Yield	Average Yield	Average Yield
Yield on loans	**5.82%**	6.02%	6.66%
Cost of interest-bearing liabilities	**2.98%**	3.36%	4.38%
Net interest margin	**2.84%**	2.66%	2.28%

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ (7,007)**	**$ (10,117)**	**$ (17,124)**	$ (403)	$ (32,463)	$ (32,866)
Interest expense	**(5,099)**	**(17,162)**	**(22,261)**	5,548	(46,697)	(41,149)
Net interest income	**$ (1,908)**	**$ 7,045**	**$ 5,137**	$ (5,951)	$ 14,234	$ 8,283

Interest income for 2010 decreased by $17,124, or 5.6 percent, compared to 2009, primarily due to a drop in average volume of loans outstanding for 2010. Interest expense for 2010 decreased by $22,261, or 14.4 percent, compared to 2009. The drop in the cost of interest-bearing liabilities was a result of an overall decline in interest rates. The net interest margin increased 0.18 percent to 2.84 percent in 2010 from 2.66 percent in 2009. The net interest margin increased 0.38 percent to 2.66 percent in 2009 from 2.28 percent in 2008.

During December 2010, the Association implemented authoritative accounting guidance that changed the practice of recognizing loan origination and commitment fees at or prior to inception of the loan to netting loan origination fees with origination costs. The resulting net fee is then deferred and amortized over the life of the loan using the straight line method. Costs directly related to the loan origination will include the portion of employee salaries and benefits directly related to loan origination. The adoption of this guidance was not material to the Association's financial condition or results of operations.

Noninterest income for 2010 increased by $5,026, or 15.1 percent, compared to 2009, due to the increase in patronage received from the Bank of $4,223 and due to a refund in the Farm Credit System Insurance Corporation (FCSIC) premium for excess reserves attributed to the Insurance Fund of $5,003. In addition, a refund of $424 was also received based on the allocation of the original FAC stock assessment in 1988. The Bank increased the patronage paid to the Association from 0.40 percent of the Associations average direct note with the Bank paid in 2009 to 0.50 percent in 2010. Loan fee income was $4,028 less in 2010 than in 2009. The majority of this reduction between 2010 and 2009 was a result of the change in the accounting for deferral of loan origination fees as described above. In addition, as new loan business slowed in 2010, origination fee income was less than in prior years. Noninterest income for 2009 increased by $2,328 or 7.5 percent, compared to 2008, due primarily to an increase in patronage received from the Bank.

Noninterest expenses consist primarily of salaries, employee benefits, purchased services and Insurance Fund premiums. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Noninterest expenses for 2010 decreased $9,130, or 13.1 percent, compared to 2009. Significant decreases were experienced in pension plan funding expense and in Insurance Fund premiums. Contributions to the Association's defined benefit plan decreased by $3,062 as improvement in the stock market during 2009 required less funding to the plan in 2010 to maintain funding levels needed in anticipation of future retirements. Contributions to the plan for the coming year are based on data at the end of the prior calendar year. The 2011 contribution to the plan will be $6,490 as compared to $6,143 for the year ended December 31, 2009. Insurance Fund premiums decreased $6,638 as a result of a decline in premiums on accrual volume as the FCSIC reduced assessments from 20 basis points in 2009 to 5 basis points in 2010. Also, there was a decrease in salaries and employee benefits of $482 from the prior year. As a result of the implementation of the accounting guidance outlined above, salaries and benefits decreased a total of $4,579 for the year. This decrease was offset in part by an increase in incentives paid to employees during 2010 as compared to 2009. These decreases in noninterest expenses were offset in part by a net increase in all other expenses of $570.

For the year ended December 31, 2010, the Association's return on average assets was 2.0 percent, as compared to 1.1 percent and 1.9 percent for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2010, the Association's return on average members' equity was 13.4 percent, as compared to 7.7 percent and 13.4 percent for the years ended December 31, 2009 and 2008, respectively. The Association's return on average assets and return on average member's equity were significantly increased by decreased provision for loan loss expenses in 2010 as discussed above, and by increases in other income and a reduction in noninterest expenses as discussed above.

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

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $4,338,554, $4,531,494 and $4,604,485 as of December 31, 2010, 2009 and 2008, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.98 percent, 3.36 percent and 4.38 percent at December 31, 2010, 2009 and 2008, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2008, is the result of a slight reduction in the Association's loan portfolio. The Association's average loan portfolio funded by the Association's equity was $536,618, $649,476 and $634,156 for the years 2010, 2009 and 2008, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2010, was $4,987,356 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

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

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

Capital Resources:

The Association's capital position remains strong with total members' equity of $834,454, $778,815 and $739,203 at December 31, 2010, 2009 and 2008, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loan loss accounts. The Association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 14.4 percent, 13.2 percent and 12.5 percent, respectively.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2010, 2009 and 2008 was 13.4 percent, 12.2 percent and 11.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect stockholders' investment in the Association. The Association's total surplus ratio at December 31, 2010, 2009 and 2008 was 14.0 percent, 12.8 percent and 12.1 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The Association has been able to maintain solid levels of capital and strong capital ratios, while declaring patronage refunds in cash to its stockholders in the amounts of $32,061, $17,741 and $29,439 in 2010, 2009 and 2008, respectively. The board of directors

also issued $73,662, $39,885 and $67,799 in nonqualified written notices of allocation in 2010, 2009 and 2008, respectively. In addition, the Association retired $15,000 of previously allocated nonqualified written notices of allocation in December 2010. See Note 7 to the consolidated financial statements, “Members’ Equity,” included in this annual report, for further information.

Relationship With the Bank:

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

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

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	ELECTED/ EMPLOYED	TERM EXPIRES
Phillip Munden	Chairman & Stockholder-Elected Director	2009	2013
Danny Parker	Vice Chairman & Stockholder-Elected Director	2009	2013
Paul Aelvoet	Stockholder-Elected Director	2010	2014
Keith Corzine	Stockholder-Elected Director	2009	2012
Richard Counts*	Director-Elected Director	2009	2013
Dale Crenwelge	Stockholder-Elected Director	2009	2013
Kelly Gaskins	Stockholder-Elected Director	2010	2014
Dan Henard, Jr.	Stockholder-Elected Director	2009	2012
Dale Hoelscher	Stockholder-Elected Director	2009	2011
Leigh Hudson*	Director-Elected Director	2009	2012
Kenton B. Kimball	Stockholder-Elected Director	2009	2011
John Malazzo	Stockholder-Elected Director	2009	2011
Terry McAlister	Stockholder-Elected Director	2010	2014
Lance D. Morris	Stockholder-Elected Director	2009	2011
Gary L. Palousek	Stockholder-Elected Director	2009	2011
Carl Sample	Stockholder-Elected Director	2009	2012
Roy Allen Schmidt	Stockholder-Elected Director	2009	2013
Lloyd Shoppa*	Director-Elected Director	2009	2011
James L. Wedel	Stockholder-Elected Director	2009	2013
Wayne Wilson	Stockholder-Elected Director	2009	2012
Lowell Woodward	Stockholder-Elected Director	2010	2014
Joe David Yates	Stockholder-Elected Director	2010	2014
Ben R. Novosad	Chief Executive Officer	1976	----
Eric C. Rothe	Executive Vice President, Lending	1984	----
Kenny S. Brown	Senior Vice President, Compliance	2000	----
Patricia A. Gonzales	Senior Vice President, Accounting & Administration	1999	----
Mark L. Hiler	Senior Vice President, COO	1980	----
Don VandeVanter	Senior Vice President, CFO	1999	----
Roy A. West	Senior Vice President, Lending	1998	----
Mark Loveland	Senior Vice President, Lending	1997	----
Jay Stewart	Senior Vice President, Chief Lending Officer	2001	----
Chris Boutwell	Senior Vice President, Internal Audit & Credit Review	2004	----

*Director-Elected Director: a director-appointed director who is not a stockholder, director, officer, employee or agent of a Farm Credit System institution (other than as an Outside Director of the Association or its subsidiaries).

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

Phillip Munden runs a cow-calf and stocker operation in Bosque County. Mr. Munden is a graduate of Sul Ross University with a bachelor of science in range animal science and a master of science in animal nutrition. Previously he has served on both PCA and FLBA boards. He has been on the Capital Farm Credit Board since its merger with the Heart of Texas PCA. After having previously served both as vice chairman of the board and chairman of the compensation committee, he was elected board chairman in 2009 and was re-elected in 2010. Additionally, he is a member of the Bosque County Soil & Water Conservation board, serves as a committeeman for the Houston Livestock Show, and is a member of Texas & Southwestern Cattle Raisers. He is a member of the Walnut Springs Memorial United Methodist Church and currently serves as chairman of the Administrative Council.

Danny Parker served proudly for three years in the U.S. Army and attended Texas A&I University in Kingsville, Texas. Mr. Parker and his wife Barbara have farmed and ranched for 32 years in Uvalde and Zavala counties. He is currently serving on the Winter

Garden Spinach Board, Texas Onion Board, as executive director of the Gulf Compress in Corpus Christi, director of the Uvalde County Farmers Co-op, a member of the Uvalde County Extension program Council, the Texas and Southwestern Cattle Raisers Association and the Cattle Feeders Association. He and his family attend the First Baptist Church in Uvalde.

Paul Aelvoet has ranched and farmed in Medina County for over 30 years. He has been the 4-H club manager for over 20 years and is a past director of the Medina County Farm Bureau, Texas Limousin Association and the Medina County Fair. Mr. Aelvoet is also a member of the Association's Governance Committee.

Keith Corzine resides in the Stamford community and has been a member of the Association since 1977. He is involved in farming cotton, wheat and milo, as well as raising cattle in Haskell County. He serves as a member of the board of the Farmers Co-op Gin and Elevator of Stamford, and he also serves on the executive committee of the Rolling Plains Cotton Growers along with serving as an alternate for the National Cotton Council. He is a former board member of the Tri-Area Livestock Association, the Farmers Union and the Sagerton Water Supply Corporation. He is a member of Faith Lutheran Church in Sagerton.

Richard Counts started serving as an outside director in February 2005. Mr. Counts retired as a CPA and audit partner with Arthur Andersen, LLP in June 1996. He has served as a financial consultant for various companies from 1996 through 2005. Mr. Counts has served on the Association's Audit Committee since March 2005.

Dale Crenwelge operates agricultural and investment properties in Central and West Texas. Mr. Crenwelge obtained his bachelor of science degree in civil engineering from Texas A&M University in 1981, and became employed as project engineer by Conoco. He subsequently returned to Texas A&M, earning his MBA in 1985. Mr. Crenwelge became a real estate broker and investor, owning ranch, commercial real estate and residential development properties. He has served as trustee of the American Realty Trust. Mr. Crenwelge served as trustee and president of the Comfort ISD School Board, presently serves as trustee of the Ambleside School in Fredericksburg, also presently serves as a director on the Hill Country Higher Education Foundation, and has been active in the Kerrville, Fredericksburg, Boerne and Comfort Chambers of Commerce. Mr. Crenwelge is a current member of the Texas Farm Bureau, the Texas Wildlife Association and the Centurions of Kendall County.

Kelly Gaskins and his brother farm approximately 7,500 acres of dry-land cotton and 170 acres of irrigated cotton in Howard, Martin and Dawson counties. They also own a ditching company. Mr. Gaskins has bachelor's and master's degrees from Texas A&M University. He has served on the Howard County Farm Bureau Board and has been vice president and chairman of the Sales Committee for the Howard County Jr. Livestock Association. He served on the Policy and By-laws Committee for First Ag Credit and has attended seven Director Development Programs. He was also a member of First Ag Credit's CAPs program, and currently serves on the Governance Committee for Capital Farm Credit. He is also president of the board for the Knott Co-op Gin, Fire Chief for the Knott Volunteer Fire Department and a member of the Knott Church of Christ. Mr. Gaskins has been a past Farmer of the Year for Howard County, 4-H Adult Leader of the Year for Howard County, and received an Honorary American Farmer FFA degree.

Dan Henard, Jr. has been a member of the Association since 1960. He resides in the Wellington community where he is involved in farming cotton, peanuts and wheat, as well as raising livestock. He is on the board of Mesquite Ground Water District and serves as finance chairman of First United Methodist Church of Wellington. He formerly served as chairman of the Salt Fork Soil & Water Conservation District and president of the Panhandle Association of Soil and Water Conservation District boards. He has a bachelor's degree in range science from Texas A&M University. He also represents the Association and serves on the board for the Farm Credit Council.

Dale Hoelscher is a farmer/rancher from Falls County and has been engaged in farming and ranching for over 20 years. Mr. Hoelscher and his brother operate over 4,000 acres with a main crop of corn and rotate a few acres of wheat in Bell, Falls and Milam counties. He and his brother also run a cow/calf operation. Mr. Hoelscher held a position of secretary while serving on the Bell Falls Electric Co-op. He is a member of the Westphalia Knights of Columbus, Westphalia Volunteer Fire Department and the Catholic Church of the Visitation. He received the Falls County Young Farmer of the Year Award in 1997. He served on the Heart of Texas PCA Board for four years during the time of the merger with Capital Farm Credit. While serving on the board, Mr. Hoelscher was on the Audit Committee, attended several director classes and the state convention. Mr. Hoelscher was elected on the Capital Farm Credit Board of Directors in June 2009 for a two-year term expiring June 2011 and currently serves on the Association's Compensation Committee.

Leigh Hudson resides in Dallas where she and her husband own an advertising agency. She has over 20 years of experience in a variety of industries including internet hosting, IT consulting, real estate and advertising. She began her career working in public accounting with Arthur Andersen. She graduated from Texas Christian University with a B.B.A. in accounting and is licensed as a certified public accountant.

Kenton B. Kimball owns and manages a 4,000-acre farm and stocker cattle operation in Sherman County. He has served as president on the Stratford Independent School Board and Stratford Hospital Board. He has served on the Sherman County Economic Development Board, Sherman County Livestock Show Board, Sherman County Soil and Conservation Board, and Sherman County Appraisal Board. He has a bachelor's degree in business administration with major in finance from Kansas State University. He has served on the Audit Committee in Farm Credit associations.

John Malazzo is the owner and operator of John Malazzo Farms in Burleson and Brazos counties. He raises cotton, corn, milo, hay and F-1 replacement heifers. Mr. Malazzo graduated with a B.S. in agricultural economics from Texas A&M University. He was named Conservation Rancher of the Year in 1996 by the Region III Soil and Water Conservation Districts of Texas. Mr. Malazzo served as a director of Heart of Texas PCA through its merger with Capital Farm Credit. He currently serves as a director of Capital Farm Credit, Producers Co-op Association of Bryan, the Texas Cotton Growers Cooperative Association — Taylor Compress, as well as the Farm Service Agency — USDA Burleson County Committee. He is past director and agricultural representative of the Post Oak Savannah Underground Water Conservation District, the Burleson County Fair Association, the Burleson County 4-H and FFA Commercial Heifer Show and Sale, the Burleson County Field Crops Committee, the Burleson County Beef & Forage Committee, the Extension Program Council, and the Extension Leadership Advisory board. He is a member of St. Mary's Catholic Church in Caldwell.

Terry McAlister is the owner of a diversified farming and ranching operation that stretches through the North Texas counties of Wichita and Wilbarger. Mr. McAlister attended Vernon Regional Jr. College majoring in ranch management, completed the Texas A&M Extension Master Marketer Program in 1997 & 1998, and the Southwest Graduate School of Banking's Director Development Program years 2001 – 2008. He currently is participating in Texas A&M TEPAP (Texas Executive Program for Ag Producers), serves on the Wichita County Farm Bureau Board of Directors, the North Texas Rehabilitation Center Board of Directors, the North Texas Rehab Livestock Auction Committee, and is the Wichita County Representative for the Northern Rolling Plains Boll Weevil Eradication Committee. He formerly served on the Red River Federal Land Bank Board of Directors (1992–1996) and was Chairman (1997–1999) until its successful PCA merger to become First Ag Credit.

Lance D. Morris resides in the Crosbyton community and has been a member of the Association since 1974. He and his brother are partners in a cotton and milo farming operation in Dickens, Floyd and Crosby counties. He currently serves on the AgFirst/FCBT Joint Plan Sponsor Committee and Defined Benefit Administration Committee. He is on the board of directors of Crosby County Fuel Association, Associated Cotton Growers and White River Municipal Water District. He serves as deacon and treasurer of First Baptist Church in Crosbyton. His past service includes the board of directors of the South Plains Association of Governments and the Crosby County Appraisal District. He served as mayor of Crosbyton from 1986 to 1996. He has a bachelor's degree in accounting from Texas Tech University.

Gary L. Palousek is a self-employed farmer in Willacy County and has been raising cotton, milo and sugarcane for 38 years. Mr. Palousek serves as a board member and immediate past president of the Willacy Co-op and is director and secretary/treasurer of Willacy County Drainage District No. 2. He is the immediate past chairman of the county committee of the USDA/Farm Service Agency and a member of the Nominating Committee and member Advisory Committee of Magic Valley Electric Co-operative. Mr. Palousek also serves on the parish council of St. Anthony's Catholic Church in Raymondville.

Carl Sample is a rancher and poultry producer from Gonzales County. He was a former director for the Gonzales County Underground Water Conservation District. Mr. Sample is a life member of the San Antonio Livestock Exposition, where he serves as a member of the Calf Scramble Committee. He also serves on the Finance Committee of Smiley United Methodist Church.

Roy Allen Schmidt operates a cow-calf operation in Washington County and has been farming and ranching all of his life. He owns and operates LaBahia Antiques and Schmidt Construction LLC providing on-farm pond and brush work. Also, he has served as an auctioneer since 1988. In addition to serving as a director of Capital Farm Credit for over 20 years, Mr. Schmidt is a director of the Property Owners Association of Washington County, a vice president for the Burton Independent School District trustees, a member of the Texas and Southwestern Cattle Raisers Association and a member of the American Legion Post 242. He attended Blinn College and has completed Director Development programs with the Southwestern Graduate School of Banking and the Farm Credit Bank of Texas.

Lloyd Shoppa is a businessman from Wharton, Texas. Mr. Shoppa started serving as an outside director in February 2005. Mr. Shoppa is retired president of Bell Helicopter Textron, Inc. and currently owns five John Deere dealerships in South Texas. He is former president of the Hurst-Euless-Bedford (HEB) Rotary Club and Chamber of Commerce and has also served as president of the HEB School board. Mr. Shoppa was inducted into the National Management Association Hall of Fame in 1997.

James L. Wedel is a farmer who presently farms 5,000 acres in Bailey and Parmer counties. He has been a member of the Association since 1989, resides in Muleshoe and currently serves on the boards of the Texas Corn Producers, Corn Producers Association of Texas, Sunland, Inc. and Texas Organic Cotton Marketing Cooperative. He has a bachelor of science degree in agriculture economics from Texas Tech University.

Wayne Wilson operates a diversified stocker operation headquartered in Brazos County. Mr. Wilson also owns and operates LW Management Services, a consulting firm specializing in real estate, insurance and risk management. Mr. Wilson serves as chairman of the Association's Credit Standards and Limits Committee. He also serves on the Planning and Executive Committee. Mr. Wilson is board chairman for Aggieland Pregnancy Outreach, a director of the Brazos Valley Groundwater Conservation District, a director of Groundwater Management Area 12 and a director of the State Brazos G Regional Water Planning Group. He also has served as secretary of the Brazos County Youth Commercial Heifer Show, president of Brazos County Farm Bureau, chairman of the Brazos County Beef and Forage Committee, treasurer of the Brazos County Extension Executive Board and on the Texas Farm Bureau State Young Farmer and Rancher Committee. Mr. Wilson is a member of Crossroads Community Church.

Lowell Woodward has conducted ranching operations in Pecos, Crockett and Brewster counties for 31 years raising, cattle, sheep, goats and horses. He holds a certificate in ranch management from Texas Christian University. Being a fourth generation rancher he has been associated with the Farm Credit System all of his life. Mr. Woodward was elected as a director in 2005 and is currently serving as a Compensation Committee member as well as director. He has also served for nine years as a director on the Rio Grande Electric Co-op, and is a credentialed cooperative director. Mr. Woodward has been involved in the Wind Energy development in Pecos County since it began and continues to be influential in the development of green energy. Mr. Woodward was a founding directors of a wool and mohair cooperative, Producers Marketing Cooperative Incorporated (PMCI), to assist ranchers' sales of their products through vertical integration in the marketplace. Mr. Woodward is also a committeeman of Texas Sheep and Goat Raisers Association and past director of the Region F Water Planning Group as well as past president of the Pecos County Farm Bureau. He was recognized as Pecos County Conservation Rancher of the Year.

Joe David Yates resides in Castell, Llano County, Texas, and maintains a variety of business interests, both in traditional agriculture and less-traditional agriculture. Mr. Yates attended Angelo State University (ASU). Following college, Mr. Yates worked as an oil & gas landman before working in the wool and mohair industry. Mr. Yates returned to San Angelo where he managed San Angelo Wool & Mohair. Mr. Yates, along with his uncle, has operated ranches in Matagorda County and owns Bay City Feed in Bay City, Texas. They also have cow-calf operations in the Texas Hill Country, Hudspeth County, and Otero County, New Mexico, plus a yearling ranch in Colfax and Union counties, New Mexico. Mr. Yates has also served as a Texas Sheep and Goat Raiser's director and is a member of the Texas and Southwest Cattle Raisers Association. He is also involved with quarter-horse and thoroughbred racing and was appointed a national committee member of the AQHA Racing Committee.

Ben R. Novosad is president and chief executive officer of the Association. Mr. Novosad began his career with the Federal Land Bank Association of Bryan in 1976, and in 1986 was named president and chief executive officer. As a 1975 graduate of Texas A&M University, Mr. Novosad received his B.S. in agricultural economics. He currently serves on the Farm Credit System's President's Advisory Committee, the Farm Credit System's Risk Management Committee and the Farm Credit System's Risk Management Work Group. He also serves on the Texas Agricultural Lifetime Leadership Program (TALL) Advisory Board of Directors. In 2004, Mr. Novosad was inducted into the Tyrus R. Timm Honor Registry of Former Students of Agricultural Economics at Texas A&M University.

Eric C. Rothe currently serves as the Association's executive vice president, lending. He had previously served as the CEO of Southwest Texas ACA. Prior to that, he also held positions with the Federal Land Bank of Texas in Austin and the Marfa and Uvalde Federal Land Bank Associations.

Kenny S. Brown is senior vice president/policy and compliance and has been with Capital Farm Credit since October 2000 when he was hired to coordinate the Association's internal credit review. In his current position since 2006, Mr. Brown is responsible for ensuring the Association take steps to operate under safe and sound policies and in compliance with applicable laws and regulations. Mr. Brown has more than 20 years of experience in the Farm Credit System following his graduation from Louisiana State University in 1986.

Patricia A. Gonzales is a certified public accountant and was employed as chief financial officer in May 1999. Mrs. Gonzales currently serves as the Association's senior vice president, accounting and administration. She was previously employed as vice president/controller of the Farm Credit Bank of Texas for 12 years. Mrs. Gonzales also serves on the Farm Credit System Accounting Standards Work Group.

Mark L. Hiler was employed in 1980 with the Federal Land Bank Association of Uvalde. He served as chief executive officer of that Association prior to its merger with Southwest FLBA in 1995. He served Southwest as president/chief operating officer until its merger with Capital Farm Credit in 2006. Mr. Hiler serves as the Association's senior vice president and chief operating officer.

Don VandeVanter serves as senior vice president and chief financial officer for the Association. He is responsible for the financial administration and capital management of the Association. Don, a certified public accountant, has worked for the Association since 1999 and in Farm Credit since 1987. He is a 1984 graduate of the University of Texas with a degree in accounting. Prior to his time with Farm Credit, he worked in public accounting.

Roy A. West was employed as chief credit officer in April 1998 and currently serves as the Association's senior vice president, lending. He was previously employed as director of credit of the Farm Credit Bank of Texas and vice president of the Capital of Texas Federal Land Bank Association.

Mark Loveland serves the Association as senior vice president, credit. Prior to his employment with the Association, he was chief credit officer of First Ag Credit, FCS. He has also held several positions with the Farm Credit Bank of Texas including director of credit operations, engineer/appraiser, mineral representative and loan officer. He has 27 years of service with the Farm Credit System.

Jay Stewart serves the Association as senior vice president, chief lending officer. Jay has 15 years of Farm Credit experience, including 10 years with Capital Farm Credit as branch manager and most recently as regional president, and has over five years with the Farm Credit Administration as a commissioned examiner. He received his bachelor of science and master of agriculture degrees in agricultural economics from Texas A&M University.

Chris Boutwell serves the Association as senior vice president, internal audit and credit review. He joined the Association in 2004 and prior to his employment with the System, he worked as a certified public accountant with a local firm in Lubbock, Texas. He currently serves on the board and is actively involved with CASA, or Court Appointed Special Advocates, of Lubbock.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

In 2010 directors were compensated for their service to the Association in the form of an honorarium of $700 per month, $100 for each board meeting attended, $600 per meeting for Audit Committee meetings, $500 per meeting for committee meetings attended other than Audit Committee, $400 per meeting for all other meetings, $200 per meeting for conference calls and $200 for travel days when required. The board chairman and vice chairman were compensated $800 per meeting for each board meeting attended, and committee chairmen were compensated $200 for each committee meeting in addition to the regular meeting compensation. The directors were also reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2010 was paid at the IRS-approved rate of 50 cents per mile.

Number of Days Served

Director	Board Meetings	Other Official Activities	Total Compensation in 2010
Paul Aelvoet	9	9	$ 12,400
Allen Arfsten*	11	14	14,640
Roy H. Carlson (1)	5	10	11,053
Keith Corzine	9	15	14,170
Richard Counts	11	26	18,296
Dale Crenwelge	11	8	12,200
Kelly Gaskins	13	15	14,963
George S. Harrington*	13	30	20,534
Dan Henard, Jr.	11	19	16,040
F. Shelby Henke*	11	11	13,307
Dale Hoelscher	13	18	15,200
Leigh Hudson	13	27	18,200
Kenton B. Kimball	13	27	19,137
John Malazzo	9	9	12,000
Terry McAlister (2)	8	7	7,098
Larry McBee*	12	9	12,300
Harlan Metting (3)	5	10	10,340
Larry Miller (3)	5	16	11,851
Steve Moore*	11	14	13,697
Lance D. Morris	13	22	17,038
Phillip Munden	13	41	32,359
Gary L. Palousek	11	27	18,361
Danny Parker	9	29	25,501
John B. Phillips*	11	14	13,848
Carl Sample	13	10	13,068
Stanley Schilling*	11	11	12,868
Roy Allen Schmidt	13	11	14,256
Rudy Schroeder*	13	9	12,818
Lloyd Shoppa	13	22	16,766
Mike Vickers, D.V.M.*	11	12	12,600
Ed Walker*	11	13	13,900
James L. Wedel	11	23	16,565
Wayne Wilson	12	28	21,010
Lowell Woodward	12	25	17,368
Joe David Yates (2)	8	4	5,900
			$ 531,652

During 2010 there were seven board meetings consisting of six two-day meetings and one single-day meeting.

(1) Roy Carlson retired in 2010 and the board elected to eliminate this position.
(2) Elected as directors of the Association beginning June 2010.
(3) Term expired in 2010.

*As part of the Board's governance plan to reduce the number of board positions, these directors elected to vacate their positions during 2010 in return for receiving a severance package. The amount of severance is not included in the table above but is disclosed separately in an additional table below.

The aggregate compensation paid to directors in 2010, 2009 and 2008 was $531,652, $522,760 and $962,479, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee					
Director	**Audit**	**Compensation**	**Governance**	**Planning / Steering**	**Other***	**Total**
Paul Aelvoet	$ -	$ -	$ 1,500	$ -	$ 1,600	$ 3,100
Allen Arfsten	-	-	2,100	500	2,000	4,600
Roy H. Carlson	-	-	-	-	2,400	2,400
Keith Corzine	-	-	-	-	4,000	4,000
Richard Counts	3,000	-	-	500	2,800	6,300
Dale Crenwelge	-	-	-	-	3,000	3,000
Kelly Gaskins	1,800	1,000	-	-	2,000	4,800
George S. Harrington	4,000	-	-	500	3,600	8,100
Dan Henard Jr.	-	-	-	500	4,500	5,000
F. Shelby Henke	-	-	-	500	3,400	3,900
Dale Hoelscher	-	2,500	-	-	2,000	4,500
Leigh Hudson	3,000	-	-	500	2,800	6,300
Kenton B. Kimball	3,000	-	-	-	4,400	7,400
John Malazzo	-	-	1,500	-	800	2,300
Terry McAlister	-	-	-	-	1,800	1,800
Larry McBee	-	-	1,500	-	1,200	2,700
Harlan Metting	-	-	-	-	3,000	3,000
Larry Miller	-	-	-	-	3,500	3,500
Steve Moore	-	-	1,000	-	2,400	3,400
Lance D. Morris	-	4,000	-	500	800	5,300
Phillip Munden	2,400	1,500	1,500	700	8,800	14,900
Gary L. Palousek	-	2,500	-	-	2,800	5,300
Danny Parker	1,800	1,000	1,000	500	5,900	10,200
John B. Phillips	-	-	-	-	3,500	3,500
Carl Sample	-	-	-	-	3,500	3,500
Stanley Schilling	-	-	-	-	3,000	3,000
Roy Allen Schmidt	-	-	1,000	-	2,800	3,800
Rudy Schroeder	-	-	1,000	-	2,000	3,000
Lloyd Shoppa	-	3,800	-	500	800	5,100
Mike Vickers, D.V.M.	-	-	1,500	-	800	2,300
Ed Walker	-	2,500	-	-	1,600	4,100
James L. Wedel	-	3,300	-	-	2,000	5,300
Wayne Wilson	600	-	-	500	8,000	9,100
Lowell Woodward	-	3,000	-	-	2,800	5,800
Joe David Yates	-	-	-	-	900	900
	$ 19,600	$ 25,100	$ 13,600	$ 5,700	$ 101,200	$ 165,200

*Other includes the following meetings that were held: credit, director development, executive, appreciation dinners, district nominating committee, Farm Credit Council, FCBT stockholder, FCA review and annual stockholder meetings.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $343,084, $325,229 and $568,709 in 2010, 2009 and 2008, respectively.

Subsequent to the merger of First Ag Credit and Capital Farm Credit, ACA, the board of directors concluded that it would be in the best interest of the stockholders to reduce the size of the board by eliminating board positions. The board evaluated the costs of travel, honorariums and other board expenses that would be incurred to retain all director positions and determined that long-term

cost savings could be achieved by offering a severance payment to each director who voluntarily resigned from the board effective December 31, 2010. The directors who chose to resign and the severance amounts paid to them are as follows:

Director	Severance
Allen Arfsten	$ 36,000
George S. Harrington	36,000
F. Shelby Henke	36,000
Larry McBee	36,000
Steve Moore	36,000
John B. Phillips	36,000
Stanley Schilling	36,000
Rudy Schroeder	36,000
Mike Vickers, D.V.M.	36,000
Ed Walker	36,000
	$ 360,000

The above payments were accrued as an expense in December 2010, and were paid in January 2011.

A critical factor to the Association's success is its ability to attract, develop and retain staff that are knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and delivery of Association results that maximize the value received by its membership. This objective holds particularly true for the Association's senior officer group. The Association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the Association's financial and operational objectives, all for the ultimate benefit of its membership. The Association's board of directors, through its Compensation Committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of salary and incentive plans used by the Association.

Name of Individual or Group	Year	Salary (a)	Prior Year Incentives (b)	Current Year Incentives (c)	Deferred / Perquisite (d)	Other (e)	Total
Ben R. Novosad,	2010	$ 484,180	$ 17,459	$ 65,362	$ 712,545	$ 19,147	$ 1,298,693
CEO	2009	470,078	47,937	70,509	1,035,606	24,257	1,648,387
	2008	323,012	67,324	57,000	657,312	92,913	1,197,561
Aggregate No. of Senior Officers in Year Excluding CEO							
9	2010	$ 1,649,007	$ 22,105	$ 212,731	$ 485,977	$ 158,508	$ 2,528,328
9	2009	1,573,794	134,218	218,411	351,881	143,368	2,421,672
9	2008	1,513,234	287,706	201,394	277,584	149,190	2,429,108

(a) Gross salary
(b) Profit sharing incentives earned in the prior year and paid in the current year and payout of 20 percent of deferred incentives previously accrued
(c) Cash payout of current year incentives earned
(d) Change in pension value and nonqualified deferred compensation earnings
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits, and premiums paid for life insurance

The CEO of the Association participates in the Farm Credit Bank of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Year of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered

compensation times (ii) "Years of Benefit Service" (not to exceed 35). The present value of the CEO's accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

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

The CEO of the Association also participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of the Participating Employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the Administrative Agreement) and their eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing Pension Plan.

The Association has evaluated the benefits lost as a result of these limitations with regard to the CEO of the Association and has begun funding this shortfall over a five-year period using a five-year vesting schedule. The funding of this shortfall occurs annually. Contributions to the Plan for 2010, 2009 and 2008 were $473,000, $797,000 and $550,000, respectively. At December 31, 2010 the total potential obligation to the Association is $3,090,000 with $1,820,000 of this obligation funded through December 31, 2010.

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

Incentive Plan for Officers and Employees:

During 2010, the board engaged a compensation consultant to assist with revisions to the Association's existing incentive plan. As a result, effective January 1, 2011, the board approved two new incentive plans. The Association implemented both plans to maintain its competitiveness in the marketplace in order to continue to attract and retain quality employees. Both plans replace the existing three-part incentive plan. The first new plan, the Annual Incentive plan, is a balanced scorecard plan which rewards employees for achieving goals in support of specific Association goals and business objectives for the year. The second new plan, the Long Term Incentive plan (LTI), was developed to reward Association leadership for achievement of the Association's long-term goals and objectives, as defined by the board. Both plans utilize parameters for measuring achievement at either threshold, target or superior performance levels. The LTI evaluates performance and is earned over a three-year performance period.

For the years ended 2010, 2009 and 2008, the Association had a three-part incentive plan in place for all of its full-time employees including its officers. All full-time employees were eligible to earn an individual incentive up to 15 percent of their annual salaries based upon their individual performance objectives for the fiscal period ended September 30. In addition, employees could participate in a second and third incentive program based upon the Association's financial performance for the calendar year relative to other agricultural credit associations in the System. Financial performance is based upon the Association's credit quality, earnings, capital and growth relative to its peers in the System. If the Association's financial performance qualified the employees to participate in these incentives, the employees could earn up to an additional 10 percent of their annual salaries in each of these two incentives. The second incentive is paid in cash, and the third incentive is a matching amount earned in the year in which the financial performance was achieved, in which payment is deferred for five years. At the end of each year, the Association credits the employee's Deferred Incentive Account (an Account) with an amount equal to the employee's Profit Sharing Incentive for such year. This Deferred Incentive will be accumulated in the Account. The Deferred Incentive will be deemed to have been credited to the employee's Account on December 31 of the year for which the Deferred Incentive was earned. Employees receive payments of 20 percent of the employee's Account balance on each January 1, beginning on the fifth January 1 after the employee was first eligible to receive a Deferred Incentive. For 2009, the Association's financial performance did not qualify the employees to participate in any incentives other than the individual incentive. For 2008 and 2010 the Association's financial performance has qualified its employees to participate in the second and third incentive programs. For 2008 and 2010 the board of directors awarded some senior officers, as well as other employees, with an additional bonus. The total of these additional bonuses was $226,000, $0 and $147,460 for 2010, 2009 and 2008, respectively.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2010, or at any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITORS

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors has occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure.

Fees for professional services rendered for the Association by PricewaterhousCoopers are as follows:

Service Category	Fee
Annual audit services	$ 98,000
Tax services	9,800
Other non-audit services	37,000
Total	$ 144,800

The other non-audit services were approved by the board's Audit Committee and included consulting regarding information technology best practices.

CAPITAL FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET
(dollars in thousands)

	December 31,		
	2010	2009	2008
Assets			
Cash	**$ 5,691**	$ 15,098	$ 20,163
Loans	**5,096,642**	5,218,700	5,271,307
Less: allowance for loan losses	**(45,294)**	(46,732)	(23,646)
Net loans	**5,051,348**	5,171,968	5,247,661
Accrued interest receivable - loans and investments	**50,588**	58,837	64,333
Investments held-to-maturity	**24,520**	-	-
Investment in and receivable from the FCB:			
Capital stock	**88,855**	91,342	88,168
Receivable	**7,872**	2,238	2,473
Other property owned, net	**16,658**	19,893	689
Premises and equipment, net	**11,128**	12,325	13,416
Other assets	**3,754**	10,238	2,577
Total assets	**$ 5,260,414**	$ 5,381,939	$ 5,439,480
Liabilities			
Note payable to the Bank	**$ 4,338,554**	$ 4,531,494	$ 4,604,485
Advance conditional payments	**3,706**	3,996	8,173
Accrued interest payable	**10,089**	12,034	15,820
Drafts outstanding	**7,163**	8,925	15,260
Patronage distributions payable	**32,063**	17,760	22,807
Unfunded post retirement medical obligation	**16,562**	13,506	13,177
Other liabilities	**17,823**	15,409	20,555
Total liabilities	**4,425,960**	4,603,124	4,700,277
Members' Equity			
Capital stock and participation certificates	**22,399**	22,910	23,231
Allocated retained earnings	**243,561**	184,905	144,794
Unallocated retained earnings	**566,822**	566,647	566,967
Accumulated other comprehensive income	**1,672**	4,353	4,211
Total members' equity	**834,454**	778,815	739,203
Total liabilities and members' equity	**$ 5,260,414**	$ 5,381,939	$ 5,439,480

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME
(dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Interest Income			
Loans	**$ 289,914**	$ 307,038	$ 339,904
Interest Expense			
Note payable to the Bank	**132,414**	154,675	195,722
Advance conditional payments	**2**	2	104
Total interest expense	**132,416**	154,677	195,826
Net interest income	**157,498**	152,361	144,078
Provision for Loan Losses			
Provision for loan losses	**29,173**	58,198	14,190
Net interest income after provision for loan losses	**128,325**	94,163	129,888
Noninterest Income			
Patronage income from the Bank	**24,344**	20,121	15,706
Loan fees	**6,879**	10,907	13,313
Financially related services income	**199**	233	486
Gain on sale of premises and equipment, net	**294**	866	244
Other noninterest income	**6,560**	1,123	1,173
Total noninterest income	**38,276**	33,250	30,922
Noninterest Expenses			
Salaries and employee benefits	**30,452**	30,934	33,404
Pension plan funding expense	**6,143**	9,205	3,655
Loss on other property owned, net	**5,692**	5,364	90
Purchased services	**3,424**	3,464	4,012
Occupancy and equipment	**2,589**	2,138	2,392
Insurance Fund premiums	**2,270**	8,908	7,324
Travel	**1,790**	1,889	2,058
Supervisory and exam expense	**1,338**	1,317	1,119
Public and member relations	**1,292**	1,286	1,754
Directors' expense	**1,256**	848	1,531
Advertising	**1,221**	1,298	2,036
Communications	**823**	837	757
Other noninterest expense	**2,360**	2,292	2,161
Total noninterest expenses	**60,650**	69,780	62,293
Income before income taxes	**105,951**	57,633	98,517
Provision for (benefit from) income taxes	**46**	7	(3)
Net income	**$ 105,905**	$ 57,626	$ 98,520

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2007	$ 22,681	$ 76,995	$ 565,524	$ 4,377	$ 669,577
Adjustment to beginning balance due to pension accounting change	-	-	(205)	-	(205)
Balance at January 1, 2008	22,681	76,995	565,319	4,377	669,372
Comprehensive income:					
Net Income	-	-	98,520	-	98,520
Change in postretirement benefit plans	-	-	-	(166)	(166)
Total comprehensive income	-	-	98,520	(166)	98,354
Capital stock/participation certificates issued	3,970	-	-	-	3,970
Capital stock/participation certificates retired	(3,420)				(3,420)
Patronage distributions declared:					
Cash	-	-	(29,439)	-	(29,439)
Other	-	-	366	-	366
Nonqualified allocations	-	67,799	(67,799)	-	-
Balance at December 31, 2008	23,231	144,794	566,967	4,211	739,203
Comprehensive income:					
Net Income	-	-	57,626	-	57,626
Change in postretirement benefit plans	-	-	-	142	142
Total comprehensive income			57,626	142	57,768
Capital stock/participation certificates issued	2,665	-	-	-	2,665
Capital stock/participation certificates retired	(2,986)	-	-	-	(2,986)
Patronage distributions declared:					
Cash	-	-	(17,741)	-	(17,741)
Other	-	226	(320)	-	(94)
Nonqualified allocations	-	39,885	(39,885)	-	-
Balance at December 31, 2009	22,910	184,905	566,647	4,353	778,815
Comprehensive income:					
Net income	-	-	105,905	-	105,905
Change in postretirement benefit plans	-	-	-	(2,681)	(2,681)
Total comprehensive income	-	-	105,905	(2,681)	103,224
Capital stock/participation certificates issued	2,675	-	-	-	2,675
Capital stock/participation certificates/ allocated equities retired	(3,186)	(15,000)	-	-	(18,186)
Patronage distributions declared:					
Cash	-	-	(32,061)	-	(32,061)
Other	-	(6)	(7)	-	(13)
Nonqualifed allocations	-	73,662	(73,662)	-	-
Balance at December 31, 2010	**$ 22,399**	**$ 243,561**	**$ 566,822**	**$ 1,672**	**$ 834,454**

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	**$ 105,905**	$ 57,626	$ 98,520
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**29,173**	58,198	14,190
Loss on other property owned, net	**5,692**	5,364	90
Depreciation	**1,137**	1,447	1,636
Gain on sale of premises and equipment, net	**(294)**	(866)	(244)
Decrease in accrued interest receivable	**8,249**	5,496	8,837
Decrease (Increase) in other assets	**850**	(7,426)	(1,100)
Decrease in accrued interest payable	**(1,945)**	(3,786)	(3,005)
(Decrease) increase in other liabilities	**2,789**	(4,675)	4,290
Net cash provided by operating activities	**$ 151,556**	$ 111,378	$ 123,214
Cash flows from investing activities:			
Decrease (increase) in loans, net	**$ 53,944**	$ (18,018)	$ (436,296)
Cash recoveries of loans previously charged off	**1,900**	345	161
Sale (Purchase) of investment in the Bank	**2,487**	(3,174)	(11,835)
Purchases of premises and equipment	**(363)**	(835)	(2,026)
Proceeds from sales of premises and equipment	**717**	1,346	900
Proceeds from sales of other property owned	**8,626**	10,599	168
Net cash provided by (used in) investing activities	**$ 67,311**	$ (9,737)	$ (448,928)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Cash flows from financing activities:			
Net (decrease) increase in note payable to the Bank	**$ (192,940)**	$ (72,991)	$ 368,409
(Decrease) increase in drafts outstanding	**(1,762)**	(6,335)	5,572
Decrease in advance conditional payments	**(290)**	(4,177)	(11,604)
Issuance of capital stock and participation certificates	**2,675**	2,665	3,970
Retirement of capital stock, participation certificates and allocated equities	**(18,186)**	(2,986)	(3,420)
Patronage distributions paid	**(17,771)**	(22,882)	(37,917)
Net cash (used in) provided by financing activities	**$ (228,274)**	$ (106,706)	$ 325,010
Net (decrease) increase in cash	**(9,407)**	(5,065)	(704)
Cash at the beginning of the year	**15,098**	20,163	20,867
Cash at the end of the year	**$ 5,691**	$ 15,098	$ 20,163
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan forclosure	**$ 14,991**	$ 35,168	$ 814
Loans exchanged for agricultural mortgage-backed securities	**(24,520)**	-	-
Net loans charged off	**32,511**	35,457	6,510
Effect of adoption of guidance on defined benefit pension and other post retirement plans	**-**	-	(205)
Patronage distributions declared	**32,061**	17,741	29,439
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 134,361**	$ 158,463	$ 198,831
Income taxes	**13**	7	8

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

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 — ORGANIZATION, MERGERS AND OPERATIONS:

A. Organization: Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively called the Association), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas.

   The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2010, the System was composed of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation and various service and other organizations.

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

   The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations, and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

   The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. 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, until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

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

B. Mergers: On October 1, 2008, Capital Farm Credit, ACA (Capital) and First Ag Credit, FCS (First Ag) merged to form Capital Farm Credit, ACA as permitted by the 1987 Act. All of the capital stock and participation certificates of First Ag were exchanged for the capital stock and participation certificates of Capital on a one-for-one basis. The merger was accounted for similar to the pooling of interest method of accounting. Accordingly, the accompanying consolidated financial statements and financial information for all years presented have been restated to include the accounts and results of operations of Capital and First Ag as if the merger had been in effect for all periods presented. The Association succeeded to all the rights and obligations of the merging associations pursuant to the merger plans adopted by the boards of directors of Capital and First Ag. Prior to the merger, the accounting practices used by the associations were comparable.

C. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or

harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank. The Association also serves as an intermediary in offering credit life insurance.

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

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Capital Farm Credit, PCA and Capital Farm Credit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

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

   In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this standard did not have an impact on the association's financial condition or results of operations, but did result in additional disclosures.

   In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This statement must be applied to transfers occurring on or after November 15, 2009. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date, in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in

the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010, was immaterial to the association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. System institutions reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010, was immaterial to the association's financial condition and results of operations.

B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at banks.

C. Investment Securities: The association's investments include mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a credit loss). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings.

The association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the association to make investments that further the System's mission to serve rural America. Mission-related investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

D. 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 for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. Prior to 2010, this guidance was not implemented due to its immaterial effect on the association's financial position or results of operation for any year presented. The guidance was implemented in 2010 for loans closed in 2010, resulting in the capitalization of $4,510 in origination fees and $4,579 in origination costs, primarily salaries and benefits related to the origination of loans. The net adjustment to yield on loans for 2010 was an increase of $69.

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

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

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

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

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

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

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

The credit risk rating methodology is a key component of the association's allowance for loan losses evaluation and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change. Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

E. Capital Stock Investment in the Bank: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

F. Other Property Owned, Net: Other property owned, net, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell

are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations are included in gains (losses) on other property owned, net.

G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the asset. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

H. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors which was .20 percent at December 31, 2010.

I. Employee Benefit Plans: Employees of the Association participate in either the District defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are also eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB Plan. For the DB Plan, the Association recognized pension costs of $6,143, $9,205 and $3,655 for the years ended December 31, 2010, 2009 and 2008, respectively.

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

   The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of $739, $723 and $745 for the years ended December 31, 2010, 2009 and 2008, respectively.

   The Association also participates in the Farm Credit Benefits Alliance 401(k) plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $859, $875 and $953 for the years ended December 31, 2010, 2009 and 2008, respectively.

   In addition to the DB Plan, the DC Plan and the Farm Credit Benefits Alliance 401(k) plans above, effective December 2007, the Association sponsors a defined contribution supplemental retirement plan. The purpose of the Plan is (a) to provide eligible employees (those with compensation in excess of $100 in the immediately preceding tax year) of the Association who participate in the 401(k) Plan with benefits in excess of the limitations on benefits imposed, (b) to allow a means for those employees to make pre-tax deferrals of additional amounts payable to them to a future payment date and (c) to allow a means for participating employers to provide discretionary deferred income to those employees. During 2010, the agreement covering the supplemental plan for the CEO was revised in order to fix the total obligation of the Association under the plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheets in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were $635, $806 and $223 for the years ended December 31, 2010, 2009 and 2008, respectively.

   In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer. Association employees hired after January 1, 2004 will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

J. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. 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 tax. The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized.

Deferred income taxes have not been provided by the Association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of FASB guidance on “Accounting for Income Taxes.” Management’s intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank’s post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank’s post-1992 unallocated earnings. The Bank currently has no plans to distribute unallocated Bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

K. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the bank on an accrual basis.

L. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

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

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

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

The fair value disclosures are disclosed in Note 11, “Fair Value Measurements.”

M. 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 a 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 2 — INVESTMENTS:

Investments Held-to-Maturity

The Association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 24,520	$ 245	$ -	$ 24,275	4.99%	4.26

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction. The Association did not have any mortgage-backed securities prior to 2010.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2010		2009		2008	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 4,080,935**	**80.0%**	$ 4,045,814	77.5%	$ 3,971,263	75.3%
Production and intermediate term	**523,406**	**10.3%**	580,017	11.1%	640,483	12.2%
Agribusiness	**356,354**	**7.0%**	449,047	8.6%	491,359	9.3%
Rural residential real estate	**75,097**	**1.5%**	73,789	1.4%	63,049	1.2%
Communication	**30,869**	**0.6%**	34,283	0.7%	45,443	0.9%
Energy	**23,549**	**0.5%**	33,009	0.6%	58,005	1.1%
Lease receivables	**6,417**	**0.1%**	2,741	0.1%	1,178	0.0%
Water and waste disposal	**15**	**0.0%**	-	0.0%	75	0.0%
International	**-**	**0.0%**	-	0.0%	452	0.0%
Total	**$ 5,096,642**	**100.0%**	$ 5,218,700	100.0%	$ 5,271,307	100.0%

At December 31, 2010, the Association held 13 transactions, which are reported as loans on the consolidated balance sheet totaling $11,810 and with remaining commitments of $3,723 extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The Association has purchased and sold participation interests with other parties in order to diversity risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold:

	Participations Purchased	Participations Sold
Real estate mortgage	$ 167,549	$ 63,255
Production and Intermediate term	63,457	407
Agribusiness	207,113	16,211
Communication	30,869	-
Energy	23,552	-
Lease	5,763	-
	$ 498,303	**$ 79,873**

Loan Volume by Office:

Offices	**2010**	2009	2008
Capital Markets	**9.7%**	11.7%	14.3%
Dayton	**5.2%**	5.5%	3.5%
Kerrville	**4.4%**	4.3%	4.0%
Mason	**3.8%**	3.9%	3.7%
Austin	**3.6%**	3.4%	3.2%
Bryan	**3.4%**	3.3%	3.3%
Edna	**3.2%**	3.2%	3.7%
San Antonio	**2.7%**	2.7%	2.8%
Hondo	**2.5%**	2.7%	2.5%
Conroe	**2.5%**	2.3%	2.2%
Devine	**2.4%**	2.5%	2.4%
La Grange	**2.3%**	2.3%	2.3%
Uvalde	**2.3%**	2.2%	2.1%
Bellville	**2.2%**	2.3%	2.3%
Edinburg	**2.2%**	2.2%	1.8%
Hereford	**2.0%**	2.1%	2.3%
Kenedy	**2.0%**	1.9%	2.0%
El Campo	**2.0%**	1.7%	1.0%
Burnet	**1.9%**	1.8%	1.7%
Wichita Falls	**1.8%**	1.8%	1.6%
Dalhart	**1.7%**	1.7%	1.6%
Munday	**1.7%**	1.6%	1.5%
Laredo	**1.7%**	1.2%	1.2%
Robstown	**1.6%**	1.5%	1.5%
Madisonville	**1.5%**	1.4%	1.4%
Temple	**1.4%**	1.3%	1.2%
San Angelo	**1.4%**	1.3%	1.3%
Lockhart	**1.4%**	1.2%	1.1%
San Saba	**1.2%**	1.2%	1.1%
Bowie	**1.2%**	1.1%	1.2%
Lubbock	**1.2%**	1.1%	1.0%
Lamesa	**1.1%**	1.1%	1.1%
Fredericksburg	**1.1%**	1.1%	0.8%
Levelland	**1.1%**	1.0%	1.0%
Waco	**1.1%**	0.9%	0.8%
Rosenberg	**1.0%**	1.1%	1.1%
Jourdanton	**1.0%**	1.0%	0.9%
Taylor	**0.9%**	1.0%	1.0%
Stamford	**0.9%**	0.9%	0.9%
Littlefield	**0.9%**	0.9%	0.8%
Muleshoe	**0.8%**	1.0%	1.1%
Spur	**0.8%**	0.8%	0.8%
New Braunfels	**0.8%**	0.7%	0.6%
Alpine	**0.7%**	0.7%	0.7%
Graham	**0.7%**	0.7%	0.7%
Childress	**0.7%**	0.7%	0.7%
El Paso	**0.7%**	0.7%	0.5%
Sonora	**0.7%**	0.7%	0.7%
Goldthwaite	**0.6%**	0.6%	0.6%
Gatesville	**0.6%**	0.5%	0.5%
Crockett	**0.6%**	0.5%	0.5%
Sugar Land	**0.0%**	0.0%	2.2%
All Other Offices	**5.1%**	5.0%	5.2%
Totals	**100.0%**	**100.0%**	**100.0%**

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

	2010		2009		2008	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$2,969,872**	**58.3%**	$2,998,845	57.5%	$3,011,154	57.1%
Crops	**1,010,006**	**19.8%**	1,034,136	19.8%	986,876	18.7%
Hunting	**300,069**	**5.9%**	304,451	5.8%	289,052	5.5%
Timber	**174,826**	**3.4%**	217,033	4.2%	249,077	4.7%
Utilities	**70,748**	**1.4%**	80,683	1.5%	76,800	1.5%
Industrial/organic chemical	**61,437**	**1.2%**	72,663	1.4%	95,587	1.8%
Rural home loans	**59,433**	**1.2%**	58,894	1.1%	52,516	1.0%
Poultry	**37,950**	**0.7%**	46,164	0.9%	51,581	1.0%
Other	**412,301**	**8.1%**	405,831	7.8%	458,664	8.7%
Total	**$5,096,642**	**100.0%**	$5,218,700	100.0%	$5,271,307	100.0%

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 (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2010, 2009 and 2008, loans totaling $59,839, $96,830 and $113,151, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $286, $337 and $230 in 2010, 2009 and 2008, respectively, and are reflected in "other noninterest expense."

Asset Quality:

The following table reflects the credit quality of the Association's loan volume as of December 31:

	2010	2009	2008
Acceptable	**88.1%**	90.7%	94.0%
Special mention	**6.1%**	5.0%	3.4%
Substandard	**5.8%**	4.2%	2.6%
Doubtful	**0.0%**	0.1%	0.0%
Total	**100.0%**	100.0%	100.0%

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

	2010		2009		2008	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	**$ 76,200**	**38.2%**	$ 82,091	52.6%	$ 75,084	68.0%
Past due	**120,802**	**60.6%**	65,792	42.1%	17,042	15.4%
Total nonaccrual loans	**197,002**	**98.8%**	147,883	94.7%	92,126	83.4%
Accrual loans						
90 days or more past due	**1,300**	**0.7%**	7,057	4.5%	13,516	12.2%
Formally restructured	**1,005**	**0.5%**	1,229	0.8%	4,784	4.4%
Total impaired accrual loans	**2,305**	**1.2%**	8,286	5.3%	18,300	16.6%
Total impaired loans	**$ 199,307**	**100.0%**	$ 156,169	100.0%	$ 110,426	100.0%

The Association has remaining commitments to lend additional funds to 12 borrowers whose loans were classified as impaired at December 31, 2010 of $2,063.

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

	2010	2009	2008
Interest income recognized on nonaccrual loans	**$ 4,947**	$ 5,117	$ 3,029
Interest income recognized on impaired accrual loans	**159**	439	1,576
Interest income recognized on impaired loans	**$ 5,106**	$ 5,556	$ 4,605

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

	2010	2009	2008
Impaired loans with related specific allowance	**$ 81,987**	$ 86,022	$ 45,583
Impaired loans with no related specific allowance	**117,320**	70,147	64,843
Total impaired loans	**$ 199,307**	$ 156,169	$ 110,426
Allowance on impaired loans	**$ 18,181**	$ 20,556	$ 10,363
Average impaired loans	**$ 177,736**	$ 132,169	$ 74,773

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

	2010	2009	2008
Total interest income which would have been recognized under the original terms	**$ 11,621**	$ 13,131	$ 5,943
Less: interest income recognized	**5,106**	5,556	4,605
Foregone interest income	**$ 6,515**	$ 7,575	$ 1,338

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

	2010	2009	2008
Beginning balance	**$ 46,732**	$ 23,646	$ 15,805
Provision for loan losses	**29,173**	58,198	14,190
Loans charged off	**(32,511)**	(35,457)	(6,510)
Recoveries	**1,900**	345	161
Ending balance	**$ 45,294**	$ 46,732	$ 23,646

The Association's loan charge-offs decreased slightly in 2010 to $32,511 compared to $35,457 and $6,510 in 2009 and 2008, respectively. Charge-offs experienced in 2010 were primarily related to real estate properties surrounding metropolitan areas and the feedlot industry. Most of the 2009 charge-offs were experienced in the ethanol, feedlot, timber, transitional properties, dairy and utilities industries. Many of the losses were a direct result of significant fluctuations in commodity prices experienced between 2009 and 2010. The loans charged off in 2008 were primarily related to a bio fuel loan participation purchased from an association outside the District.

NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2010	2009	2008
Land and improvements	**$ 3,350**	$ 3,419	$ 3,394
Building and improvements	**11,943**	12,535	12,428
Furniture and equipment	**3,095**	3,261	3,251
Computer equipment and software	**1,754**	1,741	1,657
Automobiles	**2,267**	2,383	3,554
Construction in progress	**-**	-	256
	22,409	23,339	24,540
Accumulated depreciation	**(11,281)**	(11,014)	(11,124)
Total	**$ 11,128**	$ 12,325	$ 13,416

The Association leases office space in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Graham, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock, San Antonio and Seminole, Texas. Lease expense was $791, $679 and $536 for 2010, 2009 and 2008, respectively. Minimum annual lease payments for the next five years are as follows:

2010	$ 791
2011	634
2012	581
2013	363
2014	486
2015	23
Thereafter	-
Total	$ 2,878

NOTE 5 – OTHER PROPERTY OWNED, NET:

Net loss on other property owned consists of the following for the years ended December 31:

	2010	2009	2008
Gain on sale, net	**$ 475**	$ 324	$ 33
Provision for losses related to other property owned	**(5,386)**	(5,407)	(94)
Operating expense, net	**(781)**	(281)	(29)
Net loss on other property owned	**$ (5,692)**	$ (5,364)	$ (90)

NOTE 6 — NOTE PAYABLE TO THE BANK:

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

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2010, 2009 and 2008, were $4,338,554 at 2.98 percent, $4,531,494 at 3.36 percent and $4,604,485 at 4.38 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2010 was $4,987,356 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

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

NOTE 7 — MEMBERS' EQUITY:

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of one thousand dollars. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

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

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B and participation certificates to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of capital stock and participation

certificates is made solely at the discretion of the Association's board of directors. At December 31, 2010, 2009 and 2008, the Association had $3, $98 and $122, respectively, of Class A stock.

All borrower stock and allocated equities are at-risk. Net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent such losses exceed unallocated retained earnings, such losses would be applied in accordance with Association bylaws and be borne first on a pro rata basis by holders of all allocated equities and then on a pro rata basis by all holders of Class A stock, Class B capital stock and participation certificates. In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall first be distributed to the holders of stock and participation certificates pro rata in proportion to the number of shares or units of stock or participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to such holders; second, to the holders of allocated surplus on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; third, to the holders of nonqualified written notices of allocation on the basis of the oldest notices first, until an amount equal to the total of all notices outstanding has been distributed to the holders; and fourth, any remaining assets of the Association shall be distributed to the members, in proportion to which the aggregate patronage of each such member bears to the total patronage of all such parties insofar as practicable, unless provided by law.

In September 2010, the board of directors approved a resolution to retire $15,000 in allocated equities which were paid to the stockholders in December 2010. The equities retired represented $3,079, $5,640 and $6,281 from those allocated in 2006, 2007 and 2008, respectively.

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

			Cash Patronage		
Date Declared		**Non-Qualified Allocations**		**Amount**	**Date Paid (Payable)**
December 2010	**$**	**73,662**	**$**	**32,061**	**April 2011**
December 2009	$	39,885	$	17,741	March 2010
December 2008	$	52,272	$	22,784	March 2009
September 2008 (First Ag)	$	15,527	$	6,655	December 2008

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2010 the Association is not prohibited from retiring stock or distributing earnings. Furthermore, neither the board of directors nor senior management knows of any such prohibitions that may apply during 2011. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2010, were 14.4 percent, 13.4 percent and 14.0 percent, respectively.

The Association has a capital plan in place for 2011 with the objective of managing capital at a level that supports the growth of the Association's lending activities. The Association's plan is to continue to generate earnings to meet plan objectives, retire stock on paid loans in an orderly manner, and to pay patronage refunds to its stockholders as capital allows.

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

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

	2010	2009	2008
Class A stock	**543**	19,543	24,365
Class B stock	**4,324,879**	4,415,607	4,489,088
Participation certificates	**154,435**	146,759	132,933
Total	**4,479,857**	4,581,909	4,646,386

NOTE 8 — INCOME TAXES:

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

	2010	2009	2008
Current federal tax	**$ 46**	**$ 7**	$ (3)
Deferred federal tax	**-**	-	-
Provision for (benefit from) income taxes	**$ 46**	$ 7	$ (3)

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2010	2009	2008
Federal tax at statutory rate	**$ 36,008**	$ 19,593	$ 33,497
Federal income tax attributable to:			
Income not subject to federal tax	**(38,664)**	(22,271)	(34,322)
Nondeductible provision for loan losses	**4,033**	5,508	2,323
Patronage distributions	**-**	-	(916)
Charge-offs on loans	**(4,888)**	(4,071)	(614)
Net operating losses	**3,523**	938	-
Other	**34**	310	29
Provision for (benefit from) income taxes	**$ 46**	$ 7	$ (3)

Deferred tax assets and liabilities in accordance with FASB guidance, "Accounting for Income Taxes," result from the following at December 31:

	2010	2009	2008
Allowance for losses on loans	**$ 5,119**	$ 5,974	$ 4,538
Allowance for other property owned	**621**	19	32
Retirement and other postretirement benefits	**-**	-	1,644
Net operating loss carryfoward	**4,461**	938	938
Deferred tax assets	**10,201**	6,931	7,152
Valuation allowance	**(10,201)**	(6,931)	(7,152)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings, including the following at December 31, 2010. Nonpatronage income is expected to be less than 5 percent of total taxable income (before patronage), and all patronage income is expected to be disbursed over time. The expected future tax rates are based upon enacted tax laws.

The Association recorded valuation allowances of $10,201, $6,931 and $7,152 at 2010, 2009 and 2008, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

NOTE 9 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies."

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). No Association employees hired after January 1, 2004, will be eligible for these health care and life insurance benefits upon retirement. These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Association employees hired after January 1, 2004 will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

In September 2006, the FASB issued guidance on defined benefit pension and other postretirement benefits, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans in the balance sheet. The balance sheet recognition provisions of the guidance were adopted at December 31, 2007. The guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The Association has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the association decreased retained earnings $205, net of taxes and increased the pension and other postretirement benefit liabilities by $205.

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

Disclosure Information Related to Retirement Benefits	**2010**	2009	2008
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 13,506**	$ 13,284	$ 12,399
Service cost	**448**	458	475
Interest cost	**807**	825	992
Plan participants' contributions	**127**	108	128
Plan amendments	**-**	-	(658)
Actuarial loss (gain)	**2,249**	(647)	363
Benefits paid	**(575)**	(522)	(522)
Accumulated postretirement benefit obligation, end of year	**$ 16,562**	$ 13,506	$ 13,177
Change in Plan Assets			
Association contributions	**448**	414	395
Plan participants' contributions	**127**	108	127
Benefits paid	**(575)**	(522)	(522)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (570)**	$ (407)	$ (98)
Noncurrent Liabilities	**(15,992)**	(13,099)	(13,079)
Total	**$ (16,562)**	$ (13,506)	$ (13,177)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial gain (loss)	**$ 1,037**	$ (1,212)	$ (638)
Prior service credit	**(2,709)**	(3,141)	(3,573)
Total	**$ (1,672)**	$ (4,353)	$ (4,211)
Additional Information			
Increase in minimum liability included in other comprehensive income	**$ -**	$ -	$ 166
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2010**	12/31/2009	12/31/2008
Discount rate	**5.70%**	6.05%	6.30%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.5%/6.5%**	8.0%/7.0%	8.5%/6.5%
Health care cost trend rate assumed for next year - Rx	**10.00%**	10.50%	12.00%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2017**	2017	2015

Disclosure Information Related to Retirement Benefits	**2010**	2009	2008
Components of Net Postretirement Benefit Cost			
Service Cost	**$ 448**	$ 458	$ 380
Interest cost	**807**	825	793
Amortization of:			
Unrecognized prior service credit	**(433)**	(432)	(362)
Unrecognized net loss	**-**	-	9
Net postretirement benefit cost	**$ 822**	$ 851	$ 820
Adjustment to Retained Earnings Due to Change in Measurement Date	**$ -**	$ -	$ (205)
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income			
Net Actuarial Loss (gain)	**$ 2,248**	$ (647)	
Prior Service Cost	**433**	432	
Total Recognized in Other Comprehensive Income	**$ 2,681**	$ (215)	
AOCI Amounts Expected to be Amortized into Expense			
Unrecognized prior service cost	**(417)**	(432)	(432)
Unrecognized net loss	**-**	-	-
Total	**$ (417)**	$ (432)	$ (432)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost			
Measurement date	**12/31/2009**	12/31/2008	9/30/2007
Discount Rate	**6.05%**	6.30%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**8.0%/7.0%**	8.5%/6.5%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	**10.50%**	11.00%	13.00%
Ultimate health care cost trend rate	**5.00%**	5.00%	4.75%
Year that the rate reaches the ultimate trend rate	**2017**	2015	2016

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2011	$ 570
Fiscal 2012	640
Fiscal 2013	724
Fiscal 2014	789
Fiscal 2015 - 2019	874
Fiscal 2016 to 2020	5,325
Expected Contributions	
Fiscal 2011	$ 570

NOTE 10 — RELATED PARTY TRANSACTIONS:

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

Total loans to such persons for the Association amounted to $36,291, $40,896 and $42,899 at December 31, 2010, 2009 and 2008, respectively. During 2010, $31,363 of new loans were made and repayments totaled $35,968. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collection.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank passed through to the Associations such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $4,580, $11,563 and $10,298 in 2010, 2009 and 2008, respectively.

The Association received patronage payments from the Bank totaling $24,344, $20,121 and $15,706 during 2010, 2009 and 2008, respectively.

NOTE 11 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information. Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The Association has several assets that are carried on its books at fair value, including assets held in nonqualified benefits trusts, loans that have been evaluated for impairment and other property owned.

Valuation Techniques

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

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified with Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net assets values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value December 31, 2010	Total Fair Value December 31, 2009
Beginning Balance	**$ 1,475**	$ 639
Transfers In	**-**	806
Transfers Out	**-**	-
Other Market Changes	**227**	30
Assets held in non-qualified benefits trusts	**$ 1,702**	$ 1,475

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since these loans were collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge and judgment about current market conditions, specific issues related to collateral and other matters. These loans are generally classified as Level 3. Level 3 valuation utilizes unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Other property owned is also generally classified as Level 3. The fair value is based upon the value of the property. Costs to sell represent transaction cost and are not included as a component of the asset's fair value.

These assets are measured at fair value on a nonrecurring basis and are summarized below:

	Total Fair Value December 31, 2010	Total Fair Value December 31, 2009
Impaired Loans	**$ 199,307**	$ 156,169
Investments Held-to-Maturity	**$ 24,275**	$ -
Other property owned	**16,658**	19,893
Total	**$ 240,240**	$ 176,062

NOTE 12 — COMMITMENTS AND CONTINGENCIES:

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

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2010, $473,254 of commitments and $17,623 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. 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 the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and maintained for the benefit of the participating employers including the Association and its eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing Pension Plan. The Association has evaluated the benefits lost as a result of these limitations with regard to the CEO of the Association and has begun funding this shortfall over a five-year period using a five-year vesting schedule. During 2010, the agreement covering the supplemental plan for the CEO was revised in order to fix the total obligation of the Association under the plan. At December 31, 2010 the total potential obligation to the Association is $3,090, with $1,820 of this obligation funded through December 31, 2010.

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

The following table presents the carrying amounts and estimated fair values of the Association's financial instruments at December 31, 2010, 2009 and 2008. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of

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

The estimated fair values of the Association's financial instruments as of December 31 follow:

	2010		2009		2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash	**$ 5,691**	**$ 5,691**	$ 15,098	$ 15,098	$ 20,163	$ 20,163
Loans, net	**5,051,348**	**5,042,811**	5,171,968	5,157,797	5,247,661	5,450,903
Investments Held-to-Maturity	**24,520**	**24,275**	-	-	-	-
Nonqualified deferred compensation trust assets	**1,702**	**1,702**	1,475	1,475	639	639
Financial liabilities:						
Note payable to the Bank	**4,338,554**	**4,331,221**	4,531,494	4,519,078	4,604,485	4,782,789

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying value is a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Association's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

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

The carrying value of accrued interest approximates its fair value.

C. Investment Securities: Includes available-for-sale investments for liquidity, mission-related and other purposes, as well as held-to-maturity investments. See Note 11, "Fair Value Measurements," for the valuation technique used to determine the fair value of investments.

D. Investment in the Bank:

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 38.63 percent of the issued common stock of the Bank as of December 31, 2010. As of that date, the Bank's assets totaled $14,108,203 and members' equity totaled $1,150,858. The Bank's earnings were $168,450 during 2010.

E. Assets held in nonqualified benefits trusts: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 11, "Fair Value Measurements," the fair value of these assets is quoted market values.

F. Note Payable to the Bank:

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

G. Commitments to Extend Credit:

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

NOTE 14 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 are as follows:

	2010				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 39,504**	**$ 39,407**	**$ 39,369**	**$ 39,218**	**$ 157,498**
Provision for loan losses	**(1,633)**	**(6,597)**	**(18,083)**	**(2,860)**	**(29,173)**
Noninterest expense, net	**(10,751)**	**(2,053)**	**(4,821)**	**(4,795)**	**(22,420)**
Net income	**$ 27,120**	**$ 30,757**	**$ 16,465**	**$ 31,563**	**$ 105,905**

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 38,220	$ 36,656	$ 37,794	$ 39,691	$ 152,361
Provision for loan losses	(17,921)	(12,872)	(14,728)	(12,677)	(58,198)
Noninterest expense, net	(9,103)	(9,439)	(10,713)	(7,282)	(36,537)
Net income	$ 11,196	$ 14,345	$ 12,353	$ 19,732	$ 57,626

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 35,016	$ 35,511	$ 37,234	$ 36,317	$ 144,078
Provision for loan losses	(3,468)	(2,112)	(4,161)	(4,449)	(14,190)
Noninterest expense, net	(6,693)	(6,193)	(10,571)	(7,911)	(31,368)
Net income	$ 24,855	$ 27,206	$ 22,502	$ 23,957	$ 98,520

NOTE 15 – SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 3, 2011, which is the date the financial statements were issued or available to be issued. The Association is not aware of any subsequent events that would materially impact the financial statements as presented.

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

The Association has a policy to make a concerted effort to finance young, beginning or small farmers and ranchers, and producers or harvesters of aquatic products (YBS program). For purposes of the Association's YBS program, young producers are defined as those age 35 or younger. Beginning producers are defined as a producer with 10 years or less of experience at farming, ranching and producing or harvesting aquatic products. A small producer is defined as one who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products. Using statistics obtained from a United States Department of Agriculture census and information from the Association's loan accounting records as of June 30, 2010, the following table compares the percentage of YBS farmers in the Association's territory (based on USDA data) with the percentage of YBS customers in the Association's loan portfolio. While the measurement (farmers) used in the USDA census information is not directly comparable to the measurement (customers) used by the Association, the statistics presented herein serve as a quantitative measurement of the Association's success in attracting and making loans to young, beginning and/or small farmers that live or have operations in the Association's territory.

In the following table, 4.0 percent of the farmers in the Association's territory are "Young" farmers while 17.4 percent of our customers that live or operate in the Association's territory meet the "Young" criterion. The same explanation applies to the Beginning and Small categories.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMERS IN TERRITORY	ASSOCIATION CUSTOMERS
Young	4.0%	17.4%
Beginning	30.7%	62.5%
Small	95.3%	83.9%

At December 31, 2010, the Association had the following number of loans and volume outstanding in its YBS Program (loans may fit in one, two or all three categories):

YOUNG		BEGINNING		SMALL	
Number of Loans	Volume	Number of Loans	Volume	Number of Loans	Volume
4,148	$611,800	13,640	$3,018,578	18,560	$3,451,641

The Association maintains a policy that directs management to implement a program that strives to fully utilize its resources to: (a) attract and retain YBS customers, (b) implement lending programs and/or services that meet the needs of YBS customers and (c) develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory. Management has implemented programs to address each component by:

Attract and retain YBS customers – The employees of Capital Farm Credit are involved in working with youth livestock programs that have historically produced individuals that become farmers and ranchers in the future. Hundreds of hours are spent annually serving in various capacities that promote livestock shows and sales for youth across the state, and Capital Farm Credit spends thousands of dollars sponsoring and contributing to these programs. These programs are spread across the state and include county, regional and statewide shows and involve both 4-H and FFA programs.

In addition, CFC sponsors and supports programs and organizations around the state that are targeted at young, beginning or small farmers or ranchers, some in cooperation with various county and statewide organizations but also with the Texas AgriLife Extension Service. These programs have been successful in helping to educate and provide knowledge and other resources to farmers and ranchers who are taking steps to increase their involvement in agriculture and/or the size of their operations.

The involvement and support of these programs also helps YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs can be of value to them as they improve or expand their current operations.

Implement lending programs and/or services that meet the needs of YBS customers – The Association implemented a policy that permits the Association to provide constructive credit to serve any financing need of YBS customers who are taking demonstrated steps to become more fully engaged as full-time farmers or ranchers. Also, the Association has adopted underwriting standards that contain flexible criteria that permit the credit needs of customers to be met when the customer falls short of meeting an established standard but has one or more compensating strengths to offset the area of weakness. These flexible criteria, while still requiring

reasonable and prudent underwriting standards, allows customers who engage in agriculture operations less than full-time to have the capital resources they need to begin or grow the operations. In addition, the Association cooperates with government agencies to structure loans with third-party guarantees when the applicant does not have sufficient equity or proven repayment sources to qualify for credit by themselves. These cooperative efforts allow YBS customers to begin an agriculture operation, maintain their operation through stressful periods or make expansions in herd size, facilities or acreage.

Develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory – In each year's business plan, the board establishes YBS goals and develops quantitative standards to measure the level of success in achieving the established goals. The business plan also defines how and when the standards will be measured and assigns responsibility to an officer for monitoring, tracking and reporting the standards. The progress in achieving the goals is reported to the board of directors each quarter. Through this process, the board is able to evaluate if the programs implemented by management are successful in achieving the goals in the business plan and are successful in achieving compliance with the board's policy direction to serve the needs of YBS customers.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
300 West Sixth Street
Suite 1800
Austin, Texas 78701
Telephone (512) 477 1300
Facsimile (512) 477 8681
www.pwc.com

Report of Independent Auditors

To the Board of Directors and Members of
Capital Farm Credit, ACA:

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

PricewaterhouseCoopers LLP

March 3, 2011

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Capital Farm Credit
P.O. Box 232
Bryan, Texas 77806

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Capital Farm Credit has been making loans for agriculture and rural real estate since 1917. The source of our strength is our cooperative structure: We share our earnings with our borrowers and operate in their best interests. In fact, we have returned more than $400 million to our customers.

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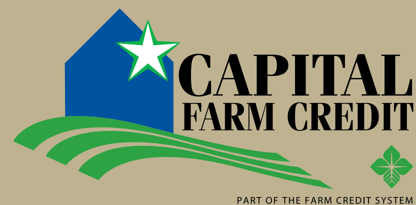
- Country Home Loans
- Farm & Ranch Loans
- Livestock & Equipment Loans
- Operating Capital
- Real Estate Appraisal Services
- Agribusiness Financing
- Leasing



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