



**AGRI****LAND**  
FARM CREDIT

**2009 Annual Report**

December 31, 2009



Part of the Farm Credit System

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## REPORT OF MANAGEMENT

The consolidated financial statements of AgriLand, Farm Credit Services (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 (PwC), independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

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

The undersigned certifies that this annual report has been 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 or belief.



Roger Brist, Chief Executive Officer

*March 5, 2010*



Dennis Walker, Chairman, Board of Directors

*March 5, 2010*



Joe Valladares, Vice President of Finance

*March 5, 2010*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of board members Ralph Preuss (chairman), James Dawley, Richard Devillier, and Bobby Hobson of AgriLand, Farm Credit Services. In 2009, eight committee meetings were held. The Committee oversees the scope of AgriLand, Farm Credit Services' system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on AgriLand's Web site. The Committee approved the appointment of PricewaterhouseCoopers LLP for 2009.

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

In this context, the Committee reviewed and discussed the Association's audited consolidated financial statements for the year ended December 31, 2009 with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance) and both PricewaterhouseCoopers LLP and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PricewaterhouseCoopers LLP its independence from AgriLand, Farm Credit Services. The Committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in the Association's Annual Report to Stockholders for the year ended December 31, 2009.



Ralph Preuss, Audit Committee Chairman

*March 5, 2010*



James Dawley, Audit Committee Member

*March 5, 2010*



Richard Devillier, Audit Committee Member

*March 5, 2010*



Bobby Hobson, Audit Committee Member

*March 5, 2010*

**AgriLand, Farm Credit Services**

**FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**

(unaudited)

(dollars in thousands)

	December 31,				
	2009	2008	2007	2006	2005
<b><u>Balance Sheet Data</u></b>					
<b><u>Assets</u></b>					
Cash	\$ 93	\$ 82	\$ 49	\$ 1,492	\$ 402
Loans	356,099	383,928	337,401	313,120	259,009
Less: allowance for loan losses	(4,566)	(2,425)	(1,255)	(154)	(153)
Net loans	<b>351,533</b>	381,503	336,146	312,966	258,856
Investment in and receivable from the Bank	6,923	6,481	7,810	6,440	6,449
Other property owned, net	4,098	216	49	108	388
Other assets	9,232	8,638	8,884	8,766	6,170
Total assets	<b>\$ 371,879</b>	\$ 396,920	\$ 352,938	\$ 329,772	\$ 272,265
<b><u>Liabilities</u></b>					
Obligations with maturities of one year or less	\$ 4,313	\$ 5,239	\$ 5,289	\$ 6,025	\$ 9,100
Other obligations with maturities greater than one year	319,338	345,599	305,097	285,118	229,520
Total liabilities	<b>323,651</b>	350,838	310,386	291,143	238,620
<b><u>Members' Equity</u></b>					
Capital stock and participation certificates	4,970	5,067	4,955	5,324	5,653
Allocated retained earnings	20,367	13,897	10,983	3,905	2,609
Unallocated retained earnings	22,809	26,963	26,326	29,400	25,383
Accumulated other comprehensive income	82	155	288	-	-
Total members' equity	<b>48,228</b>	46,082	42,552	38,629	33,645
Total liabilities and members' equity	<b>\$ 371,879</b>	\$ 396,920	\$ 352,938	\$ 329,772	\$ 272,265

	Year Ended December 31,				
	2009	2008	2007	2006	2005
<b><u>Statement of Income Data</u></b>					
Net interest income	\$ 10,701	\$ 9,598	\$ 10,104	\$ 9,378	\$ 8,378
(Provision for) or loan loss reversal	(5,506)	(1,572)	(2,373)	(144)	420
Income from the Bank	1,857	1,195	1,485	1,141	900
Other noninterest income	892	923	659	625	574
Noninterest expense	(7,241)	(5,984)	(5,427)	(5,404)	(5,103)
Benefit from income taxes	1,577	167	290	310	440
Net Income	<b>\$ 2,280</b>	\$ 4,327	\$ 4,738	\$ 5,906	\$ 5,609

**AgriLand, Farm Credit Services**

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

<b><u>Key Financial Ratios For the Year</u></b>	December 31,				
	<b>2009</b>	2008	2007	2006	2005
Return on average assets	<b>0.6%</b>	1.1%	1.4%	2.0%	2.3%
Return on average member equity	<b>4.7%</b>	7.7%	11.5%	16.4%	18.1%
Net interest income as a percentage of average earning assets	<b>2.8%</b>	2.6%	3.1%	3.4%	3.7%
Net charge-offs (recoveries) as a percentage of average loans	<b>0.9%</b>	0.2%	0.4%	0.1%	(0.2%)
<b><u>Key Financial Ratios At Year End</u></b>					
Members' equity as a percentage of total assets	<b>13.0%</b>	11.6%	12.1%	11.7%	12.4%
Debt as a percentage of members' equity	<b>671.1%</b>	764.6%	729.8%	738.1%	682.2%
Allowance for loan losses as a percentage of loans	<b>1.3%</b>	0.6%	0.4%	0.1%	0.1%
Permanent capital ratio	<b>11.9%</b>	11.0%	11.9%	10.9%	11.7%
Total surplus ratio	<b>11.2%</b>	10.4%	11.2%	10.5%	10.9%
Core surplus ratio	<b>11.2%</b>	10.3%	10.8%	9.7%	9.6%
<b><u>Net Income Distributed</u></b>					
Patronage refunds					
Cash paid	\$ 724	\$ 700	\$ 714	\$ 786	\$ 816
Allocated retained earnings	<b>6,470</b>	2,914	7,078	1,308	1,775

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

(Dollars in thousands, except as noted)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of AgriLand, Farm Credit Services, ACA, including its wholly-owned subsidiaries, AgriLand, PCA and AgriLand, FLCA (Association) for the years ended December 31, 2009, 2008 and 2007, and should be read in conjunction with the accompanying consolidated financial statements.

### **Forward-Looking Information:**

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

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

### **Significant Events:**

In 2009, the Association's earnings dropped significantly to \$2,280, or 0.6 percent return on assets. Lower earnings were attributed to \$5,506 in provision for loan losses. Borrower defaults in the grain, dairy, feedlot and poultry industries were responsible for the need to increase provisions.

In 2009, the increase in adverse loans and increase in loan loss reserves resulted in a violation of the net earnings and credit quality covenants of the General Financing Agreement ("GFA") between the Association and the Farm Credit Bank of Texas ("Bank"). The Bank agreed to waive the Events of Default, and refrain from exercising any other remedies it has under the GFA, if the Association provides a satisfactory corrective plan. This plan was presented to the Bank and approved in January 2010. The Bank has agreed to continue to waive such Events of Default so long as the Association in fact complies with the terms of such plan. The Association will comply with the terms of the waiver.

In December 2009, the Association received a direct loan patronage of \$1,377 from the Bank, representing 40 basis points on the average daily balance of the Association's direct loan with the Bank. During 2009, the Association received \$112 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 \$344 from the Bank, representing 65 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

In 2009, the Association had \$8,125 in past due loans which is reflection of seasonal renewals on operating loans requiring additional servicing time and were delinquent at year-end 2009. In 2009, the Association had \$4,066 in loans classified as nonaccrual but not delinquent at year-end 2009. These loans are classified nonaccrual due to identified weaknesses in either current and/or projected financial performance, but have met their debt payments as agreed. The Association's nonaccrual loan portfolio decreased from \$12,657 in 2008 to \$12,191 in 2009. Grain, beef, dairy and poultry industries make up the majority of the Association's nonaccrual loans.

For over 76 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

### **Loan Portfolio:**

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-

based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and 15- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

During 2009, 2008 and 2007, the Association was participating in loans with lenders. As of December 31, 2009, 2008 and 2007, these participations totaled \$25,794, \$29,705 and \$21,500, or 7.2 percent, 7.7 percent and 6.4 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$21,909, \$24,399 and \$18,040, or 6.2 percent, 6.4 percent and 5.3 percent of loans, respectively. The Association has also sold participations of \$84,313, \$116,506 and \$72,837 as of December 31, 2009, 2008 and 2007, respectively.

The loan portfolio owned by the Association, as of December 31, 2009, 2008 and 2007, included principal less funds held of \$356,099, \$383,928, and \$337,401, respectively.

### 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:

	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans	\$ 12,191	70.1%	\$ 12,657	98.3%	\$ 7,805	75.6%
Accrual loans 90 days past due	354	2.0%	-	0.0%	2,475	24.0%
Restructured accrual loans	759	4.4%	-	0.0%	-	0.0%
Other property owned, net	4,098	23.5%	216	1.7%	49	0.4%
Total	\$ 17,402	100.0%	\$ 12,873	100.0%	\$ 10,329	100.0%

At December 31, 2009, 2008 and 2007, loans that were considered impaired were \$13,304, \$12,657 and \$10,280, representing 3.7 percent, 3.3 percent and 3.0 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. Nonaccrual loans of \$12,191 at December 31, 2009 are attributed to the grain, dairy, and beef industries. The other property owned balance of \$4,098 represents primarily real estate.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender. To help mitigate and diversify credit risk, the Association has employed practices including obtaining credit guarantees and engaging in loan participations.

### 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:

	2009	2008	2007
Allowance for loan losses	\$ 4,566	\$ 2,425	\$ 1,255
Provision for loan losses	5,506	1,572	2,373
Loans charged off	3,546	553	1,377
Recoveries	181	151	105
Allowance for loan losses to total loans	1.3%	0.6%	0.4%
Allowance for loan losses to nonaccrual loans	37.5%	19.2%	16.1%
Allowance for loan losses to impaired loans	34.3%	19.2%	12.2%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience.

The risk within the Association's portfolio remains elevated due to borrower financial stress caused by poor commodity sales and/or prices, and in certain cases, poor borrower financial management. Agriculture industries hardest hit were dairy, poultry and beef. In 2009, the portfolio condition was further exacerbated by fraud. The fraud was attributed to a borrower's financial misrepresentation and the borrower's loan was moved to nonaccrual. At December 31, 2009, the loan balance was \$4,320,

which included a \$676 charge-off and \$1,300 reserve for loan losses. The Association anticipates acquiring the collateral securing the debt.

Over the past three years, significant additions were made to provision for loan losses. Provision for loan losses of \$5,506, \$1,572, \$2,373 were recorded in 2009, 2008 and 2007, respectively. The need for large provision additions were caused by borrowers' default and inability to repay. Grain, dairy and poultry industries accounted for the greatest portion of the provision needs. Based upon ongoing risk assessment and the allowance for loan losses procedures, the allowance for loan losses of \$4,566, \$2,425 and \$1,255 at December 31, 2009, 2008 and 2007, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

### Results of Operations:

The Association's net income for the year ended December 31, 2009, was \$2,280 as compared to \$4,327 for the year ended December 31, 2008, a decrease of \$2,047, or 47.3 percent. The decrease in net income is primarily due to increases in provision for loan loss and operating expenses. The Association's net income for the year ended December 31, 2007 was \$4,738. Net income decreased \$411, or 8.7 percent, in 2008 versus 2007.

Net interest income for 2009, 2008 and 2007 was \$10,701, \$9,598 and \$10,104, reflecting an increase of \$1,103, or 11.5 percent, for 2009 versus 2008 and a decrease of \$506, or 5.0 percent, for 2008 versus 2007. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2009		2008		2007	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 382,575	\$ 22,805	\$ 363,274	\$ 24,113	\$ 326,704	\$ 26,574
Interest-bearing liabilities	346,444	12,104	330,037	14,515	298,247	16,470
Impact of capital	\$ 36,131		\$ 33,237		\$ 28,457	
Net interest income		\$ 10,701		\$ 9,598		\$ 10,104

  

	Average Yield	Average Yield	Average Yield
Yield on loans	5.96%	6.64%	8.13%
Cost of interest-bearing liabilities	3.49%	4.40%	5.52%
Interest rate spread	2.47%	2.24%	2.61%

Interest income decreased for 2009 by \$1,308, or 5.4 percent, compared to 2008. Interest expense for 2009 decreased by \$2,411, or 16.6 percent, compared to 2008. Lower interest income and interest expense was a direct result of decreased rates. The interest rate spread increased by 23 basis points to 2.47 percent in 2009 from 2.24 percent in 2008, primarily due to falling interest rates. The interest rate spread decreased by 37 basis points to 2.24 percent in 2008 from 2.61 percent in 2007, primarily because of compressed margins and higher nonaccrual volume.

Noninterest income for 2009 increased by \$631 or 29.8 percent, compared to 2008, primarily due to increased loan fees and increased patronage income from the Bank. Noninterest income for 2008 decreased by \$26, or 1.2 percent, compared to 2007, primarily due to decreased patronage income from the Bank. Refer to the Five-Year Summary of Selected Consolidated Financial Data in this annual report to review key financial ratios pertaining to earnings and net interest income.

Operating expenses consist primarily of salaries, employee benefits, and Bank purchased services and allocations. Expenses for Bank purchased services and allocations may include administrative services, marketing, information systems, accounting and loan processing, among others. Under the joint management agreement, operating expenses are paid by AgriLand, FLCA and shared with AgriLand, PCA, with allocation based upon a unique cost allocation metric. Operating expenses were \$7,241, \$5,984 and \$5,427 for 2009, 2008 and 2007, respectively. Increases in operating expenses for 2009 were primarily attributed to increases in salary, DB pension and FCSIC insurance costs, compared to 2008. Increases in operating expenses for 2008 were primarily attributed to increases in salary and benefit expenses, compared to 2007. Based upon allocation percentages AgriLand, FLCA's share was 43.5 percent, 48.3 percent and 33.0 percent and AgriLand, PCA's share was 56.5 percent, 51.7 percent and 67.0 percent for 2009, 2008 and 2007, respectively.

Return on average assets (ROA) for 2009 was 0.6 percent compared to 1.1 percent and 1.4 percent for the years 2008 and 2007, respectively. Return on equity (ROE) for 2009 was 4.7 percent compared to 7.7 percent and 11.5 percent for years ended 2008 and 2007, respectively. The declining trend of ROA and ROE were primarily attributed to increased provision for loan losses and operating expenses, offset by increases in net interest margins and deferred tax receivable.

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

### **Liquidity and Funding Sources:**

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$318,428, \$344,395 and \$303,721 as of December 31, 2009, 2008 and 2007, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.0 percent, 4.0 percent and 5.4 percent at December 31, 2009, 2008 and 2007, 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 due primarily to decrease in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$37,142, \$38,914 and \$33,091 at December 31, 2009, 2008 and 2007, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2009, was \$350,900 as defined by the general financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2010. 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. To stay within capital requirements the Association has made efforts to increase its capital position through the use of guaranteed programs such as the Federal Agricultural Mortgage Corporation (Farmer Mac). The Association has guaranteed \$15,578, \$18,911 and \$24,716 for 2009, 2008 and 2007, respectively, through the Farmer Mac program.

### **Capital Resources:**

The Association's capital position remains strong, with total members' equity of \$48,228, \$46,082 and \$42,552 at December 31, 2009, 2008 and 2007, 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 Farm Credit Administration (FCA). The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2009, 2008 and 2007 was 11.9 percent, 11.0 percent and 11.9 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, 2009, 2008 and 2007 was 11.2 percent, 10.3 percent and 10.8 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investment in the Association. The Association's total surplus ratio at December 31, 2009, 2008 and 2007 was 11.2 percent, 10.4 percent and 11.2 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2009, 2008 and 2007 the Association paid cash patronage distributions of \$724, \$700 and \$588. In December 2009, the board of directors did not approve a cash patronage distribution. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information. In 2009, 2008 and 2007, the Association allocated equity patronage of \$6,470, \$2,914 and \$7,078, respectively.

### **Relationship with the Bank:**

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

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

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

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

**Summary:**

Over the past 76 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

## Report of Independent Auditors

To the Board of Directors and Members of  
AgriLand, Farm Credit Services:

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 AgriLand, Farm Credit Services and subsidiaries (Association) at December 31, 2009, 2008 and 2007, 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 5, 2010

**AGRILAND, FARM CREDIT SERVICES**

**CONSOLIDATED BALANCE SHEET**

	December 31,		
<i>(dollars in thousands)</i>	<b>2009</b>	2008	2007
<b><u>Assets</u></b>			
Cash	\$ 93	\$ 82	\$ 49
Loans	<b>356,099</b>	383,928	337,401
Less allowance for loan losses	<b>(4,566)</b>	(2,425)	(1,255)
Net loans	<b>351,533</b>	381,503	336,146
Accrued interest receivable	<b>4,066</b>	5,179	7,248
Investment in and receivable from the Bank:			
Capital stock	<b>6,923</b>	6,481	6,406
Other	<b>1,425</b>	1,397	1,404
Deferred taxes, net	<b>2,368</b>	791	501
Other property owned, net	<b>4,098</b>	216	49
Premises and equipment, net	<b>1,180</b>	1,164	957
Other assets	<b>193</b>	107	178
Total assets	<b>\$ 371,879</b>	\$ 396,920	\$ 352,938
<b><u>Liabilities</u></b>			
Note payable to the Bank	\$ 318,428	\$ 344,395	\$ 303,721
Advance conditional payments	<b>639</b>	928	809
Accrued interest payable	<b>910</b>	1,204	1,357
Drafts outstanding	<b>637</b>	683	1,014
Dividends payable	-	14	14
Patronage distributions payable	<b>4</b>	750	700
Postretirement and other liabilities	<b>3,033</b>	2,864	2,771
Total liabilities	<b>323,651</b>	350,838	310,386
<b><u>Members' Equity</u></b>			
At-risk members' equity:			
Capital stock and participation certificates	<b>4,970</b>	5,067	4,955
Allocated retained earnings	<b>20,367</b>	13,897	10,983
Unallocated retained earnings	<b>22,809</b>	26,963	26,326
Accumulated other comprehensive income	<b>82</b>	155	288
Total members' equity	<b>48,228</b>	46,082	42,552
Total liabilities and members' equity	<b>\$ 371,879</b>	\$ 396,920	\$ 352,938

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

**AGRILAND, FARM CREDIT SERVICES**  
**CONSOLIDATED STATEMENT OF INCOME**

<i>(dollars in thousands)</i>	Year Ended December 31,		
	<b>2009</b>	2008	2007
<b><u>Interest Income</u></b>			
Loans	<b>\$22,784</b>	\$ 24,087	\$ 26,534
Other	<b>21</b>	26	40
Total interest income	<b>22,805</b>	24,113	26,574
<b><u>Interest Expense</u></b>			
Note payable to the Bank	<b>12,104</b>	14,515	16,470
Net interest income	<b>10,701</b>	9,598	10,104
<b><u>Provision for losses</u></b>			
Provision for loan losses	<b>5,506</b>	1,572	2,373
Net interest income after provision for losses	<b>5,195</b>	8,026	7,731
<b><u>Noninterest Income</u></b>			
Income from the Bank	<b>1,857</b>	1,195	1,485
Loan fees	<b>868</b>	888	593
Fees for financially related services	<b>16</b>	13	29
Other income	<b>8</b>	22	37
Total noninterest income	<b>2,749</b>	2,118	2,144
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	<b>4,389</b>	3,412	3,026
Directors' expense	<b>211</b>	166	149
Purchased services	<b>433</b>	451	191
Travel	<b>237</b>	200	197
Occupancy and equipment	<b>354</b>	356	579
Communications	<b>120</b>	116	112
Advertising	<b>115</b>	158	145
Public and member relations	<b>154</b>	173	168
Supervisory and exam expense	<b>244</b>	206	151
Insurance Fund premiums	<b>642</b>	511	478
Loss on other property owned, net	<b>101</b>	15	8
Other expense	<b>241</b>	220	223
Total noninterest expenses	<b>7,241</b>	5,984	5,427
Income before income taxes	<b>703</b>	4,160	4,448
Benefit from income taxes	<b>1,577</b>	167	290
Net income	<b>\$ 2,280</b>	\$ 4,327	\$ 4,738

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

**AGRILAND, FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**

(dollars in thousands)	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2006	\$ 5,324	\$ 3,905	\$ 29,400	\$ -	\$ 38,629
Net income	-	-	4,738	-	4,738
Adjustment to initially apply new pension accounting principle, net of tax	-	-	-	288	288
Capital stock/participation certificates issued	593	-	-	-	593
Capital stock/participation certificates retired	(962)	-	-	-	(962)
Patronage refunds:					
Cash	-	-	(700)	-	(700)
Cash dividends declared	-	-	(14)	-	(14)
Allocated	-	7,078	(7,098)	-	(20)
Balance at December 31, 2007	4,955	10,983	26,326	288	42,552
Net income	-	-	4,327	-	4,327
Comprehensive income:					
Change in pension and postretirement benefit plans	-	-	-	(133)	(133)
Total comprehensive income			4,327	(133)	4,194
Capital stock/participation certificates issued	653	-	-	-	653
Capital stock/participation certificates retired	(541)	-	-	-	(541)
Patronage refunds:					
Cash	-	-	(750)	-	(750)
Allocated	-	2,914	(2,940)	-	(26)
Balance at December 31, 2008	5,067	13,897	26,963	155	46,082
Net income	-	-	2,280	-	2,280
Comprehensive income:					
Change in pension and postretirement benefit plans	-	-	-	(73)	(73)
Total comprehensive income			2,280	(73)	2,207
Capital stock/participation certificates issued	411	-	-	-	411
Capital stock/participation certificates retired	(508)	-	-	-	(508)
Patronage refunds:					
Cash	-	-	-	-	-
Allocated	-	6,470	(6,434)	-	36
<b>Balance at December 31, 2009</b>	<b>\$ 4,970</b>	<b>\$ 20,367</b>	<b>\$ 22,809</b>	<b>\$ 82</b>	<b>\$ 48,228</b>

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

**AGRILAND, FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(dollars in thousands)</i>	<b>Year Ended December 31,</b>		
	<b>2009</b>	2008	2007
<b>Cash flows from operating activities:</b>			
Net income	\$ 2,280	\$4,327	\$4,738
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Provision for loan losses	5,506	1,572	2,373
Gain (losses) on other property owned, net	13	8	(17)
Depreciation	220	155	137
Gain on sales of premises and equipment	-	3	3
Decrease in accrued interest receivable	1,113	2,069	155
(Increase) decrease in other receivable from the Bank	(28)	7	(241)
(Increase) decrease in other assets	(86)	71	15
Increase in deferred tax assets	(1,577)	(290)	(322)
(Increase) decrease in accrued interest payable	(294)	(153)	41
Decrease (increase) in other liabilities	96	(40)	(64)
Net cash provided by operating activities	<u>7,243</u>	<u>7,729</u>	<u>6,818</u>
<b>Cash flows from investing activities:</b>			
Decrease (increase) in loans, including loans purchased from the Bank, net	20,193	(47,455)	(27,263)
Cash recoveries of loans previously charged off	181	151	105
Purchase of investment in the Bank	(442)	(75)	-
Purchases of premises and equipment	(236)	(365)	(78)
Proceeds from sales of premises and equipment	-	-	5
Proceeds from sales of other property owned	195	174	519
Net cash provided by (used in) investing activities	<u>19,891</u>	<u>(47,570)</u>	<u>(26,712)</u>

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

**AGRILAND, FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(dollars in thousands)</i>	<b>Year Ended December 31,</b>		
	<b>2009</b>	2008	2007
<b>Cash flows from financing activities:</b>			
(Repayment of) net draws on note payable to the Bank	<b>(25,967)</b>	\$ 40,674	\$ 19,919
(Decrease) increase in drafts outstanding	<b>(46)</b>	(331)	328
(Decrease) increase in advance conditional payments	<b>(289)</b>	119	(839)
Issuance of capital stock and participation certificates	<b>411</b>	653	593
Retirement of capital stock and participation certificates	<b>(508)</b>	(541)	(962)
Patronage distributions paid	<b>(724)</b>	(700)	(588)
Net cash (used in) provided by financing activities	<b>(27,123)</b>	39,874	18,451
Net increase (decrease) in cash and cash equivalents	<b>11</b>	33	(1,443)
Cash and cash equivalents at the beginning of the year	<b>82</b>	49	1,492
Cash and cash equivalents at the end of the year	<b>\$ 93</b>	\$ 82	\$ 49

**Supplemental schedule of noncash investing and financing activities:**

Loans charged off	<b>\$ 3,546</b>	\$ 553	\$ 1,377
Loans transferred to other property owned	<b>4,880</b>	349	449
Financed sales of other property owned	<b>790</b>	-	7
Cash dividends declared	<b>-</b>	-	14
Patronage distributions declared	<b>4</b>	750	700
Allocation of retained earnings	<b>6,470</b>	2,914	7,078

**Supplemental information:**

Cash paid during the year for:			
Interest	<b>\$ 12,398</b>	\$ 14,668	\$ 16,429
Taxes	<b>-</b>	-	-

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

**AGRILAND, FARM CREDIT SERVICES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(dollars in thousands, except per share amounts and as noted)

**NOTE 1 — ORGANIZATION, RESTRUCTURING AND OPERATIONS:**

- A. Organization: AgriLand, Farm Credit Services, including its wholly-owned subsidiaries, AgriLand, PCA and AgriLand, FLCA (collectively called “the Association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Anderson, Angelina, Bowie, Camp, Cass, Chambers, Cherokee, Collin, Cook, Dallas, Delta, Denton, Fannin, Franklin, Freestone, Grayson, Gregg, Hardin, Harrison, Henderson, Hopkins, Houston, Hunt, Jasper, Jefferson, Kaufman, Lamar, Leon, Liberty, Limestone, Marion, Montgomery, Morris, Nacogdoches, Newton, Orange, Panola, Polk, Rains, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, Shelby, Smith, Titus, Trinity, Tyler, Upshur, Van Zandt, Walker and Wood 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, which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). The most recent significant amendment to the Act was the Agricultural Credit Act of 1987 (1987 Act). At December 31, 2009, the System consisted of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “District.” The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2009, the District consisted of the Bank, five FLCAs and 14 ACA parent companies, which have two wholly-owned subsidiaries, a FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. In January 2010, four of the five District FLCAs converted to ACAs; accordingly, as of the date of this report, the District consists of the Bank, one FLCA, and 18 ACAs.

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.

AgriLand, Farm Credit Services (ACA), AgriLand, PCA (PCA) and AgriLand, FLCA (FLCA) (collectively the “Association”) operate in concert to provide sound, reliable and cost-efficient credit services to farmers, ranchers and rural customers. The FLCA provides staffing and resources to carry out lending and other activities for the associations. The cost of providing staffing and resources is allocated between PCA and FLCA. The Association’s board of directors approves the method to allocate expenses to each association.

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 loan principal outstanding, until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations) 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, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

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

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Bank and associations. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank. The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' 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 AgriLand, PCA and AgriLand, FLCA. All significant intercompany transactions have been eliminated in consolidation.

- A. Recently Issued or Adopted Accounting Pronouncements: In June 2009, the Financial Accounting Standards Board (FASB) issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification became nonauthoritative. This Statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB issued guidance on "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It was effective for interim periods ending after June 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The adoption did not have a material impact on the Association.

In April 2009, the FASB issued guidance on "Interim Disclosures about Fair Value of Financial Instruments." This requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The guidance was effective for interim periods ending after June 15, 2009.

In December 2008, the FASB issued new guidance that expands the disclosures required in an employer's financial statements about pension and other postretirement benefits plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was effective for fiscal years ending after December 15, 2009.

- B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. Loans and Allowance for Loan Losses: Loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and 15- to 40-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.

Loans are carried at their principal amount outstanding adjusted for charge-offs. 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. This guidance has not been implemented because the effects were not material to the financial position or results of operations for any year presented.

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).

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 transferred 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.

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

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.

- D. 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.

- E. Other Property Owned, Net: Other property owned, net, consisting of real and personal property acquired through a collection action, is recorded at lower of carrying amount of debt or 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 and carrying value adjustments are included in gains (losses) on other property owned in the consolidated statement of income.
- F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized. The Association capitalizes assets by the following categories: 40 years for buildings, 10 years for furniture and equipment, three years for automobiles, and three years for computer equipment and software.
- G. 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. The Association generally pays interest on such accounts at rates established by the board of directors.
- H. Employee Benefit Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in Farm Credit Benefits Alliance 401(k) Plan. The DB Plan is closed to new participants. Participants in the DB Plan generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the year ended December 31, 2009, made on their behalf into various investment alternatives.

The structure of the District's retirement plans 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 \$97, \$86, and \$68 for the years ended December 31, 2009, 2008 and 2007, respectively. For the DB Plan, the Association recognized pension costs of \$1,009, \$403, and \$248 for the years ended December 31, 2009, 2008 and 2007, 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 \$91, \$79, and \$62 for the years ended December 31, 2009, 2008 and 2007, respectively.

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

- I. Income Taxes: AgriLand, FLCA is exempt from federal and other income taxes as provided in the Act. AgriLand, ACA and AgriLand, PCA are generally subject to federal and certain other income taxes; however, the Association is exempt from state franchise taxes. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the Association on pre-1993 patronage distributions from the Bank when 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.

- J. Patronage Refunds from the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank upon receipt of the patronage.
- K. 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. Assets held in trust funds 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. The Association does not hold Level 1 financial instruments. The adoption did not impact the Association. The Association does not have any Level 1 assets or liabilities.

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 hold Level 2 financial instruments. The Association does not have any Level 2 assets or liabilities.

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, and highly structured or long-term derivative contracts.

### NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Production agriculture:						
Real estate mortgage	\$ 229,287	64.4%	\$ 230,712	60.1%	\$ 184,336	54.6%
Production and intermediate term	99,625	28.0%	124,630	32.5%	128,268	38.0%
Agribusiness:						
Processing and marketing	11,706	3.3%	13,339	3.5%	13,720	4.1%
Farm related business	3,452	1.0%	2,861	0.7%	1,623	0.5%
Rural residential real estate	9,917	2.8%	10,759	2.8%	8,430	2.5%
Energy	1,609	0.4%	1,034	0.3%	460	0.1%
Lease receivables	503	0.1%	496	0.1%	564	0.2%
Water/waste disposal	-	0.0%	97	0.0%	-	0.0%
Total	<u>\$ 356,099</u>	<u>100.0%</u>	<u>\$ 383,928</u>	<u>100.0%</u>	<u>\$ 337,401</u>	<u>100.0%</u>

In 2009, the Association experienced a decline in loan volume. This decline was the result of lower demand for credit, deleveraging by borrowers, tightening of underwriting standards, and collection of defaulted loans.

#### Geographic Distribution

County	2009	2008	2007
Hopkins	9.4%	9.7%	9.7%
Fannin	6.4%	5.8%	5.3%
Lamar	5.3%	5.4%	7.2%
Red River	3.9%	4.0%	5.3%
Van Zandt	3.4%	3.4%	5.0%
Smith	3.4%	3.8%	4.0%
Henderson	3.4%	5.0%	5.1%
Freestone	3.1%	3.3%	3.6%
Collin	2.8%	4.3%	3.9%
Cherokee	2.6%	2.4%	3.0%
Anderson	2.5%	1.5%	1.1%
Leon	2.5%	2.3%	2.8%
Wood	2.4%	2.4%	2.4%
Grayson	2.3%	2.2%	2.0%
Angelina	2.3%	2.2%	2.5%
Liberty	1.9%	1.4%	1.4%
Hunt	1.8%	1.7%	1.8%
Polk	1.7%	1.3%	0.9%
Camp	1.6%	2.0%	1.9%
Chambers	1.5%	1.7%	1.8%
Jefferson	1.5%	1.3%	1.1%
Shelby	1.5%	1.3%	1.1%
Kaufman	1.5%	1.7%	1.6%
Robertson	1.4%	1.6%	0.2%
Dallas	1.4%	1.7%	1.8%
Limestone	1.4%	1.3%	1.0%
Denton	1.3%	0.9%	0.7%
San Augustine	1.3%	1.2%	0.6%
Titus	1.3%	1.2%	1.9%
Nacogdoches	1.2%	1.5%	1.4%
Nueces	1.1%	1.0%	1.4%
Upshur	1.1%	1.0%	0.8%
Sabine	1.0%	1.1%	0.1%
Tyler	1.0%	0.7%	0.6%
Franklin	1.0%	1.1%	0.8%
Cass	1.0%	0.9%	0.9%
Other Counties (less than 1%)	11.3%	12.8%	12.2%
Other States	4.5%	4.4%	3.3%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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.

## Commodity Report

Operation/Commodity	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Beef cattle, except feedlots	\$ 136,772	38.3%	\$ 153,943	40.2%	\$ 155,725	46.0%
Broiler, fryer, and roaster chickens	46,040	12.9%	53,930	14.0%	43,412	12.9%
Hunting, trapping, and game propagation	30,167	8.5%	24,166	6.3%	13,120	3.8%
Field crops, except cash grains	21,551	6.1%	25,054	6.5%	26,179	7.8%
Dairy farms	17,742	5.0%	20,006	5.2%	15,547	4.6%
Ornamental nursery products	12,779	3.6%	15,357	4.0%	15,649	4.6%
Cash grains	11,661	3.3%	8,575	2.2%	1,498	0.4%
Timber tracts	10,723	3.0%	9,136	2.4%	4,699	1.4%
Forest nurseries & gathering forest prod	9,398	2.6%	10,426	2.7%	13,374	4.0%
Rural home loans	9,331	2.6%	8,160	2.1%	3,961	1.2%
General livestock except dairy & poultry	5,672	1.6%	5,626	1.5%	4,765	1.4%
General farms, primarily crop	4,854	1.4%	5,558	1.4%	144	0.0%
Meat packing plants	4,514	1.3%	3,964	1.0%	4,562	1.4%
Grain and field beans	4,320	1.2%	5,098	1.3%	5,348	1.6%
Other	30,575	8.6%	26,435	9.1%	18,769	8.9%
<b>Grand Total</b>	<b>\$ 356,099</b>	<b>100.0%</b>	<b>\$ 383,928</b>	<b>100.0%</b>	<b>\$ 337,401</b>	<b>100.0%</b>

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

The Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation through an arrangement with the Bank. At December 31, 2009, 2008 and 2007, loans totaling \$15,578, \$18,911 and \$24,716, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$69, \$87 and \$61 in 2009, 2008 and 2007, 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:

Asset Quality	2009	2008	2007
Acceptable	82.3%	92.6%	92.9%
Special Mention	9.6%	1.9%	4.5%
Substandard	8.1%	5.5%	2.6%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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:

	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Nonaccrual Loans						
Current as to principal and interest	\$ 4,066	30.6%	\$ 10,672	84.3%	\$ 6,010	58.5%
Past due	8,125	61.1%	1,985	15.7%	1,795	17.5%
Total nonaccrual loans	\$ 12,191	91.7%	\$ 12,657	100.0%	\$ 7,805	76.0%
Impaired accrual loans:						
Restructured	759	5.7%	-	0.0%	2,475	24.0%
90 days or more past due	354	2.6%	-	0.0%	2,475	24.0%
Total Impaired loans	\$ 13,304	100.0%	\$ 12,657	100.0%	\$ 10,280	100.0%

In 2009, the Association had \$8,125 in past due loans which is reflection of seasonal renewals on operating loans requiring additional servicing time and were delinquent at year-end 2009. In 2009, the Association had \$4,066 in loans classified as nonaccrual but not delinquent at year-end 2009. These loans are classified nonaccrual due to identified weaknesses in either current and/or projected financial performance, but have met their debt payments as agreed.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2009. 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.

	2009	2008	2007
Interest income recognized on nonaccrual loans	\$ 263	\$ 369	\$ 622
Interest income on impaired accrual loans	73	-	200
Interest income recognized on impaired loans	\$ 336	\$ 369	\$ 822

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

	2009	2008	2007
Beginning balance	\$ 2,425	\$ 1,255	\$ 154
Provision for loan losses	5,506	1,572	2,373
Loans charged off	(3,546)	(553)	(1,377)
Recoveries	181	151	105
Allowance for loan losses	\$ 4,566	\$ 2,425	\$ 1,255

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

	2009	2008	2007
Impaired loans with related allowance	\$ 5,452	\$ 5,138	\$ 4,142
Impaired loans with no related allowance	7,852	7,519	6,138
Total impaired loans	\$ 13,304	\$ 12,657	\$ 10,280
Allowance on impaired loans	\$ 1,832	\$ 1,466	\$ 1,086
Average impaired loans	\$ 11,538	\$ 7,287	\$ 5,047

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

	2009	2008	2007
Interest income which would have been recognized under original terms	\$ 1,694	\$ 1,385	\$ 1,457
Less: interest income recognized	(336)	(369)	(822)
Foregone interest income	\$ 1,358	\$ 1,016	\$ 635

**NOTE 4 — PREMISES AND EQUIPMENT:**

Premises and equipment consisted of the following at December 31:

	<b>2009</b>	2008	2007
Buildings	\$ <b>1,299</b>	\$ 1,296	\$ 1,307
Land	<b>317</b>	317	317
Land improvements	<b>76</b>	76	-
Leashold improvements	<b>9</b>	9	-
Furniture and equipment	<b>261</b>	229	238
Computer equipment and software	<b>356</b>	394	385
Automobiles	<b>623</b>	431	185
	<b>2,941</b>	2,752	2,432
Accumulated depreciation	<b>(1,761)</b>	(1,588)	(1,475)
Total	<b>\$ 1,180</b>	\$ 1,164	\$ 957

The Association leases office space in Paris, Fairfield, Beaumont, Tyler and Gainesville. Lease expense was \$79, \$52 and \$36 for 2009, 2008 and 2007, respectively. Minimum annual lease payments for the next five years are as follows:

	<u>Operating</u>
2009	\$ 79
2010	66
2011	36
2012	37
2013	37
Thereafter	10
Total	<u>\$ 265</u>

**NOTE 5 — OTHER PROPERTY OWNED, NET:**

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

	<b>2009</b>	2008	2007
(Gain) loss on sale, net	\$ <b>(13)</b>	\$ (8)	\$ 17
Operating expense (income), net	<b>114</b>	(7)	(25)
Net loss (gain) on other property owned	<b>\$ 101</b>	\$ (15)	\$ (8)

**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 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, 2009, 2008 and 2007, was \$318,428 at 3.0 percent, \$344,395 at 4.0 percent, and \$303,721 at 5.4 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. The maximum amount the Association may borrow from the Bank as of December 31, 2009 was \$350,900, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions, minimum standards for return on assets and for liquidity, and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits, or repayment of indebtedness. Effective October 1, 2009, the Bank implemented a new general financing agreement with the Association. The new agreement established more restrictive loan covenants. The Association failed to meet two covenants at December 31, 2009. The Bank has provided a limited waiver of the loan covenants until December 31, 2010, provided the Association

operates within the requirements of the waiver and the Association's 2010 Business Plan. As of December 31, 2008 and 2007, the Association was not subject to remedies associated with covenants in the financing agreement.

**NOTE 7 — MEMBERS' EQUITY:**

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

In accordance with the Act and 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 (for agricultural loans) or participation certificates (for rural home and farm-related business loans) is equal to 2.0 percent of the loan amount, up to a maximum amount of \$1,000. 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 par value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

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

Each owner of Class 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 capital stock 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 Class A shares is made solely at the discretion of the Association's board of directors. At December 31, 2009, 2008 and 2007 the Association had \$114, \$120, and \$119 respectively, of Class A stock.

All borrower stock is at-risk. As such, losses which result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by: first, by each share or unit of all classes of common stock and participation certificates, and second, by each share of Class C preferred stock. Upon liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale of liquidation of assets. In the event that assets remain subsequent to payment of all liabilities, distribution would be first to holders of Class C stock and then to holders of Class A and B stock and participation certificates. After the above have received payments equal to the aggregate par or face value of their share of stock held, any remaining assets will be distributed to holders of Class A and B stock and participation certificates on a pro rata basis.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following patronage distributions were declared in 2009, 2008 and 2007, respectively:

<u>Date Declared</u>	<u>Patronage</u>
December 2009	\$ -
December 2008	\$ 750
December 2007	\$ 700

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 consolidated 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. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2009, were 11.9 percent, 11.2 percent and 11.2 percent, respectively.

The Association has developed a Capital Adequacy Plan (Plan) that provides guidelines for the maintenance of adequate levels of capital. The plan components include: 1) economic overview, 2) capital ratio objective, 3) borrower stock requirements, 4) patronage distributions and revolvment, and 5) action plans to bring capital up to acceptable levels. The Plan attempts to maintain adequate capital through retention of earnings. Borrower stock is also an important component of capital. When capital levels decline, the Association may consider several options to improve capital levels. Some of those options include, but are not limited to, the following:

- Increase loan margins
- Decrease operating expenses
- Engage in loan participations with other Farm Credit System entities
- Suspend revolvment of allocated equities
- Increase borrower stock requirements

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, Class C stock and participation certificates outstanding at a par value of \$5 per share:

	<u>2009</u>	2008	2007
Class A stock	<b>23</b>	24	24
Class B stock	<b>401</b>	423	406
Class C stock	<b>551</b>	551	551
Participation certificates	<b>20</b>	16	10
Total	<b>995</b>	1,014	991

#### **NOTE 8 — INCOME TAXES:**

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

	<u>2009</u>	2008	2007
Current:			
Federal	\$ -	\$ 122	\$ 138
Total current	\$ -	\$ 122	\$ 138
Deferred:			
Federal	\$ (1,577)	\$ (289)	\$ (428)
Total deferred	(1,577)	(289)	(428)
Benefit from income taxes	\$ (1,577)	\$ (167)	\$ (290)

The Association incurred a deferred tax asset (DTA) of \$2,368 in 2009. The DTA was not utilized in 2009 to offset book income; however, the Association's intent is to fully utilize the DTA by offsetting taxable income in future years. This unrealized DTA carryforward will expire December 31, 2029.

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

	<u>2009</u>	2008	2007
Federal tax at statutory rate	\$ 239	\$ 1,414	\$ 1,845
Effect of nontaxable FLCA subsidiary	(1,804)	(928)	(1,377)
Patronage distributions	-	(425)	(243)
Other	(12)	(228)	(515)
Benefit from income taxes	\$ (1,577)	\$ (167)	\$ (290)

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 1,156	\$ 356	\$ 268
NOL Carryforward	765	-	-
Postretirement benefits, other	447	435	408
Gross deferred tax assets	<u>2,368</u>	<u>791</u>	<u>676</u>
<u>Deferred Tax Liabilities</u>			
Investment in Bank stock redemption	-	-	(175)
Gross deferred tax liabilities	<u>-</u>	<u>-</u>	<u>(175)</u>
Net deferred tax asset	<u>\$ 2,368</u>	<u>\$ 791</u>	<u>\$ 501</u>

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: nonpatronage income is expected to be less than 5 percent of total taxable income (before patronage) and patronage income retained is expected to be at least 95 percent of total patronage income on a tax basis. The expected future tax rates are based upon enacted tax laws.

The ACA is required to maintain an investment in the Bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the Bank over that allocated to the 2 percent investment requirement. Upon formation of the ACA, additional amounts of previously excess investment held by the PCA were included in the calculation of the 2 percent requirement of the ACA. As a result of the decrease in the excess investment held by the PCA, the related deferred tax liability decreased by \$175 in 2008.

No deferred income taxes have been provided on accumulated earnings of the FLCA subsidiary, as it is management's intent to permanently maintain this investment in the FLCA subsidiary or to distribute the earnings to the stockholders in a manner that results in no additional tax liability.

#### **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. 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). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

In September 2006, the FASB issued “Employer Accounting for Defined Benefit Pension and other Postretirement Plans,” which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions 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 Standard provides two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings \$133, net of taxes.

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

<b>Disclosure Information Under FASB Statement 132</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,649	\$ 1,563	\$ 1,841
Service cost	21	25	39
Interest cost	100	122	108
Plan participants' contributions	8	19	16
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial (gain) loss	28	55	(331)
Benefits paid	(118)	(135)	(110)
Accumulated postretirement benefit obligation, end of year	\$ 1,688	\$ 1,649	\$ 1,563
<b>Change in Plan Assets</b>			
Plan assets at fair value beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	110	116	94
Plan participants' contributions	8	19	16
Benefits paid	(118)	(135)	(110)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
<b>Reconciliation of Funded Status</b>			
Funded status of the plan	\$ (1,688)	\$ (1,649)	\$ (1,563)
Unrecognized prior service cost	-	-	-
Unrecognized net loss	-	-	-
Contributions between measurement date and fiscal year end	-	-	19
Net postretirement liability at end of year	\$ (1,688)	\$ (1,649)	\$ (1,544)
<b>Amounts Recognized in Balance Sheet</b>			
Liabilities	(1,688)	(1,649)	(1,544)
Total	\$ (1,688)	\$ (1,649)	\$ (1,544)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss	\$ 919	\$ 945	\$ 892
Prior service credit	(1,001)	(1,127)	(1,286)
Total	\$ (82)	\$ (182)	\$ (394)
Tax effect on new pension accounting principle	-	27	106
Total recognized in accumulated other comprehensive income	\$ (82)	\$ (155)	\$ (288)
<b>Additional Information</b>			
Change in minimum liability in other comprehensive income	\$ -	\$ 133	\$ (288)
<b>Weighted-Average Assumption Used to Determine Obligations at Year End</b>			
Measurement date	12/31/2009	12/31/2008	9/30/2007
Discount rate	6.05%	6.30%	6.50%
Health care cost trend rate assumed for next year (pre/post-65)-medical	8.0%/7.0%	8.5%/6.5%	8.5%/6.5%
Health care cost trend rate assumed for next year- Rx	10.50%	12.00%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	4.75%
Year that the rate reaches the ultimate trend rate	2017	2015	2016

**Disclosure Information Under FASB Statement 132**

	2009	2008	2007
Service cost	\$ 20	\$ 19	\$ 39
Interest cost	100	98	108
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(126)	(127)	(134)
Unrecognized net loss (gain)	54	2	17
Net postretirement benefit cost	\$ 48	\$ (8)	\$ 30

**Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income**

Net actuarial loss (gain)	\$ 28	\$ 55	\$ -
Prior service cost (credit)	126	-	-
Amortization of prior service cost	(54)	159	-
Total recognized in other comprehensive income	\$ 100	\$ 214	\$ -

**AOCI Amounts Expected to be Amortized into Expense in 2010**

Unrecognized prior service cost	\$ (126)	\$ (126)	\$ (127)
Unrecognized net loss (gain)	59	54	1
Total	\$ (67)	\$ (72)	\$ (126)

**Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost**

Measurement date	12/31/2008	9/30/2007	9/30/2006
Discount rate	6.30%	6.50%	6.00%
Health care cost trend rate assumed for next year (pre/post-65)-medical	8.5%/6.5%	9.0%/6.75%	9.0%/6.75%
Health care cost trend rate assumed for next year- Rx	11.00%	13.00%	13.00%
Ultimate health care cost trend rate	5.00%	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2015	2016	2016

**Expected Future Cash Flows**

	2009
Expected benefit payments (net of employee contributions)	
Fiscal 2010	\$ 124
Fiscal 2011	118
Fiscal 2012	106
Fiscal 2013	117
Fiscal 2014	115
Fiscal 2015-2019	487
<b>Expected Contributions</b>	
Fiscal 2010	\$ 124

**NOTE 10 — RELATED PARTY TRANSACTIONS:**

Directors of the Association, except for the director-elected director, 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 \$5,630, \$4,349, and \$3,653 at December 31, 2009, 2008 and 2007, respectively. During 2009, \$6,039 of loan disbursements were made and repayments totaled \$4,758. In the opinion of management, no such loans outstanding at December 31, 2009, 2008 and 2007 involved more than a normal risk of collectibility.

Expenses included in Bank-purchased services and allocations include purchased services such as administrative services, marketing, information systems, accounting, and loan processing and allocations of expenses incurred by the Bank passed through to the associations. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$343, \$365, and \$357 in 2009, 2008 and 2007, respectively.

The Association received patronage payments from the Bank totaling \$1,857, \$1,195 and \$1,485 during 2009, 2008 and 2007, 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, "Significant Accounting Policies," for additional information.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2009 for each of the fair value hierarchy values are summarized below:

	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Loans	\$ -	\$ -	\$ 3,599	\$ 3,599
Other Property Owned	\$ -	\$ -	\$ 4,713	\$ 4,713

**Valuation Techniques**

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

*Loans*

For certain loans evaluated for impairment, the fair value was based upon the underlying collateral since these 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 of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

*Other Property Owned*

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

**NOTE 12 — COMMITMENTS AND CONTINGENCIES:**

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

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2009, \$35,143 of commitments were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the consolidated balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other

security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Standby letters of credit are recorded, at fair value, on the consolidated balance sheet by the Association. At December 31, 2009, there were no outstanding standby letters of credit.

**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, 2009, 2008 and 2007. 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:

	2009		2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 93	\$ 93	\$ 82	\$ 82	\$ 49	\$ 49
Loans, net	351,533	352,294	381,503	395,128	336,146	335,620
Financial liabilities						
Note payable to the Bank	318,428	319,118	344,395	356,456	303,721	303,245

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 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 which 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 which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

**C. Investment in the Bank:**

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the

Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 2.9 percent of the issued common stock of the Bank as of December 31, 2009. As of that date, the Bank's assets totaled \$13.8 billion and members' equity totaled \$821.2 million. The Bank's earnings were \$106.6 million during 2009.

**D. Note Payable to the Bank:**

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

**E. Commitments to Extend Credit:**

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 follow:

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,556	\$ 2,528	\$ 2,750	\$ 2,869	\$ 10,701
(Provision for) reversal of loan losses	(49)	495	(735)	(5,218)	(5,506)
Noninterest (expenses) income, net	(1,354)	(1,501)	(1,436)	1,375	(2,915)
Net income (loss)	\$ 1,153	\$ 1,522	\$ 579	\$ (974)	\$ 2,280

  

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,352	\$ 2,453	\$ 2,411	\$ 2,382	\$ 9,598
(Provision for) reversal of loan losses	(944)	(61)	8	(575)	(1,572)
Noninterest expenses, net	(835)	(944)	(868)	(1,052)	(3,699)
Net income	\$ 573	\$ 1,448	\$ 1,551	\$ 755	\$ 4,327

  

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,567	\$ 2,685	\$ 2,442	\$ 2,410	\$ 10,104
Provision for loan losses	(131)	(372)	(1,375)	(495)	(2,373)
Noninterest expenses, net	(792)	(824)	(702)	(675)	(2,993)
Net income	\$ 1,644	\$ 1,489	\$ 365	\$ 1,240	\$ 4,738

**NOTE 15 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through March 5, 2010, which is the date the financial statements were available to be issued, and noted that there are no subsequent events to report.

## **DISCLOSURE INFORMATION AND INDEX**

*Disclosures Required by Farm Credit Administration Regulations*

### **DESCRIPTION OF BUSINESS**

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

### **DESCRIPTION OF PROPERTY**

AgriLand, Farm Credit Services (Association) serves its 54-county territory through its main administrative office at 3210 W. Northwest Loop 323, Tyler, Texas 75702, (903) 593-6609. Additionally, there are 11 lending offices located throughout the territory. The Association owns office buildings in Tyler, Athens, Nacogdoches, Sulphur Springs, Bonham and Clarksville free of debt. The Association leases the office buildings in Beaumont, Paris, Fairfield, Tyler, Kingwood and Gainesville.

### **LEGAL PROCEEDINGS**

In the ordinary course of business, the Association is involved in various legal proceedings including actions to collect debts, to enforce liens and security interests and bankruptcy 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 from Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

### **DESCRIPTION OF LIABILITIES**

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

### **RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS**

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization, Restructuring 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 [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The District's annual and quarterly stockholder reports are also available on its Web site at [www.farmcreditbank.com](http://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 AgriLand, Farm Credit Services, Attn: Joe Valladares, 3210 W. Northwest Loop 323, Tyler, Texas 75702, or calling (903) 593-6609. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing to [jvalladares@agriland.com](mailto:jvalladares@agriland.com) or on our Web site at [www.agriland.com](http://www.agriland.com). The

Association's annual stockholder report is available on its Web site at *www.agriland.com* 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

### SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2009, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to stockholders.

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

"Management's Discussion and Analysis," which precedes the combined financial statements in this annual report, is incorporated herein by reference.

### DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Bob Christophersen	Director	1988	2012
Bobby Hobson	Director	2007	2010
David N. Hill	Director	2000	2011
Dennis Walker	Chairman	1995	2011
James Dawley	Director	2003	2011
Michael Blackburn	Director	2008	2010
Mickey Crow	Director	1991	2011
Ralph Preuss	Director-Elected Director	2004	2010
Richard DeVillier	Director	2008	2012
Wayne Ryser	Director	1987	2010
Roger Brist	Chief Executive Officer	2000	
Dwayne Young	Senior Vice President/CCO	2007	

The board's guidance of senior management is directed by the full board in conjunction with board committees. These committees are as follows:

- **Asset/Liability Management Committee (ALCO)** - The role of the ALCO Committee is to review compliance with the Association's asset-liability management policies. It also reviews the Association's loan pricing and capital adequacy plans to verify management is within regulatory compliance.
- **Audit Committee** - The role of the Audit Committee is to recommend actions needed to provide full and accurate disclosure of the institution's operations in the most transparent manner possible. It oversees and reviews the preparation of the institution's financial reports and retention of external and internal auditors.
- **Credit Review Committee** - The Credit Review Committee's main duties involve mediating adverse credit decisions when requested by the borrower/applicant.
- **Planning & Compensation Committee** - The role of the Planning & Compensation Committee is to assist the CEO in developing the Association's business plan, address state and national legislators on matters impacting rural America within the Association's local service area, review the compensation policies and plans for senior officers and employees, and to approve the institution's overall senior officer compensation program.

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

**Bob Christophersen, age 66**, resides in Bogata, Red River County. He was elected to the board in March 1988 and has been a PCA member for 28 years. He operates on approximately 5,000 acres of owned and leased land and currently runs a yearling operation, with son Riley, consisting of approximately 2,000 head annually. Mr. Christophersen received a B.S. degree in agriculture from Panhandle State College in Goodwell, Oklahoma. Mr. Christophersen is a member of the ALCO and Credit Review Committees.

**Bobby Hobson, age 50**, is a lifelong resident of Nacogdoches County. He is the owner/operator of a 12-house broiler farm with 270,000-bird capacity on 345 acres. He also owns a 75-head herd of registered beef cattle as well as operating a custom hay bailing business with his brother, Larry. Mr. Hobson took out his first loan with AgriLand in 1975 at the age of 16 years. Mr. Hobson is secretary of Douglass ISD School board. Mr. Hobson was elected to the board in January 2008 and serves as a member of the Audit Committee.

**David N. Hill, age 53**, resides in Queen City. He is the owner/operator of Hill Timber & Dozer Service Co. and is a Texas Forestry Association certified professional logger. Mr. Hill is also a rancher involved in hay and an approximately 500-head mother cattle operation on 650 acres of owned land and 2,000 acres of leased land. He is an active member of the Texas Logging Council and also does site prep replanting, land clearing, and timber management. He was elected to the board in April 2000. Mr. Hill is a member of the ALCO Committee.

**Dennis Walker, age 62**, is president and owner of Walker and Associates Surveying, Inc. and Walker & Associates Construction. He runs approximately 370 head of cattle on 880 acres of owned and leased land in Smith County. He owns a wholesale tree nursery in Smith County. Mr. Walker has been a PCA borrower since 1972. He currently serves on the Texas Surveyors Board of Directors, Tyler Junior College and University of Texas at Tyler Advisory Boards, and serves as chairman of finance for Lifepoint Fellowship Baptist Church. Mr. Walker is board chairman and a member of the Planning & Compensation Committee.

**James Dawley, 60**, a resident of the Mexia, Texas, area, was born and raised on a farm/ranch in Honest Ridge, Texas, in Limestone County. He currently runs a 200-head cow/calf operation in Limestone County. He holds both a bachelor's and master's degree in agriculture and vocational education from Sam Houston State University. He is now a retired agricultural educator from the Cleveland School District and Mexia School District where he taught for a total of 34 years. He has been a PCA borrower for 35-plus years and now owns and operates Sheffield Farm and Ranch Supply in Mexia, Texas. Mr. Dawley is a member of the Audit Committee.

**Michael L. Blackburn, age 40**, Mr. Blackburn is a full-time rancher and operates a 600-head cow-calf and 1,000-head yearling operation on 4,000 acres in Lamar and Red River counties. Mr. Blackburn also owns and operates Blossom Feed Store. Mr. Blackburn was elected in November 2008 and serves as member of the Planning and Compensation Committee.

**Mickey Crow, age 69**, lives in Brownsboro, Texas. He has been associated with the cattle business all his life. He currently operates a small herd of cattle in Henderson County. He has had knowledge of row crop production since he was very young and helping his father farm. He graduated from East Texas University with a degree in agricultural education. He worked 10 years for the Texas Extension Service and retired from Trinity Valley Community College where he taught ranch management and set up the college ranch and managed it for 15 years. Mr. Crow is a second-generation PCA borrower and is a member of the ALCO Committee.

**Ralph Preuss, age 50**, is a partner in the public accounting firm of Bawcum & Preuss in Sulphur Springs. In the March 2003 board meeting he was elected to serve as board-appointed outside director. Mr. Preuss is a certified public accountant and a member of the American Institute and Texas Society of Certified Public Accountants. He was elected in 2004 to serve on the board of directors of Hopkins County Memorial Hospital, and currently serves as president. He also serves as chairman of the Audit Committee and represents the Association as the board's financial expert.

**Richard DeVillier, age 46**, Mr. DeVillier is a full-time rancher. His operations include cow/calf, registered quarter horses and hay. He is a state board member for the Independent Cattlemen's Association, is past president of the Southeast Texas Independent Cattlemen Association Chapter, member of Trustee Board at Wesley Methodist Church in Beaumont, and served four years on the Trinity Bay Conservation District Board. Mr. DeVillier was elected to the board in November 2008 and currently serves as board vice chairman and is a member of the Audit Committee.

**Wayne Ryser, age 68**, lives northwest of Honey Grove in Fannin County. Mr. Ryser was elected to the board in 1987. He and his brother farm soybeans, wheat, milo and hay on approximately 2,500 acres in Fannin County and 55 acres of Conservation

Reserve Program (CRP) land. He graduated from East Texas University with a degree in vocational agriculture and has been a director on the Bois D Ark MVD since 1981. Mr. Ryser is member of the Planning and Compensation Committee.

**Senior Officers:**

**Roger E. Brist, age 61**, chief executive officer, has been with the Farm Credit System since 1975. He served as an examiner with the Farm Credit Administration from 1975 to 1979. From 1979 to 1982 he served as an examiner for the FICB of St. Paul. He served in various capacities with the Farm Credit Bank of Texas as a financial analyst, and as director of accounting and finance from 1982 to 1993. He was senior vice president of finance for West Virginia Farm Credit, ACA from 1993 to 2000. In 2001 he became chief financial officer of AgriLand, Farm Credit Services. He was appointed as chief executive officer during 2006.

**Dwayne Young, age 59**, chief credit officer, has been with the Farm Credit System since 1973. In 1973 he joined the Federal Intermediate Credit Bank (FICB) which was merged into the Farm Credit Bank of Texas (FCBT) before he left in 1986. During his 13-year tenure with the Bank he served as a credit analyst on the Bank’s prior-approval desk, headed up the FICB’s discount window for Other Financial Institutions (OFIs), led numerous credit review projects within the Production Credit Associations of Texas, and was appointed to vice president – review and audit in 1981. In 1986 he joined the Farm Credit Corporation of America (FCCA) as vice president – review. FCCA was later merged with the Farm Credit Council (FCC) and was later segregated into a national consulting group called FCC Services, Inc. He served in this capacity for 21 years until joining AgriLand, Farm Credit Services in March of 2007 as senior vice president and chief credit officer.

**COMPENSATION OF DIRECTORS AND SENIOR OFFICERS**

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$625 per day for director meetings and \$500 for committee meetings and special events from January through December 2009. The Audit Committee chairman is compensated at a rate of \$750 per day per meeting. Directors were also reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2009 was paid at the IRS-approved rate of 55.0 cents per mile from January 2009 to December 2009. A copy of the travel policy is available to stockholders of the Association upon request.

Board Member	Number of Days Served		Regular Board Compensation	Compensation Paid for Services			NonCash Compensation	Total Compensation Paid in 2009
	Board Meetings	Special Meetings		on a Board Committee	Other Official Activities			
Bob Christophersen	12.0	5.0	\$ 7,500	\$ 1,000	\$ 1,500	\$ -	\$ 10,000	
Bobby Hobson	12.0	12.0	7,500	1,500	4,500	-	13,500	
David Hill	12.0	8.0	7,500	1,000	3,000	-	11,500	
Dennis Walker	12.0	33.0	7,500	1,400	14,500	-	23,400	
James Dawley	12.0	19.0	7,500	1,500	8,000	-	17,000	
Michael Blackburn	12.0	11.0	7,500	2,500	3,000	-	13,000	
Mickey Crow	12.0	6.0	7,500	1,000	2,000	-	10,500	
Ralph Preuss	12.0	16.0	9,000	3,000	9,000	-	21,000	
Richard Devilier	11.0	14.0	6,875	1,000	6,000	-	13,875	
Wayne Ryser	11.0	10.0	6,875	2,125	3,000	-	12,000	
<b>Total</b>			<b>\$ 75,250</b>	<b>\$ 16,025</b>	<b>\$ 54,500</b>	<b>\$ -</b>	<b>\$ 145,775</b>	

The aggregate compensation paid to directors in 2009, 2008 and 2007 was \$146, \$110, and \$110, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

Board Member	Planning & Compensation				Total
	ALCO	Audit	Other		
Bob Christophersen	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,000
Bobby Hobson	-	1,500	-	-	1,500
David Hill	1,000	-	-	-	1,000
Dennis Walker	-	-	1,400	-	1,400
James Dawley	-	1,500	-	-	1,500
Michael Blackburn	-	-	2,500	-	2,500
Mickey Crow	1,000	-	-	-	1,000
Ralph Preuss	-	3,000	-	-	3,000
Richard Devilier	-	1,000	-	-	1,000
Wayne Ryser	-	-	2,125	-	2,125
<b>Total</b>	<b>\$ 3,000</b>	<b>\$ 7,000</b>	<b>\$ 6,025</b>	<b>\$ -</b>	<b>\$ 16,025</b>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$63, \$47, and \$31 in 2009, 2008 and 2007, respectively.

#### Summary Compensation Table for the CEO

Name of Chief Executive Officer	Year	Annual				Total
		Salary (a)	Bonus (b)	Deferred/Perquisites (c)	Other (d)	
Roger Brist	2009	\$ 185,000	\$ 20,000	\$ 2,607	\$ -	\$ 207,607
Roger Brist	2008	175,000	25,000	2,678	-	202,678
Roger Brist	2007	150,000	40,000	6,295	-	196,295

- (a) Gross Salary
- (b) Bonuses paid in current calendar year
- (c) Deferred/Perquisites include automobile benefits
- (d) Other - no amounts paid in years presented.

#### Summary Compensation Table for Five Highest Paid Employees

Name of Individual or Group	Year	Annual				Total
		Salary (a)	Bonus (b)	Deferred/Perquisites (c)	Other (d)	
Aggregate of five highest paid employees: (excludes Chief Executive Officer)						
1 Senior Officer, 4 Managers	2009	\$ 512,571	\$ 37,465	\$ 2,412	\$ -	\$ 552,448
1 Senior Officer, 4 Managers	2008	494,210	58,641	8,004	-	560,855
1 Senior Officer, 4 Managers	2007	476,716	31,627	18,736	10,000	537,079

- (a) Gross Salary
- (b) Bonuses paid in current calendar year
- (c) Deferred/Perquisites include automobile benefits
- (d) Other includes expenses paid for relocation costs

Total compensation paid to the five most highly paid officers of the association, including bonuses, was \$552, \$561 and \$537 in 2009, 2008 and 2007, respectively. Bonuses paid to such officers for 2009, 2008 and 2007 were \$37, \$59 and \$32,

respectively. Neither the CEO nor any other senior officer or manager received noncash compensation exceeding \$5,000 in 2009.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2009 at the IRS-approved rate of 55.0 cents per mile from January 2009 to December 2009.

The board's Planning & Compensation Committee reviews the Association's compensation plan annually. The compensation plan was reviewed in October 2009 for the fiscal year end. The board implemented an incentive bonus program in 2005 which is revised annually. Management and staff bonuses are paid annually based on performance criteria established by the board of directors. The criteria include net earnings, loan growth, operational efficiency, credit quality, credit administration, branch objectives, and performance ratings. The Association calculates the incentives after the end of the calendar year. The Association pays out the incentives within 60 days of year end. The total Association cash bonus for 2009 and 2008 was \$26 and \$198, respectively. The 2009 bonus was accrued during the fiscal year and paid in January 2010.

## **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**

No material events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2010 or at any time during 2009.

## **RELATIONSHIP WITH INDEPENDENT AUDITOR**

There were no changes in independent auditors since the last annual report to shareholders, and we are in agreement with the opinion expressed by the independent auditors, PricewaterhouseCoopers LLP. Fees paid to PricewaterhouseCoopers LLP for external audit services totaled \$38. PricewaterhouseCoopers LLP did not perform other services related to tax services or other nonaudit related services.

## **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 5, 2010, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

The Association board, management and staff are committed to serving young, beginning and small agricultural operators within the chartered territory. A specific board approved program (YBS Program) was developed to finance young, beginning, and small farmers, ranchers and producers or harvesters of aquatic products in accordance with FCA regulations. The mission of the YBS Program is to make a concerted and cooperative effort to finance and extend credit on a sound basis to young, beginning, and small farmers, ranchers and producers or harvesters of aquatic products by implementing a program designed to meet the needs of such applicants to the fullest extent of their credit-worthiness and associated risk.

The following definitions are to be used to identify young, beginning, and small agricultural applicants for utilization in implementing this program.

1. A young farmer, rancher and producer or harvester of aquatic products is one who is age 35 or younger.
2. A beginning farmer, rancher and producer or harvester of aquatic products is one who is in the process of establishing an agricultural operation, and who has not assumed the full control and risk of such an operation for longer than ten years.

3. A small farmer, rancher and producer or harvester of aquatic products is one generating less than \$250,000 in annual gross agricultural or aquatic sales.

The Association uses the 2007 United States Department of Agriculture's (USDA) Ag Census data on farmers with debt in providing a comparative analysis for the current YBS program. The USDA census data is based on the number of farms reported during the census period while the Association data is based on the number of loans in the Association's portfolio. As such, a definite comparable measurement is difficult to ascertain. At December 31, 2009, the number of loans to those defined as young compared to the total number of loans amounted to 21.8 percent, while the percentage made to those defined as beginning was 39.2 percent and to those defined as small was 82.0 percent. Association borrowers identified as young, beginning, and small were 21.8 percent, 5.0 percent and 3.6 percent, respectively, compared to 2007 USDA AG Census data on farmers with debt for each of the respective categories. The results of the Association's YBS program are communicated to the board of directors quarterly and to the Bank on an annual basis. The board and management reviews goal and actual results for its YBS program on an annual basis. The following represents the Association's results as of December 31, 2009:

**YBS Disclosure for Annual Report**

<b>No. Of Customers</b>	<b>Plan</b>	<b>Actual</b>
Young Farmers	750	663
Beginning Farmers	1,100	1,194
Small Farmers	2,450	2,498
<b>% of Total # of Loans</b>	<b>Plan</b>	<b>Actual</b>
Young Farmers	21.4%	21.8%
Beginning Farmers	31.4%	39.2%
Small Farmers	70.0%	82.0%
<b>Combined Service</b>	<b>Plan</b>	<b>Actual</b>
% Total No of Loans	78.6%	85.5%
% Total \$ of Loans	70.3%	70.2%

The USDA figures represent a point-in-time accounting of the numbers of farmers in each category. The Association's data is not captured on a point in time. Association data identifies the borrower, as young, beginning, small or other, when a loan is made and retains that identification until the loan is paid, without regard to the borrower's present status. Therefore, a direct comparison of the data cannot be made.