

# 2009

ANNUAL  
REPORT



*Serving Rural America in  
Alabama, Louisiana and Mississippi*

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# FIRST SOUTH FARM CREDIT, ACA

# 2009 ANNUAL REPORT

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## Management

Stephen L. Rochelle.....	President & Chief Executive Officer
Bryan Applewhite.....	Senior Vice President/Chief Financial Officer/Treasurer
Sells J. Newman, Jr.....	Senior Vice President/Marketing
Randy Underwood.....	Senior Vice President/Chief Credit Officer
Roger Chappell.....	President, North Alabama Division
Cecil Corbello.....	President, Louisiana Division
John Barnard.....	President, Mississippi Division
Camp Powers.....	President, South Alabama Division

## Board of Directors

Thomas A. Parker.....	Chairman
William T. Kyser.....	Vice Chairman
Paul G. Briscoe.....	Director
John R. Burden.....	Director
Paul Clark.....	Director
Dr. Marty J. Fuller.....	Director
Dr. William E. Hardy, Jr.....	Director
Gaston L. Lanoux, III.....	Director
Ray Makamson.....	Director
Alan Marsh.....	Director
James F. Martin, Jr.....	Director
Daniel C. Mattingly.....	Director
Joe H. Morgan.....	Director
Shepherd Morris.....	Director
Thomas H. Nelson, Jr.....	Director
James M. Norsworthy, III.....	Director
Ted S. Passmore.....	Director
W.S. Patrick.....	Director
Robert E. Potts.....	Director
Walter R. Richardson.....	Director
Robert D. Thibodeaux.....	Director
Dr. Daniel Viator.....	Director
William H. Voss.....	Director
Dan West.....	Director

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## *Message from the Chief Executive Officer*

First South Farm Credit's record of success is a result of the values demonstrated by the First South Board, management team and employees, combined with the loyalty of you, our customer. First South is the premier full service lender for production agriculture as well as real estate and agribusiness financing in Alabama, Mississippi and Louisiana.

At First South Farm Credit our name, our mission and our employees have not changed. We provide long-term loans to finance and refinance land, as well as short-term and intermediate-term loans for agricultural production, equipment and agribusiness needs.

First South Farm Credit continues its commitment to follow a sound business plan for prudent management of risk and capital. We will continue to provide competitive credit and financial services to our stockholders and the agricultural communities of Alabama, Louisiana and Mississippi.

- First South's 2009 earnings exceeded \$19 million while loan volume peaked at \$1.49 billion.
- Since 1995 (15 years) First South has distributed over \$174 million in cash and allocated surplus to its stockholders.
- As of December 31, 2009 First South's credit quality remained strong at 96% acceptable.

The 2009 year-end results show that First South achieved its earnings goals and approved a patronage distribution of 2009 earnings and the 2004 allocated surplus. This is the 15<sup>th</sup> consecutive year the First South Board of directors has approved a distribution. This year it will total \$9.1 million.

At a time when our country is working through complex financial challenges, First South continues to provide financial stability with a steady supply of funds and competitive interest rates to our borrower-stockholders.

Thank you for another productive year in 2009 and we look forward to serving you and your family in 2010.



Stephen L. Rochelle  
Chief Executive Officer

## *Report of Management*

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

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

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

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2009 Annual Report of First South Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Thomas A. Parker  
Chairman of the Board



Stephen L. Rochelle  
Chief Executive Officer



Bryan Applewhite  
Chief Financial Officer

March 12, 2010

## ***Report on Internal Control Over Financial Reporting***

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2009. In making the assessment, management used the framework in *Internal Control—Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2009.



Stephen L. Rochelle  
Chief Executive Officer



Bryan Applewhite  
Chief Financial Officer

March 12, 2010

## Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2009	2008	December 31, 2007	2006	2005
<b>Balance Sheet Data</b>					
Cash	\$ 9,906	\$ 7,223	\$ 8,356	\$ 15,743	\$ 20,207
Loans	1,153,435	1,055,511	1,241,456	1,119,752	986,590
Less: allowance for loan losses	7,335	7,941	6,961	5,876	5,425
Net loans	1,146,100	1,047,570	1,234,495	1,113,876	981,165
Investments in other Farm Credit institutions	87,429	92,165	68,575	66,260	61,849
Other property owned	661	5	5	83	479
Other assets	37,963	34,431	33,606	36,885	34,797
Total assets	<u>\$ 1,282,059</u>	<u>\$ 1,181,394</u>	<u>\$ 1,345,037</u>	<u>\$ 1,232,847</u>	<u>\$ 1,098,497</u>
Notes payable to AgFirst Farm Credit Bank*	\$ 1,007,408	\$ 909,718	\$ 1,088,297	\$ 978,396	\$ 856,986
Accrued interest payable and other liabilities with maturities of less than one year	39,619	51,948	30,744	31,076	27,677
Total liabilities	<u>1,047,027</u>	<u>961,666</u>	<u>1,119,041</u>	<u>1,009,472</u>	<u>884,663</u>
Protected borrower stock	92	97	111	92	140
Capital stock and participation certificates	65,212	64,590	64,347	64,236	63,927
Retained earnings					
Allocated	102,957	93,412	84,707	77,039	68,020
Unallocated	86,789	85,259	83,048	82,008	81,747
Accumulated other comprehensive income (loss)	(20,018)	(23,630)	(6,217)	—	—
Total members' equity	<u>235,032</u>	<u>219,728</u>	<u>225,996</u>	<u>223,375</u>	<u>213,834</u>
Total liabilities and members' equity	<u>\$ 1,282,059</u>	<u>\$ 1,181,394</u>	<u>\$ 1,345,037</u>	<u>\$ 1,232,847</u>	<u>\$ 1,098,497</u>
<b>Statement of Income Data</b>					
Net interest income	\$ 31,393	\$ 29,611	\$ 34,118	\$ 32,592	\$ 30,265
Provision for (reversal of allowance for) loan losses	5,063	1,159	1,050	930	305
Noninterest income (expense), net	(6,844)	(8,230)	(12,002)	(12,345)	(9,512)
Net income	<u>\$ 19,486</u>	<u>\$ 20,222</u>	<u>\$ 21,066</u>	<u>\$ 19,317</u>	<u>\$ 20,448</u>
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	1.53%	1.62%	1.60%	1.67%	1.91%
Total members' equity	8.71%	8.70%	9.28%	8.89%	9.92%
Net interest income as a percentage of					
average earning assets	2.78%	2.62%	2.81%	3.07%	3.09%
Net (chargeoffs) recoveries to average loans	(0.489)%	(0.016)%	0.003%	(0.045)%	(0.007)%
Total members' equity to total assets	18.33%	18.60%	16.80%	18.12%	19.47%
Debt to members' equity (:1)	4.45	4.38	4.95	4.52	4.14
Allowance for loan losses to loans	0.64%	0.75%	0.56%	0.52%	0.55%
Permanent capital ratio	12.52%	12.98%	12.54%	13.50%	13.63%
Total surplus ratio	11.37%	11.77%	11.51%	12.33%	12.43%
Core surplus ratio	10.21%	10.55%	10.40%	10.77%	10.40%
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 4,463	\$ 3,719	\$ 3,838	\$ 2,775	\$ 3,195
Qualified allocated retained earnings	4,463	2,480	3,838	4,162	4,792
Nonqualified allocated retained earnings	4,672	6,038	6,267	5,915	5,799
Nonqualified retained earnings	4,672	6,038	6,267	5,915	5,799

\* General financing agreement is renewable on three-year cycles. The next renewal date is December 31, 2010.

# Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

## GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of First South Farm Credit, ACA, (Association) for the year ended December 31, 2009 with comparisons to the years ended December 31, 2008 and December 31, 2007. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Alabama, Louisiana and Mississippi. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, [www.firstsouthland.com](http://www.firstsouthland.com), or by calling 1-888-297-1722, or writing Bryan Applewhite, First South Farm Credit, ACA, Three Paragon Centre, Suite 100, 574 Highland Colony Parkway, Ridgeland, MS 39157. The Association prepares an electronic version of the Annual Report, within 75 days after the end of the fiscal year and distributes the Annual Reports to

shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

## FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from 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 the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to the USDA information in this section refer to the U.S. agricultural market and not the Association.

The February 2010 USDA forecast estimates that 2009 farmers' net cash income, which is a measure of the cash income after payment of business expenses, will decrease to \$70.8 billion, down \$26.7 billion from 2008, but only down \$2.1 billion from its 10-year average of \$72.9 billion. The USDA's February 2010 outlook for the farm economy, as a whole, forecasts 2010 farmer's net cash income to increase to \$76.3 billion, a \$5.5 billion increase from 2009, and \$3.4 billion above the 10-year average. Contributing to this increase in farmers' net cash income are increases in livestock receipts of \$11.5 billion and in farm-related income of \$900 million, offset by a decrease in crop receipts of \$6.0 billion, an increase in cash expenses of \$400 million, and a decline in direct government payments of \$500 million.

During 2009, crop prices and prices for livestock animals and products declined from 2008 levels. Demand for exports was curtailed and farmers were forced to accept prices lower than previously anticipated. The USDA's 2010 forecast reflects expected improvement in economic conditions for livestock producers. During a recession, consumers limit their consumption of higher cost items such as meat, milk, and eggs, or buy lower priced products. With the U.S. economy stabilizing or showing signs of improvement, consumers are expected to increase consumption of animal products, thus improving earnings of livestock producers.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2006 to December 31, 2009:

Commodity	12/31/09	12/31/08	12/31/07	12/31/06
Corn	\$3.59	\$4.11	\$3.76	\$3.01
Soybeans	\$9.80	\$9.24	\$10.00	\$6.18
Wheat	\$4.85	\$5.95	\$7.74	\$4.52
Beef Cattle	\$78.60	\$79.70	\$88.90	\$83.10

The USDA's February 2010 income outlook shows a great deal of variation depending on farm size, geographic location, and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms and rural residential farms. Commercial farms represent about 10 percent of U.S. farms by number and represent 80 percent of total U.S. farm production. Commercial farms are expected to have an 11 percent increase in average net cash income in 2010. Intermediate farms, defined as ones in which the primary occupation is farming and gross sales are between \$10 thousand and \$250 thousand, represent 30 percent of U.S. farms by number and account for 18 percent of total production. The remaining 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than \$10 thousand in products. Rural residential farms only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of income for the repayment of farm debt obligations and is less subject to cycles in agriculture. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and more than 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 25

percent of farm household income for commercial farms is generated from off-farm income. The USDA forecasts 2009 farm household income to decrease 15 percent for commercial farms and 19 percent for intermediate farms.

According to the USDA February 2010 forecast, farm sector asset values are forecast to decline 3.5 percent from \$1.944 trillion in 2009 to \$1.876 trillion for 2010, reflecting lower expected returns on farm investments. The values of land, machinery/equipment, and crop inventories are expected to decline in 2010, while the values of financial assets and of purchased input inventories are expected to rise. Farmers' equity (farm business assets minus debt) is expected to decline 3 percent from \$1.694 trillion in 2009 to \$1.643 trillion in 2010, largely due to the declines in asset values.

One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 35.8 percent in 1973 to a high of 104.1 percent in 1981, and has remained relatively stable since 1987, averaging about 50.0 percent. During 2009, repayment capacity increased significantly above the 50.0 percent average due to the decline in farmers' net cash income. The USDA suggests a decrease in the use of repayment capacity from 70.0 percent in 2009 to 60.9 percent in 2010.

As estimated by the USDA, the Farm Credit System's market share of farm business debt, defined as debt incurred by those involved in on-farm agricultural production, grew to 39.0 percent at December 31, 2008, as compared with 28.3 percent at December 31, 2000. Farm business debt is forecasted to fall in 2010 from the 2009 level by approximately 6.8 percent. The USDA's forecast of declining debt is due to continued softening of farmland values due to lower expected earnings on farm investments, tighter credit, and greater overall market uncertainty.

In general, agriculture has experienced a sustained period of favorable economic conditions, due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the Association's financial results have remained favorable as a result of these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economy have become more volatile with the recent instability in the global financial markets and recent declines in commodity prices. Certain agriculture sectors, as described more fully in this *Management Discussion and Analysis*, experienced significant financial stress during 2009 and could continue to experience financial stress in 2010. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural



borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

## CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when

estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — Substantially all employees of the Association may participate in either the First South Farm Credit, ACA Retirement Plan (the FS Plan) or the AgFirst Farm Credit Cash Balance Retirement Plan (the CB Plan), which are defined benefit plans. The District sponsors the CB Plan which is considered a multi-employer plan. These two Plans are noncontributory. The FS Plan includes eligible Association employees and the CB Plan includes eligible District employees. In addition, the Association employees also participate in a defined contribution retirement savings plan. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Hewitt's (a global human resources firm) top quartile rate, actuarial analyses and industry norms.

## ECONOMIC CONDITIONS

During 2009, economic conditions across First South's territory mirrored those of the rest of the country. Most sectors of the economy experienced stress. Within the agricultural economy, abnormally high input costs continued to hurt profitability. Livestock, poultry, dairy and other producers in feed consuming sectors were hurt by high feed costs. Industries tied to housing, such as forestry, sawmills, sod producers and landscape nurseries, continued to suffer from weak demand. Excessive rainfall during harvest across much of the Association's territory resulted in yield and quality problems for many crop producers. Real estate demand was modest and property values fell modestly as well.

Despite these adversities, credit quality remained relatively stable and within satisfactory levels by most measures.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans through numerous product types.

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

Loan Type	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Production and intermediate-term	\$ 768,928	66.66%	\$ 926,704	87.80%	\$ 1,142,764	92.04%
Real Estate	263,801	22.87	*	*	*	*
Processing and marketing	59,967	5.20	61,903	5.86	49,975	4.03
Farm-related business	26,148	2.27	32,277	3.06	33,235	2.68
Loans to cooperatives	14,737	1.28	13,797	1.31	692	0.06
Communication	13,252	1.15	13,356	1.27	7,498	0.60
Energy	3,634	.31	3,732	0.35	3,804	0.31
Rural residential real estate	2,968	.26	3,742	0.35	3,488	0.28
<b>Total</b>	<b>\$1,153,435</b>	<b>100.00%</b>	<b>\$1,055,511</b>	<b>100.00%</b>	<b>\$1,241,456</b>	<b>100.00%</b>

\* Information not available prior to January 1, 2009.

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by state for the past three years is as follows:

State	December 31,		
	2009	2008	2007
Alabama	48.91 %	49.29%	49.64 %
Louisiana	22.39	19.77	19.19
Mississippi	28.70	30.94	31.17
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are poultry, real estate, forestry, livestock and cotton, which constitute over 70 percent of the entire portfolio.

Commodity Group	2009		December 31, 2008		2007	
	Amount	%	Amount	%	Amount	%
Poultry	\$ 314,374	27	320,751	30	\$ 347,693	28
Real Estate	181,717	16	*	*	*	*
Forestry	155,712	14	213,867	20	262,627	21
Livestock	99,227	9	65,920	6	85,843	7
Cotton	69,005	6	77,431	7	112,676	9
Rice	47,115	4	30,148	3	42,526	3
Sugar Cane	39,186	4	37,294	4	57,977	5
Soybeans	38,175	3	33,991	3	19,788	2
Catfish	27,263	2	26,502	3	23,740	2
Peanuts	17,215	1	12,953	1	16,015	1
Other	164,446	14	236,653	23	272,571	22
<b>Total</b>	<b>\$ 1,153,435</b>	<b>100</b>	<b>\$ 1,055,510</b>	<b>100</b>	<b>\$ 1,241,456</b>	<b>100</b>

\* Information not available prior to January 1, 2009.

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of poultry, real estate and forestry producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces

overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2009, is primarily attributed to increased involvement in real estate lending.

The Association's short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

During 2009, the activity in the buying and selling of loan participations inside and outside of the system stabilized somewhat over recent years. These participations remain as a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income which is intended to strengthen our capital position. At December 31, 2009, the Association had \$305,208 loan participations sold compared to \$367,993 at December 31, 2008 and \$31,050 at December 31, 2007.

Loan Participations:	December 31,		
	2009	2008	2007
	<i>(dollars in thousands)</i>		
Participations Purchased- FCS Institutions	\$ 114,961	\$ 129,072	\$ 127,520
Participations Purchased- Non-FCS Institutions	133,107	123,527	90,467
Participations Sold	<u>(305,208)</u>	<u>(367,993)</u>	<u>(31,050)</u>
<b>Total</b>	<b>\$ (57,140)</b>	<b>\$ (115,394)</b>	<b>\$ 186,937</b>

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2009.

#### INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every association that it funds. At December 31, 2009, the Association had no investment securities.

**CREDIT RISK MANAGEMENT**

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

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

The credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

<b>Credit Quality</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Acceptable & OAEM	96.62%	95.39%	98.78%
Substandard	3.38	4.61	1.22
Doubtful	–	–	–
Loss	–	–	–
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

*Nonperforming Assets*

The Association’s loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

<b>High-risk Assets</b>	<b>December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 11,465	\$ 29,993	\$ 3,520
Restructured loans	–	–	836
Accruing loans 90 days past due	–	–	4
<b>Total high-risk loans</b>	<b>11,465</b>	<b>29,993</b>	<b>4,360</b>
Other property owned	661	5	5
<b>Total high-risk assets</b>	<b>\$ 12,126</b>	<b>\$ 29,998</b>	<b>\$ 4,365</b>

**Ratios**

Nonaccrual loans to total loans	0.99%	2.84%	0.28%
High-risk assets to total assets	0.95%	2.54%	0.32%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$18,528 in 2009. The decrease in nonaccrual loans is primarily the result of improved performance of two relatively large loans being reclassified into accruing status. Of the \$11,465 in nonaccrual volume at December 31, 2009, \$19 or 0.17%, compared to 94.35% and 7.98% at December 31, 2008 and 2007, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower’s ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

*Allowance for Loan Losses*

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2009	2008	2007
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 7,941	\$ 6,961	\$ 5,876
Charge-offs:			
Production and intermediate-term	(5,711)	(230)	(70)
Total charge-offs	(5,711)	(230)	(70)
Recoveries:			
Production and intermediate-term	29	51	105
Energy	12	-	-
Agribusiness	1	-	-
Total recoveries	42	51	105
Net (charge-offs) recoveries	(5,669)	(179)	35
Provision for (reversal of allowance for) loan losses	5,063	1,159	1,050
Balance at end of year	\$ 7,335	\$ 7,941	\$ 6,961
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.489)%	(0.016)%	0.003%

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

Allowance for Loan Losses by type	December 31,		
	2009	2008	2007
	<i>(dollars in thousands)</i>		
Production and intermediate term	\$ 4,195	\$ 7,223	\$ 6,443
Real Estate	2,225	*	*
Agribusiness	864	620	451
Communication	32	63	34
Energy	9	17	17
Rural residential real estate	10	18	16
Total	\$ 7,335	\$ 7,941	\$ 6,961

\* Information not available prior to January 1, 2009

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31,		
	2009	2008	2007
Total loans	0.64%	0.75%	0.56%
Nonperforming loans	63.98%	26.48%	159.66%
Nonaccrual loans	63.98%	26.48%	197.76%

Please refer to Note 3, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

## RESULTS OF OPERATIONS

### Net Interest Income

Net interest income was \$31.4 million, \$29.6 million and \$34.1 million in 2009, 2008 and 2007, respectively. Net interest income is the difference between interest income and interest expense. 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 table:

Change in Net Interest Income	Volume*	Rate	Nonaccrual Income	Total
<i>(dollars in thousands)</i>				
<b>12/31/09 - 12/31/08</b>				
Interest income	\$ 302	\$ (12,258)	\$ 901	\$ (11,055)
Interest expense	(910)	(13,747)		(12,837)
Change in net interest income:	\$ (608)	\$ 1,489	\$ 901	\$ 1,782
<b>12/31/08 - 12/31/07</b>				
Interest income	\$ (6,690)	\$ (12,957)	\$ 96	\$ (19,551)
Interest expense	(4,304)	(10,740)	-	(15,044)
Change in net interest income:	\$ (2,386)	\$ (2,217)	\$ 96	\$ (4,507)

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

### Noninterest Income

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

Noninterest Income	For the Year Ended December 31,			Percentage Increase (Decrease)	
	2009	2008	2007	2009/2008	2008/2007
	<i>(dollars in thousands)</i>				
Loan fees	\$ 2,964	\$ 2,851	\$ 2,429	3.96%	17.37%
Fees for financially related services	921	813	587	13.28	38.50
Patronage refund from other Farm Credit Institutions	18,000	12,992	9,631	38.55	34.90
Gains (losses) on other property owned, net	(267)	28	13	(1,053.57)	115.38
Other noninterest income	266	137	141	94.16	(2.84)
Total noninterest income	\$ 21,884	\$ 16,821	\$ 12,801	30.10%	31.40%

The increase in noninterest income relates mainly to patronage refunds from the participation of loans with AgFirst and the overall growth in the loan portfolio.

*Noninterest Expense*

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

Noninterest Expense	For the Year Ended December 31,			Percentage Increase (Decrease)	
	2009	2008	2007	2009/2008	2008/2007
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 19,528	\$ 16,166	\$ 15,907	20.80%	1.63%
Occupancy and equipment	1,342	1,345	1,268	-	6.07
Insurance Fund premiums	1,894	1,561	1,720	21.33	(9.24)
Other operating expenses	5,886	5,962	5,875	(.01)	1.48
Total noninterest expense	\$ 28,650	\$ 25,034	\$ 24,770	14.44%	1.07%

Salaries and employee benefits increased in 2009, as compared with 2008, primarily due to increased costs associated with merit increases, employee staffing levels and increased retirement costs.

Insurance Fund premiums increased 21.33 percent for the twelve months ended December 31, 2009, compared to the same period of 2008. The increase is primarily due to an increase in premium rates for 2009. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. The FCSIC set premiums at 20 basis points on adjusted insured debt outstanding for 2009. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. Rates ranged from 15 to 18 basis points on adjusted insured debt outstanding in 2008.

*Income Taxes*

The Association recorded a provision for income taxes of \$78, \$17 and \$33 for the years ended December 31, 2009, 2008 and 2007, respectively. Refer to Note 2, "Summary of Significant Accounting Policies, Income Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/09	12/31/08	12/31/07
Return on average assets	1.53%	1.62%	1.60%
Return on average members' equity	8.71%	8.70%	9.28%
Net interest income as a percentage of average earning assets	2.78%	2.62%	2.81%
Net (charge-offs) recoveries to average loans	(.489)%	(0.016)%	0.003%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must show continued improvement in the coming years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in

our entire portfolio, while efficiently meeting the credit needs of our members.

**LIQUIDITY AND FUNDING SOURCES**

*Liquidity and Funding*

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

Total notes payable to the Bank at December 31, 2009, was \$1,007,408 as compared to \$909,718 at December 31, 2008 and \$1,088,297 at December 31, 2007. The increase of 10.74 percent compared to December 31, 2008 and the decrease of 7.4 percent compared to December 31, 2007, was attributable to loan growth and changes in loan participations sold to the Bank, respectively. The average volume of outstanding notes payable to the Bank was \$1,009,762, \$989,553 and \$1,066,597 for the years ended December 31, 2009, 2008 and 2007, respectively. Refer to Note 7, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2009.

*Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

*Relationship with the Bank*

The Association's statutory obligation to borrow only from the Bank is discussed in Note 7, "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4 "Investment in AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 7, "Notes Payable to AgFirst Farm Credit Bank" included in this Annual Report.

**CAPITAL RESOURCES**

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2009 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2009 increased 6.96% percent to \$235,032 from the December 31, 2008, total of

\$219,728. At December 31, 2008, total members' equity decreased 2.77 percent from the December 31, 2007 total of \$225,996. The decrease was primarily attributed to an increase of the accumulated other comprehensive loss of (\$17,413).

Total capital stock and participation certificates were \$65,304 on December 31, 2009, compared to \$64,687 on December 31, 2008 and \$64,458 on December 31, 2007. The increase was attributed to the continued loan growth of the Association.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

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

	2009	2008	2007	Regulatory Minimum
Permanent capital ratio	12.52%	12.98%	12.54%	7.00%
Total surplus ratio	11.37%	11.77%	11.51%	7.00%
Core surplus ratio	10.21%	10.55%	10.40%	3.50%

The decrease in the Association's permanent capital, total surplus, and core surplus ratios for December 31, 2009 was primarily attributable to increased loan volume due to fall crop conditions. The increase in the ratios for December 31, 2008 was the result of the increase in loan participations sold to the Bank in 2008 compared to 2007. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 8, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

**PATRONAGE PROGRAM**

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 8, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The

Association declared patronage distributions of \$18,270 in 2009, \$18,275 in 2008, and \$20,210 in 2007.

**YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM**

The Association’s mission includes providing sound and constructive credit and related services to Young, Beginning and Small (YBS) farmers and ranchers. First South’s mission is directed by board and management to ensure that our Association is making every effort possible to implement our YBS program.

The Association has in place a flexible YBS program with policies and procedures that are designed to meet the needs of YBS farmers in our Association’s territory. The First South Board approves the YBS policy as well as the annual business plan which outlines practices to accomplish the First South YBS mission.

YBS farmers and ranchers are defined as:

*Young Farmer:* A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan is originally made.

*Beginning Farmer:* A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the date the loan is originally made.

*Small Farmer:* A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The Association’s Young, Beginning, and Small farmer and rancher program (YBS) complies with statutory and regulatory requirements which include qualitative and quantitative goals. Goals include coordinating with government agencies that offer loan guarantees for risk management purposes. First South is an FSA approved lender.

The Association business plan also outlines strategies to increase market share success, a market outreach program that generates participation and involvement by Association staff at the field level. Strategies include (1) YBS Program on the Association website, (2) First South Market Outreach Program, (3) Country Loan and Small Loan Program, (4) demographic information by state and county, and (5) sponsorships and educational programs. The results of these outreach and education programs are reported to the Association Board of Directors on an annual basis.

The Association business plan also includes a budget recommended by management that is sufficient to carry out the Association’s YBS mission and performance goals.

The following table outlines the loan volume and number of YBS loans in the loan portfolio as of December 31, 2009 for the Association.

	As of December 31, 2009	
	Number of Loans	Amount of Loans
Young	1,341	\$120,227
Beginning	1,855	\$189,310
Small	4,721	\$330,852

For purposes of the above table, a loan could be included in more than one of the categories depending on the characteristics of the underlying borrower.

The 2007 USDA Ag Census data has been used as a benchmark to measure penetration of the Association YBS marketing efforts. The USDA Ag Census data prepared and provided by AgFirst Farm Credit Bank shows the number of YBS farmers in First South Farm Credit Association’s territory as of December 31, 2009: Young (5,677); Beginning (33,455); Small (107,911).

The AgFirst demographics show First South segment penetration as a percentage of Association territory totals as follows: Young 13.9%; Beginning 3.7%; Small 2.7%. As of December 31, 2009, of the Association’s total portfolio 15.8% were Young farmers; 24.8% were Beginning farmers; and 57.4% were Small farmers.

Data Source: USDA-NASS 2007 Ag Census of Agriculture Volume I: Geographic Area Series Tables 2 and 46. Other data from AgFirst FCB Marquis standard reports period ending December 2009.

**REGULATORY MATTERS**

For the twelve months ended December 31, 2009, the FCA took no enforcement action against the Association.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 13), primarily regarding other property owned, but does not have an impact on the Association’s financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, “Interim Disclosures about Fair Value of Financial Instruments.” This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 14).

In May 2009, the FASB issued guidance, "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. There are two types of subsequent events: the first type

consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included 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 adopted by the Association effective June 30, 2009 (see Note 16).

In June 2009, the FASB issued guidance, “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. This guidance was adopted by the Association effective July 1, 2009 and had no impact on the Association’s financial condition or results of operations.

In December 2008, the FASB issued new guidance that expands the disclosures required in an employer’s financial statements about pension plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was adopted by the Association effective December 31, 2009 (see Note 10).



# *Disclosure Required by Farm Credit Administration Regulations*

**Description of Business**

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, "Organization and Operations," included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

**Description of Property**

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Alabama, Mississippi and Louisiana:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
574 Highland Colony Pkwy. Ridgeland, MS	Administrative	Leased
2341 AL Hwy. 21 South Oxford, AL	Branch	Owned
1824 Eva Rd., NE Cullman, AL	Division/Branch	Owned
320 AL Hwy. 75 N Albertville, AL	Branch	Owned
30035 Hwy. 72 West Madison, AL	Branch	Owned
14390 Market St. Moulton, AL	Branch	Owned
970 Hwy. 20 East Tusculumbia, AL	Branch	Owned
700 Hwy. 80 West Demopolis, AL	Branch	Owned
4210 McFarland Blvd. Northport, AL	Branch	Owned
1715 West Second Street Montgomery, AL	Division	Owned
1401 Forest Avenue Montgomery, AL	Branch	Owned
141 Lee St. Luverne, AL	Branch	Owned
1434 S. Union Ave. Ozark, AL	Branch	Owned
209 E. Second St. Bay Minette, AL	Branch	Leased
5070 Boll Weevil Circle Enterprise, AL	Branch	Owned
1103 Bypass West Andalusia, AL	Branch	Owned
260 Trace Colony Park Drive Ridgeland, MS	Division/Branch	Owned

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
914 Van Buren Ave. Oxford, MS	Branch	Owned
2216 S. Gloster St. Tupelo, MS	Branch	Owned
306 E. Jefferson St. Aberdeen, MS	Branch	Owned
Hwy. 9 North Calhoun City, MS	Branch	Owned
103 Professional Plaza Greenwood, MS	Branch	Owned
203 Cossar Blvd. Charleston, MS	Branch	Owned
209 Second St. Indianola, MS	Branch	Owned
505 E. Second St. Clarksdale, MS	Branch	Owned
1021 Highway 82 East Leland, MS	Branch	Owned
303 S. Sharpe St. Cleveland, MS	Branch	Owned
306 N. Main St. Newton, MS	Branch	Owned
701 Haley Barbour Parkway Yazoo City, MS	Branch	Owned
501 Apache Drive McComb, MS	Branch	Owned
749 Cosby St. Centreville, MS	Closed	Owned
1711 Hardy St. Hattiesburg, MS	Branch	Owned
728 Sawmill Rd. Laurel, MS	Branch	Owned
5057 Hwy. I-49 South Service Rd. Opelousas, LA	Division/Branch	Owned
222 N. Cedar St. Tallulah, LA	Branch	Owned
109 Davis St. Lake Providence, LA	Branch	Owned
811 Jackson St. Winnsboro, LA	Branch	Owned
2308 S. MacArthur Dr. Alexandria, LA	Branch	Owned
321 South Main St. Marksville, LA	Branch	Owned
1007 Guy Dr. St. Martinville, LA	Branch	Owned
3206 South LA 13 Crowley, LA	Branch	Owned
407 N. Church St. Jennings, LA	Branch	Owned
4696 Hwy. 19 Zachary, LA	Branch	Owned
725 Hospital Rd. New Roads, LA	Closed	Owned
1001 N.W. Central Ave. Amite, LA	Branch	Owned
1725 St. Mary Hwy. Thibodaux, LA	Branch	Owned

**Lease Information Disclosure:**

<u>Location</u>	<u>Term of Lease</u>	<u>Expiration Date</u>	<u>Monthly Lease Amount</u>
Ridgeland, MS	5 yrs.	03/31/10	\$8,339.00
Bay Minette, AL	3 yrs.	08/02/11	\$1,600.00

**Legal Proceedings**

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 12 of the Consolidated Financial Statements, "Commitments and Contingencies," included in this Annual Report.

**Description of Capital Structure**

Information to be disclosed in this section is incorporated herein by reference to Note 8 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

**Description of Liabilities**

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 7 and 12 of the Consolidated Financial Statements included in this Annual Report.

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

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

**Senior Officers**

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

<u>Senior Officer</u>	<u>Position &amp; Other Business Interests</u>
Stephen L. Rochelle	<i>President &amp; Chief Executive Officer</i> since July 1992.
Bryan Applewhite	<i>Chief Financial Officer /Senior Vice President/Treasurer</i> since November 2001.
Sells J. Newman, Jr.	<i>Senior Vice President/Marketing</i> since October 1987.
Randy Underwood	<i>Senior Vice President/Chief Credit Officer</i> since April 1994.
Roger Chappell	<i>President, North Alabama Division</i> since June 1988. He serves on the Board of Directors of the Alabama Poultry and Egg Association (promotes the poultry industry in Alabama), the Alabama Feed and Grain Association (promotes agriculture in Alabama) and the Cullman Agriplex.

**Senior Officer**

**Position & Other Business Interests**

Cecil Corbello	<i>President, Louisiana Division</i> since June 1988. He serves on the Board of Directors of the St. Landry Parish Farm Bureau and the St. Landry Parish Cattlemen's Association (both support agriculture in St. Landry Parish, Louisiana).
John Barnard	<i>President, Mississippi Division</i> since April 1994.
Camp Powers	<i>President, South Alabama Division</i> since June 1988. He serves as President Elect of the Southeastern Livestock Exposition (promotes livestock in Alabama).

The total amount of compensation earned by the CEO and all senior officers as a group during the years ended December 31, 2009, 2008 and 2007, is as follows:

<u>Name of Individual or Number in Group</u>	<u>Year</u>	<u>Annual</u>					<u>Total</u>
		<u>Salary</u>	<u>Bonus</u>	<u>Perquisites</u>	<u>Deferred/- Other</u>		
Stephen L. Rochelle	2009	\$ 272,010	\$ 59,840	\$7,931	-	\$ 339,781	
Stephen L. Rochelle	2008	\$ 245,009	\$ 61,250	\$6,057	-	\$ 312,316	
Stephen L. Rochelle	2007	\$ 229,952	\$ 60,000	\$6,103	-	\$ 296,055	
7	2009	\$1,017,561	\$ 98,197	-	-	\$1,115,758	
7	2008	\$ 971,668	\$152,523	-	-	\$1,124,191	
7	2007	\$ 907,373	\$182,122	-	-	\$1,089,495	

The Association had an incentive plan for 2009. The Incentive Plan consists of three different plans within the overall incentive plan. Plan A is based upon new business development, Plan B is based upon bottom line profitability from operations for the 12-month calendar year and Plan C is based upon capital enhancement practices. Employees share on a pro rata salary basis at the branch level and an average basis at the administrative level and are limited to a maximum of 25 percent of individual salaries in Plan A and Plan B. Part of Plan C is not limited as the Association works to enhance its capital position. Incentives are paid within 45 days of the year end. The incentives/bonuses are shown in year earned which may be different than the year of payment. Seven senior officers shared in the 2009 incentive.

Disclosure of information on the total compensation paid during 2009 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

**Directors**

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$191,140 for 2009, \$200,191 for 2008 and \$198,439 for 2007.

Subject to approval by the board, the Association may allow directors honorarium of \$500 per day for attendance at official board meetings and auxiliary board and committee meetings not

held in conjunction with official board meetings, \$250 per day for auxiliary board and committee meetings held in conjunction with official board meetings, \$50 for telephone conference calls and \$100 to \$400 travel on a pro rata mileage basis. Total compensation paid to directors as a group was \$190,060.

The following represents certain information regarding the directors of the Association:

**Thomas A. Parker, Chairman**, has a 4,000-acre farming operation in Lake Providence, Louisiana, consisting of cotton, corn, rice and soybeans which has been his primary operation for the past five years. He also manages a 4,000-acre farm in Arkansas and is a managing partner of Hollybrook Enterprises, a cotton agribusiness. Mr. Parker serves as a director on the Staplcotn Board, an agricultural marketing cooperative. He is the Louisiana member on the Cotton Board, President of East Carroll Farm Bureau and past president of Louisiana Cotton Producers all of which promote and support cotton and agriculture. During 2009, he served 15 days at Association board meetings and 13 days in other official activities, and was paid \$9,460. His term of office is 2007 - 2009.

**William T. (Bill) Kyser, Vice-Chairman**, a resident of Hale County, Alabama, has a catfish, beef cattle and timber operation which has been his primary operation for the past five years. He has served as a director for Catfish Farmers of America, Alabama Farmers Federation, Auburn Agricultural Alumni Association, Greensboro Farmers Cooperative, and Hale County Cattlemen's Association. These organizations promote agriculture and agricultural commodities nationally and in Alabama. He has also served as a director of Eagle Aquaculture and Falcon Protein Products, catfish businesses. During 2009, he served 13 days at Association board meetings and 6 days in other official activities, and was paid \$7,750. His term of office is 2008 - 2010.

**Paul Briscoe** is a partner in Briscoe and Sons Farms. The farming operation consists of over 4,000 acres in Lafayette County, Mississippi, and includes cotton, soybeans, corn, wheat, timber and beef cattle which has been his primary operation for the past five years. He has served on the Lafayette County Farm Bureau Board since 1980 and served as its president for 15 of those years. He also served a total of three terms on the State Board. During 2009, he served 10 days at Association board meetings and 8 days in other official activities, and was paid \$7,350. His term of office is 2008 - 2010.

**John R. Burden** has a dairy operation in Baileyton, Alabama, which has been his primary operation for the past five years. He is a former member of Patron Council for Goldkist, a poultry integrator, and he is former director of DHIA which serves the dairy industry. During 2009, he served 14 days at Association board meetings and 6 days in other official activities, and was paid \$9,660. His term of office is 2007 - 2009.

**Paul Clark** has a row crop operation in Courtland, Alabama, which has been his primary operation for the past five years. He is also co-owner of Clark and Reed, an ag consulting firm. He is a member and past president of Alabama Ag Consulting Association which supports and promotes the profession of agricultural consulting. He is also a director of Autauga Quality Cotton Association, a cotton marketing group. During 2009, he served 10 days at Association board meetings and 19 days in other official activities, and was paid \$9,300. His term of office is 2008 - 2010.

**Dr. Marty J. Fuller** serves as a board appointed director, and is not a member of the Association. He is President and CEO of Federal Solutions LLC specializing in government relations and business development. Prior to this role he served as the Director of Federal Relations for Mississippi State University (MSU). Dr. Fuller also served previously as the Associate Director of the Mississippi Agricultural and Forestry Experiment Station (MAFES) and is an Emeritus Professor in the Department of Agricultural Economics at Mississippi State University. During 2009, he served 8 days at Association board meetings and 8 days in other official activities, and was paid \$5,050. His term of office is April 1, 2008 – March 31, 2011.

**Dr. William E. Hardy, Jr.**, serves as a board appointed director, and is not a member of the Association. He is Professor of Agricultural Economics in the College of Agriculture at Auburn University. He served as Associate Dean in the college from January 2000 until August 2007. Dr. Hardy became a member of the Auburn University faculty in the Department of Agricultural Economics in October 1972. He has taught economics, quantitative methods and agricultural finance, and has also done significant research in the area of agriculture finance. Dr. Hardy received his B.S., M.S. and PhD. degrees in Agricultural Economics from Virginia Tech. He also received a J.D. degree from Jones School of Law at Faulkner University in Montgomery, Alabama and is a member of the Alabama Bar. During 2009, he served 11 days at Association board meetings and 14 days in other official activities, and was paid \$8,300. His term of office is April 1, 2007 – March 31, 2010.

**Gaston L. Lanoux, III**, of Husser, Louisiana, is a consulting forester in the Florida Parishes of Louisiana with total timberland under management exceeding 50,000 acres. This has been his primary operation for the past 26 years. He also owns a 300-acre tree farm in Tangipahoa Parish, Louisiana. He is a member of the board of directors of Louisiana Forestry Association, and is past president and lifetime member of the Louisiana Forestry Association. He is a member, board member and past president of the Tangipahoa Parish Forestry Association and serves on the advisory committee of LSU's School of Renewable Natural Resources. He was appointed by the Board of Directors to serve the unexpired term of a past director and will serve until the next annual meeting.

**Ray Makamson** is managing partner of a cotton gin, Greenwood Gin, Inc., and has been farming for 33 years. He is owner of Ray Makamson Farms. His farming operation consists of 2,100 acres of cotton, 900 acres of corn and 750 acres of soybeans which has been his primary operation for the past 20 years. He is part owner of Ag-Concepts, a flying service, and part owner of Delta Farm and Auto, a parts store. Mr. Makamson serves on the board of Delta Oil Mill, a cottonseed crushing operation. During 2009, he served 17 days at Association board meetings and 5 days in other official activities, and was paid \$8,240. His term of office is 2009 - 2011.

**Alan Marsh** is a partner of Marsh Farms, a 3,000-acre family farming operation consisting of 500 acres of cotton, along with corn, soybeans, and wheat which has been his primary operation for the past five years. He is a director of the Limestone Farmers' Federation, the National Cotton Council, the Alt. Cotton Incorporated, the Alabama Cotton Commission, all of which support and promote the cotton industry nationally and in the state of Alabama. He is also President of South Limestone Gin, a

local cotton gin. During 2009, he served 14 days at Association board meetings and 7 days in other official activities, and was paid \$9,700. His term of office is 2008 - 2010.

**James F. Martin, Jr.** has a dairy and row crop operation in Enterprise, Alabama, which has been his primary operation for the past five years. He is a member and director of the Coffee County Farmers Cooperative, an agricultural cooperative. He is on the Board of Trustees of Covington Electric Cooperative which is a member of PowerSouth, an electric cooperative that serves all of Alabama and parts of Mississippi and Florida. He is also on the Board of Supervisors of the Soil Conservation Services of Coffee County, Alabama. During 2009, he served 8 days at Association board meetings and 14 days in other official activities, and was paid \$10,050. His term of office is 2007 - 2009.

**Daniel Mattingly** is the Agricultural Manager for Lula-Westfield, L.L.C. Lula Factory Division (raw sugar factory). He also manages 9,500 acres of farmland owned by Savoie Industries, Inc., and is the voting member of the company for First South. This has been his primary operation for the past five years. Mr. Mattingly serves as secretary of Assumption Parish Farm Bureau which promotes agriculture in Assumption Parish where he has been a member for 12 years. He is a member and secretary of the Board of Directors of Savoie Industries, a sugarcane mill, having served on that board for the past 10 years. He is active in the Knights of Columbus, 1st Class of Ag. Leaders of Louisiana and is a Board member of Ascension Catholic School. During 2009, he served 11 days at Association board meetings and 8 days in other official activities, and was paid \$7,800. His term of office is 2007 - 2009.

**Joe H. Morgan** has a 2,300-acre row crop operation consisting of cotton and peanuts which has been his primary operation for the past five years. He is a member and former officer and director of Forrest County Farm Bureau which promotes agriculture in Forrest County, Mississippi and served as chairman of the Forrest County FSA Committee which assists the federal farm service agency locally in administering and managing farm commodity, credit, conservation, disaster and loan programs. He is President of Mississippi Peanut Growers Association, a trade organization and partner and part-owner of Reeves West Bay Peanut LLC, a peanut marketing cooperative. Mr. Morgan is a former recipient of the Outstanding Young Farmer of the Year Award and the Outstanding Farmer Award for Outstanding Service in soil and water conservation. During 2009, he served 9 days at Association board meetings and 1 day in other official activities, and was paid \$4,950. His term of office is 2007-2009.

**Shepherd (Shep) Morris** has a 3,000-acre cotton and grain operation which has been his primary operation for the past five years. He serves as a board member of Autauga Quality Cotton Association, a marketing organization and River Bank and Trust, a community bank. He also serves as president of the Macon County Farmers Federation and a supervisor for Macon County Soil and Water District, both promoting agriculture in Macon County. He is also president of Milstead Farm Group, Inc., a ginning operation, and serves on the National Cotton Council, a trade association. During 2009, he served 13 days at Association board meetings and 10 days in other official activities, and was paid \$9,710. His term of office is 2008 - 2010.

**Thomas H. Nelson, Jr.** has a 5,500-acre row crop operation in Chatham, Mississippi, which has been his primary operation for

the past five years. He is a director of Washington County Farm Bureau which supports and promotes agriculture in Washington County, Mississippi. During 2009, he served 17 days at Association board meetings and 5 days in other official activities, and was paid \$8,240. His term of office is 2008 - 2010.

**James M. Norsworthy, III** has a hay and cattle operation near Jackson, Louisiana, which has been his primary operation for the past five years. He serves as an officer/member of the Feliciana Farm Bureau which promotes agriculture and Jackson Baseball Association, a local non-profit youth organization. He is also a member of Jackson Assembly and Feliciana Forestry Association. During 2009, he served 14 days at Association board meetings and 13 days in other official activities, and was paid \$7,890. His term of office is 2008 - 2010.

**Ted S. Passmore's** primary operation for the past five years has been 6,300 acres in a row crop general partnership with his brother in Deville, Louisiana. He is a member of Louisiana Farm Bureau which promotes agriculture in Louisiana. During 2009, he served 12 days at Association board meetings and 4 days in other official activities, and was paid \$8,180. His term of office is 2009-2011.

**W. S. Patrick** has a cotton and soybean operation in Canton, Mississippi, which has been his primary operation for the past five years. He is a former director and officer of the Madison County Cooperative, an agricultural cooperative and Madison County Farm Service Agency which assists the federal farm service agency locally in administering and managing farm commodity, credit, conservation, disaster and loan programs. During 2009, he served 13 days at Association board meetings and 15 days in other official activities, and was paid \$8,050. His term of office is 2009-2011.

**Robert E. Potts** operates a 220-acre beef cattle operation, after owning and operating a dairy for the past 37 years. He is a member of Dairy Farmers of America, Farm Bureau and Spring Creek Masonic Lodge. He is also a board member of a local school board serving the Tangipahoa Parish School System. During 2009, he served 9 days at Association board meetings and 3 days in other official activities, and was paid \$5,500. He resigned from the Board of Directors effective December 31, 2009.

**Walter R. Richardson's** primary operation for the past five years has been row crop and cattle in Leroy, Alabama. He serves on the Washington County Soil Conservation Board and is a director of Washington County Farmers Federation which promotes agriculture in Washington County and past President and current board member of the Washington County Cattlemen's Association which promotes the cattle industry. During 2009, he served 11 days at Association board meetings and 8 days in other official activities, and was paid \$7,700. His term of office is 2009-2011.

**Dale Thibodeaux** has a farming operation consisting of 8,000 acres which includes 4,500 acres of rice, 2,700 acres of soybeans, and 800 acres of crawfish. This has been his primary operation for the past five years. His business experience consists of Thibodeaux Agriculture Group, Thibodeaux Brothers Farm, Thibodeaux Brothers Trucking, Inc., Thibodeaux Land Company, Inc., Thibodeaux Brothers Dryer, and Thibodeaux Brothers Water Company, Inc. He is a supervisor of Acadia Soil and Water Conservation District, board member of Mermentau River

Harbor and Terminal Board and a member of Southwest Farm Service. He serves as an advisory member of Home Bank of Crowley and is a former board member of the Crowley Building and Loan. During 2009, he served 14 days at Association board meetings and 8 days in other official activities, and was paid \$9,300. His term of office is 2008 - 2010.

**Daniel Viator** is owner of D & C, LLC, a land company, and is a partner in Viator Farm, LLC in Jeanerette, Louisiana, a 1,250-acre sugarcane farm. He is past president and current director/finance chairman of the American Sugarcane League, a sugarcane trade organization. He is a member of the American Society of Sugarcane Technologists, Louisiana Farm Bureau and the Louisiana Association of Agronomists all of which promote sugarcane and/or agriculture. He is also a member of Southwest Feed Co-op, an agricultural cooperative, in Opelousas. During 2009, he served 14 days at Association board meetings and 11 days in other official activities, and was paid \$9,470. His term of office is 2009-2011.

**William H. Voss** has commercial cattle and timber operations in Pike and Amite Counties, Mississippi, and is involved in land and commercial property management. This has been his primary operation for the past five years. His career includes production agriculture, agribusiness and real estate. He is a former agricultural commodities and securities broker. He currently serves on the Board of AgFirst Farm Credit Bank and on the Board of the National Farm Credit Council. He has also served as chairman of the Mississippi Real Estate Commission which administers control over the commercial real estate industry in Mississippi and chairman of the Pike County Farm Service Committee which assists the federal farm service agency locally in administering and managing farm commodity, credit, conservation, disaster and loan programs. During 2009, he served 13 days at Association board meetings and 5 days in other official activities, and was paid \$7,680. His term of office is 2008 - 2010.

**Dan West** has a row crop and timber operation in Monroe County, Mississippi, consisting of cotton, corn, peanuts and timber, which has been his primary operation for the past five years. He is managing partner of Eastside Farms, Inc. He is also an advisory member of BancorpSouth. He has served on the board of Monroe County Farm Bureau, Mississippi Bollweevil Management Corporation and is past president of the Mississippi Ginners Association all of which promote agriculture in Mississippi. During 2009, he served 17 days at Association board meetings and 13 days in other official activities, and was paid \$10,730. His term of office is 2007 - 2009.

\* *Directors serve through the annual meeting following the expiration of their term.*

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director with committee assignments:

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
Thomas Parker, <i>Chairman</i>	15	13	SubChapter T	\$2,800
Paul Clark	10	19	Audit, Retirement	2,950
Marty Fuller	8	8	Audit, Compensation	750
William Hardy	11	14	Audit	2,550
Alan Marsh	14	7	SubChapter T	1,650
Jimmy Martin	8	14	Compensation, SubChapter T	3,200
Daniel Mattingly	11	8	Compensation	1,900
Shep Morris	13	10	Compensation	2,400
Jimmy Norsworthy	14	13	Audit, Retirement	1,600
Ted Passmore	12	4	SubChapter T	950
Steve Patrick	13	15	Audit, Retirement, SubChapter T	1,850
Daniel Viator	14	11	Audit, Compensation	1,500
Bill Voss	13	5	Compensation	1,200
Dan West	17	13	Compensation, SubChapter T	2,800
<b>Total</b>				<b>\$28,100</b>

\* *Includes board committee meetings and other board activities other than regular board meetings.*

**Transactions with Senior Officers and Directors**

The reporting entity’s policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 11 of the Consolidated Financial Statements, “Related Party Transactions,” included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

**Involvement in Certain Legal Proceedings**

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

**Relationship with Independent Auditor**

There were no changes in or material disagreements with our independent auditor on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent auditor for the year ended December 31, 2009 were as follows:

	<b>2009</b>
<b>Independent Auditor</b>	
PricewaterhouseCoopers LLP	
Audit services	<u>\$ 58,762</u>

Audit fees were for the annual audit of the Consolidated Financial Statements.

### **Consolidated Financial Statements**

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2010 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-888-297-1722, or writing to Bryan Applewhite, First South Farm Credit, ACA, Three Paragon Centre, Suite 100, 574 Highland Colony Parkway, Ridgeland, MS 39157. Information concerning First South Farm Credit, ACA can be obtained by visiting the association website, [www.firstsouthland.com](http://www.firstsouthland.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

### **Borrower Information Regulations**

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

### **Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products**

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

### **Shareholder Investment**

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at [www.agfirst.com](http://www.agfirst.com). The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

## *Report of the Audit Committee*

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of First South Farm Credit, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2009, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2009. The foregoing report is provided by the following independent directors, who constitute the Committee:



Dr. Marty J. Fuller  
Chairman of the Audit Committee

### **Members of Audit Committee**

Paul Clark  
James M. Norsworthy, III  
W.S. Patrick  
Dr. William E. Hardy, Jr.  
Dr. Daniel Viator

March 12, 2010

## *Report of Independent Auditors*



PricewaterhouseCoopers LLP  
10 Tenth Street, Suite 1400  
Atlanta, GA 30309  
Telephone (678) 419 1000

### Report of Independent Auditors

To the Board of Directors and Members  
of First South Farm Credit, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of First South Farm Credit, ACA (the Association) and its subsidiaries 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 12, 2010



# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31, 2009	December 31, 2008	December 31, 2007
<b>Assets</b>			
Cash	\$ 9,906	\$ 7,223	\$ 8,356
Loans	1,153,435	1,055,511	1,241,456
Less: allowance for loan losses	7,335	7,941	6,961
Net loans	1,146,100	1,047,570	1,234,495
Accrued interest receivable	11,631	13,545	17,313
Investments in other Farm Credit institutions	87,429	92,165	68,575
Premises and equipment, net	6,585	6,338	5,294
Other property owned	661	5	5
Due from AgFirst Farm Credit Bank	18,020	12,994	9,611
Other assets	1,727	1,554	1,388
Total assets	<u>\$ 1,282,059</u>	<u>\$ 1,181,394</u>	<u>\$ 1,345,037</u>
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 1,007,408	\$ 909,718	\$ 1,088,297
Accrued interest payable	2,548	3,060	5,100
Patronage refund payable	4,467	3,724	3,843
Other liabilities	32,604	45,164	21,801
Total liabilities	<u>1,047,027</u>	<u>961,666</u>	<u>1,119,041</u>
Commitments and contingencies			
<b>Members' Equity</b>			
Protected borrower stock	92	97	111
Capital stock and participation certificates	65,212	64,590	64,347
Retained earnings			
Allocated	102,957	93,412	84,707
Unallocated	86,789	85,259	83,048
Accumulated other comprehensive income (loss)	(20,018)	(23,630)	(6,217)
Total members' equity	<u>235,032</u>	<u>219,728</u>	<u>225,996</u>
Total liabilities and members' equity	<u>\$ 1,282,059</u>	<u>\$ 1,181,394</u>	<u>\$ 1,345,037</u>

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

# Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2009	2008	2007
<b>Interest Income</b>			
Loans	\$ 63,100	\$ 74,155	\$ 93,706
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	31,707	44,544	59,588
Net interest income	31,393	29,611	34,118
Provision for (reversal of allowance for) loan losses	5,063	1,159	1,050
Net interest income after provision for (reversal of allowance for) loan losses	26,330	28,452	33,068
<b>Noninterest Income</b>			
Loan fees	2,964	2,851	2,429
Fees for financially related services	921	813	587
Patronage refund from other Farm Credit institutions	18,000	12,992	9,631
Gains (losses) on other property owned, net	(267)	28	13
Other noninterest income	266	137	141
Total noninterest income	21,884	16,821	12,801
<b>Noninterest Expense</b>			
Salaries and employee benefits	19,528	16,166	15,907
Occupancy and equipment	1,342	1,345	1,268
Insurance Fund premiums	1,894	1,561	1,720
Other operating expenses	5,886	5,962	5,875
Total noninterest expense	28,650	25,034	24,770
Income before income taxes	19,564	20,239	21,099
Provision (benefit) for income taxes	78	17	33
Net income	\$ 19,486	\$ 20,222	\$ 21,066

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

# Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2006	\$ 92	\$ 64,236	\$ 77,039	\$ 82,008	\$ —	\$223,375
Net income				21,066		21,066
Protected borrower stock retired	19					19
Capital stock/participation certificates issued/(retired), net		111				111
Patronage distribution						
Cash				(3,838)		(3,838)
Qualified allocated retained earnings			3,838	(3,838)		—
Nonqualified allocated retained earnings			6,267	(6,267)		—
Nonqualified retained earnings			6,267	(6,267)		—
Retained earnings retired			(8,578)			(8,578)
Patronage distribution adjustment			(126)	184		58
Adjustment to initially apply accounting guidance for employee benefit plans (Note 10)					(6,217)	(6,217)
Balance at December 31, 2007	111	64,347	84,707	83,048	(6,217)	225,996
Comprehensive income						
Net income				20,222		20,222
Employee benefit plans adjustments (Note 10)				(184)	(17,413)	(17,597)
Total comprehensive income						2,625
Protected borrower stock retired	(14)					(14)
Capital stock/participation certificates issued/(retired), net		243				243
Patronage distribution						
Cash				(3,719)		(3,719)
Qualified allocated retained earnings			2,480	(2,480)		—
Nonqualified allocated retained earnings			6,038	(6,038)		—
Nonqualified retained earnings			6,038	(6,038)		—
Retained earnings retired			(5,509)			(5,509)
Patronage distribution adjustment			(342)	448		106
Balance at December 31, 2008	97	64,590	93,412	85,259	(23,630)	219,728
Comprehensive income						
Net income				19,486		19,486
Employee benefit plans adjustments (Note 10)					3,612	3,612
Total comprehensive income						23,098
Protected borrower stock retired	(5)					(5)
Capital stock/participation certificates issued/(retired), net		622				622
Patronage distribution						
Cash				(4,463)		(4,463)
Qualified allocated retained earnings			4,463	(4,463)		—
Nonqualified allocated retained earnings			4,672	(4,672)		—
Nonqualified retained earnings			4,672	(4,672)		—
Retained earnings retired			(4,102)			(4,102)
Patronage distribution adjustment			(160)	314		154
Balance at December 31, 2009	\$ 92	\$ 65,212	\$ 102,957	\$ 86,789	\$ (20,018)	\$235,032

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

# Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2009	2008	2007
<b>Cash flows from operating activities:</b>			
Net income	\$ 19,486	\$ 20,222	\$ 21,066
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	374	422	358
Provision for (reversal of allowance for) loan losses	5,063	1,159	1,050
(Gains) losses on other property owned, net	267	(28)	(13)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	1,914	3,768	(712)
(Increase) decrease in due from AgFirst Farm Credit Bank	(5,026)	(3,383)	(1,174)
(Increase) decrease in other assets	(173)	(166)	(257)
Increase (decrease) in accrued interest payable	(512)	(2,040)	629
Increase (decrease) in other liabilities	(8,948)	5,766	(2,150)
Total adjustments	(7,041)	5,498	(2,269)
Net cash provided by (used in) operating activities	12,445	25,720	18,797
<b>Cash flows from investing activities:</b>			
Net (increase) decrease in loans	(105,239)	185,766	(121,776)
(Increase) decrease in investment in other Farm Credit institutions	4,736	(23,590)	(2,315)
Purchases of premises and equipment	(621)	(1,466)	(1,028)
Proceeds from sales of other property owned	723	28	198
Net cash provided by (used in) investing activities	(100,401)	160,738	(124,921)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	97,690	(178,579)	109,901
Protected borrower stock retired	(5)	(14)	19
Capital stock and participation certificates issued/(retired), net	622	243	111
Patronage refunds and dividends paid	(3,566)	(3,732)	(2,716)
Retained earnings retired	(4,102)	(5,509)	(8,578)
Net cash provided by (used in) financing activities	90,639	(187,591)	98,737
Net increase (decrease) in cash	2,683	(1,133)	(7,387)
Cash, beginning of period	7,223	8,356	15,743
Cash, end of period	\$ 9,906	\$ 7,223	\$ 8,356
<b>Supplemental schedule of non-cash activities:</b>			
Financed sales of other property owned	\$ 2,411	\$ —	\$ —
Loans transferred to other property owned	4,057	—	107
Cash dividends or patronage distributions declared or payable	4,463	3,719	3,838
Decrease in other assets resulting from adoption of accounting guidance for employee benefit plans (Note 10)	—	—	6,092
Increase in liability resulting from adoption of accounting guidance for employee benefit plans (Note 10)	—	—	125
Employee benefit plans adjustments (Note 10)	(3,612)	17,597	—
<b>Supplemental information:</b>			
Interest paid	\$ 32,219	\$ 46,584	\$ 58,959
Taxes (refunded) paid, net	10	—	(1)

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

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

## Note 1 — Organization and Operations

A. **Organization:** First South Farm Credit, ACA (the Association or ACA) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the states of Alabama and Mississippi, Marion County in the state of Tennessee, and all but certain parishes within the northwestern portion of Louisiana.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2009, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and eighty-nine associations.

AgFirst Farm Credit Bank (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other associations operating within the District. The District consists of the Bank and twenty-two Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Association makes short- and intermediate-term loans for agricultural production or operating purposes and collateralized real estate loans. Effective January 1, 2010, the Association can also make long-term loans in its chartered territory.

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 Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on

its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

## Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements may have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the PCA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized 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 reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

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

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

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

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- \* Changes in credit risk classifications,
- \* Changes in collateral values,
- \* Changes in risk concentrations,
- \* Changes in weather related conditions, and
- \* Changes in economic conditions.

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

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs.

- C. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** The Association is required to maintain ownership in the Bank in the form of Class C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as due from AgFirst Farm Credit Bank.
- D. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates 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, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.
- E. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

F. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

G. **Employee Benefit Plans:** Substantially all employees of the Association may participate in either the First South Farm Credit, ACA Retirement Plan (the FS Plan) or the AgFirst Farm Credit Cash Balance Retirement Plan (the CB Plan), which are defined benefit plans. The District sponsors the CB Plan which is considered a multi-employer plan. These two Plans are noncontributory. The FS Plan includes eligible Association employees and the CB Plan includes eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes for both plans. Since the FS plan is a single employer plan, the Association records the FS Plan's funded status and equity items related to prior service cost, accumulated other comprehensive income (loss) and prepaid (accrued) pension expense. The adjustment to other comprehensive income (loss) would be net of deferred taxes, if significant. See Note 10 for the impact of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans. The actuarially-determined costs of the CB Plan are allocated to each participating entity, including the Association, by multiplying the Plan's net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plans' participants.

Substantially all employees of the Association may also be eligible to participate in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code; a percentage of employee contributions is matched by the Association. 401(k) plan costs are expensed as funded.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

H. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income 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 surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) 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.

I. **Patronage Refund from AgFirst and Other Financial Institutions:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

J. **Fair Value Measurement:** Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as described in Note 13.

K. **Recently Issued Accounting Pronouncements:** Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 13), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 14).

In May 2009, the FASB issued guidance, "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. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included 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 adopted by the Association effective June 30, 2009 (see Note 16).

In June 2009, the FASB issued guidance, "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. This guidance was adopted by the Association effective July 1, 2009 and had no impact on the Association's financial condition or results of operations.

In December 2008, the FASB issued new guidance that expands the disclosures required in an employer's financial statements about pension plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was adopted by the Association effective December 31, 2009 (see Note 10).

### Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
	2009	2008	2007
Production and intermediate term	\$ 768,928	\$ 926,704	\$ 1,142,764
Real Estate	263,801	*	*
Agribusiness:			
Processing and marketing	59,967	61,903	49,975
Farm related business	26,148	32,277	33,235
Loans to cooperatives	14,737	13,797	692
Communication	13,252	13,356	7,498
Energy	3,634	3,732	3,804
Rural residential real estate	2,968	3,742	3,488
<b>Total loans</b>	<b>\$1,153,435</b>	<b>\$1,055,511</b>	<b>\$1,241,456</b>

\* Information not available prior to January 1, 2009

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.

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. Real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed 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 following table presents information relating to impaired loans as defined in Note 2.

	December 31,		
	2009	2008	2007
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 19	\$ 28,298	\$ 281
Past due	11,446	1,695	3,239
<b>Total impaired nonaccrual loans</b>	<b>11,465</b>	<b>29,993</b>	<b>3,520</b>
Impaired accrual loans:			
Restructured	-	-	836
90 days or more past due	-	-	4
<b>Total impaired accrual loans</b>	<b>-</b>	<b>-</b>	<b>840</b>
<b>Total impaired loans</b>	<b>\$ 11,465</b>	<b>\$ 29,993</b>	<b>\$ 4,360</b>

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

The following table summarizes impaired loan information for the year ended December 31,

	2009	2008	2007
Average impaired loans	\$ 27,136	\$ 6,335	\$ 3,852

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

	Year Ended December 31,		
	2009	2008	2007
Interest income recognized on impaired nonaccrual loans	\$ 1,184	\$ 283	\$ 186
Interest income on impaired accrual loans	21	4	10
<b>Interest income recognized on impaired loans</b>	<b>\$ 1,205</b>	<b>\$ 287</b>	<b>\$ 196</b>

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
	2009	2008	2007
Interest income which would have been recognized under the original loan terms	\$ 1,837	\$ -	\$ 601
Less: interest income recognized	1,184	283	186
<b>Foregone interest income</b>	<b>\$ 653</b>	<b>\$ (283)</b>	<b>\$ 415</b>



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

	Year Ended December 31,		
	2009	2008	2007
Balance at beginning of year	\$ 7,941	\$ 6,961	\$ 5,876
Charge-offs:			
Production and intermediate term	(5,711)	(230)	(70)
Total charge-offs	(5,711)	(230)	(70)
Recoveries:			
Production and intermediate term	29	51	105
Energy	12	-	-
Agribusiness	1	-	-
Total recoveries	42	51	105
Net (charge-offs) recoveries	(5,669)	(179)	35
Provision for (reversal of allowance for) loan losses	5,063	1,159	1,050
Balance at end of year	\$ 7,335	\$ 7,941	\$ 6,961
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.489)%	(0.016)%	0.003%

The following table presents information concerning impaired loans and related allowance for loan losses as of December 31,

	2009	2008	2007
Impaired loans with related allowance	\$ 6,014	\$ 9,770	\$ 202
Impaired loans with no related allowance	5,451	20,223	4,158
Total impaired loans	\$ 11,465	\$ 29,993	\$ 4,360
Allowance on impaired loans	\$ 859	\$ 2,565	\$ 131

In addition, the following is a breakdown of the allowance for loan losses for the end of the last three fiscal years:

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Production and intermediate term	\$ 4,195	57.2%	\$ 7,223	91.0%
Real Estate	2,225	30.3	*	*
Agribusiness	864	11.8	620	7.8
Communication	32	0.5	63	0.8
Energy	9	0.1	17	0.2
Rural residential real estate	10	0.1	18	0.2
Total	\$ 7,335	100.0%	\$ 7,941	100.0%
	December 31, 2007			
	Amount	%		
Production and intermediate term	\$ 6,443	92.5%		
Real Estate	*	*		
Agribusiness	451	6.5		
Communication	34	0.5		
Energy	17	0.3		
Rural residential real estate	16	0.2		
Total	\$ 6,961	100.0%		

\* Information not available prior to January 1, 2009

#### Note 4 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in the Bank of Class C stock (net of any investment by the Bank in the Association) as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

The Bank has a reciprocal investment in the Association of \$50,589 representing 10,117,847 shares of its nonvoting common stock.

#### Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2009	2008	2007
Land	\$ 1,653	\$ 1,666	\$ 1,646
Buildings and improvements	8,223	7,991	6,852
Furniture and equipment	2,437	2,392	2,269
	12,313	12,049	10,767
Less: accumulated depreciation	5,728	5,711	5,473
Total	\$ 6,585	\$ 6,338	\$ 5,294

#### Note 6 — Other Property Owned

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

	December 31,		
	2009	2008	2007
Gains (losses) on sale, net	\$ 5	\$ -	\$ 9
Carrying value unrealized gains (losses)	11	-	-
Operating income (expense), net	(283)	28	4
Gains (losses) on other property owned, net	\$ (267)	\$ 28	\$ 13

#### Note 7 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.47 percent for LIBOR-based loans, 1.72 percent for Prime-based loans, and the weighted average remaining maturities were 1.6 years and 1.4 years, respectively, at December 31, 2009. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.11 percent and the weighted average remaining maturity was 4.4 years at December 31, 2009. The weighted average interest rate on all interest-bearing notes payable was 2.77 percent and the weighted average remaining maturity was 3.7 years at December 31, 2009.

Variable rate and fixed rate notes payable represent approximately 11.98 percent and 88.02 percent, respectively, of total notes payable at December 31, 2009.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2009, the Association's notes payable were within the specified limitations.

### Note 8 — Members' Equity

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

#### A. Protected Borrower A

Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, 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 stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

#### B. Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2 percent of the loan, or \$5 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

#### C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to achieve permanent capital of 7.00 percent of risk-adjusted

assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of 7.00 percent and of core surplus as a percentage of risk-adjusted assets of 3.50 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2009 were 12.52 percent, 11.37 percent and 10.21 percent, respectively.

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

#### D. Description of Equities

The Association is authorized to issue or have outstanding Class A Nonvoting Common Stock, Class C Voting Common Stock, and Class D Preferred Stock, and nonvoting Participation Certificates. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2009:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Common/Nonvoting	Yes	18,413	\$ 92
A Common/Nonvoting	No	9,443	47
C Common/Voting	No	2,854,547	14,273
A Common Issued to Bank/Nonvoting	No	10,117,847	50,589
C Participation Certificates/Nonvoting	No	60,503	303
Total Capital Stock and Participation Certificates		13,060,753	\$ 65,304

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

#### Surplus Accounts

The Association maintains an unallocated surplus account and an allocated surplus account. The minimum aggregate amounts of these two accounts shall be prescribed by the Farm Credit Act and the FCA regulations. The allocated surplus account consists of earnings held therein and allocated to borrowers on a patronage basis.

In the event of a net loss for any fiscal year, such loss shall be absorbed by, first, charges to the unallocated surplus account;

second, impairment of paid-in surplus; and third, impairment of the allocated surplus account on the basis of latest allocations first.

The Association shall have a first lien on all surplus account allocations owned by any borrower, and all distributions thereof, as additional collateral for such borrower's indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation, the Association may, upon notice to the borrower, order any and all surplus account allocations owned by such borrower to be applied against the indebtedness. Any such retirement and application against indebtedness of surplus account allocations shall be before similar retirement and application of stock or participation certificates owned by the borrower.

When all of the stock and participation certificates of the Association owned by a borrower are retired or otherwise disposed of, any surplus account allocations owned by such borrower may also be retired upon request by the borrower and subject to the approval of the Board, and the proceeds paid to the borrower. Alternatively, if the Board so directs, upon notice to the borrower such surplus account allocations may be applied against any of the borrower's indebtedness to the Association.

Subject to the Farm Credit Act and FCA regulations, allocated surplus may be distributed in cash, oldest allocations first. The cash proceeds may be applied against the indebtedness of the borrower to the Association. In no event shall such distributions reduce the surplus account below the minimum amount prescribed by the Farm Credit Act and FCA regulations. Distributions of less than the full amount of all allocations issued as of the same date shall be on a pro rata basis.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2009, allocated members' equity consisted of \$24,165 of qualified and \$78,792 of nonqualified distributions. Nonqualified distributions are tax deductible only when redeemed.

#### *Patronage Distributions*

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified

basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

#### *Transfer*

Stock and participation certificates may be transferred only to persons eligible to purchase and hold such stock or participation certificates.

#### *Impairment*

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Allocated Surplus
2. Class A Nonvoting Common Stock and Class C Voting Common Stock and unit of participation certificates outstanding.
3. Class D Preferred Stock.

#### *Liquidation*

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to the holders of stock and participation certificates in the following order of priority:

1. To the holders of Class D Preferred Stock, if any, pro rata in proportion to the number of shares then issued and outstanding until an amount equal to the aggregate par value of all such shares has been distributed to all such holders.
2. To the holders of Class A Nonvoting Common Stock and Class C Voting Common Stock and participation certificates, pro rata in proportion to the number of shares or units of each such class of stock or
3. Participation certificates then issued and outstanding until an amount equal to the aggregate par value of all such shares or units have been distributed to all such holders.
4. To the holders of allocated surplus evidenced by written notices of allocation on a pro-rata basis until all such allocated surplus has been distributed to such holders.
5. Any remaining assets of the Association after such distributions shall be distributed to the holders of Class A Nonvoting Common Stock and Class C Voting Common Stock, and participation certificates, pro rata in proportion to the number of shares or units then outstanding.

#### **E. Other Comprehensive Income (Loss)**

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association reported OCI of \$3,612, \$(17,413), and \$(6,217) in 2009, 2008 and 2007, respectively, due to FASB guidance on employers' accounting for defined benefit pension

and other postretirement plans (see Note 10 for further information).

**Note 9 — Income Taxes**

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2009	2008	2007
Current:			
Federal	\$ 71	\$ 14	\$ 28
State	7	3	5
	<u>78</u>	<u>17</u>	<u>33</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 78</u>	<u>\$ 17</u>	<u>\$ 33</u>

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

	December 31,		
	2009	2008	2007
Federal tax at statutory rate	\$ 6,652	\$ 6,881	\$ 7,174
State tax, net	7	3	5
Patronage distributions	(3,035)	(2,108)	(2,610)
Tax-exempt FLCA earnings	(3,864)	(4,411)	(4,948)
Change in valuation allowance	(143)	2,863	1,733
Implementation of FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"	—	—	(1,538)
Change in FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" Liability	—	(2,978)	—
Other	461	(233)	217
Provision (benefit) for income taxes	<u>\$ 78</u>	<u>\$ 17</u>	<u>\$ 33</u>

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2009	2008	2007
Deferred income tax assets:			
Allowance for loan losses	\$ 877	\$ 1,078	\$ 1,254
Nonaccrual loan interest	749	719	684
Pensions and other postretirement benefits	5,792	5,761	2,777
Depreciation	7	10	—
Gross deferred tax assets	<u>7,425</u>	<u>7,568</u>	<u>4,715</u>
Less: valuation allowance	<u>(7,425)</u>	<u>(7,568)</u>	<u>(4,705)</u>
Gross deferred tax assets, net of valuation allowance	<u>—</u>	<u>—</u>	<u>10</u>
Deferred income tax liabilities:			
Depreciation	—	—	(10)
Gross deferred tax liability	<u>—</u>	<u>—</u>	<u>(10)</u>
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2009, deferred income taxes have not been provided by the Association on approximately \$55.7 million of patronage refunds received from the Bank prior to January 1, 1993.

Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$7,425, \$7,568 and \$4,705 during 2009, 2008 and 2007, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2009 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2006 and forward.

**Note 10 — Employee Benefit Plans**

The Association participates in four benefit plans. These plans include a single employer defined benefit average pay retirement plan, a multi-employer defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan. Financial information regarding each of these plans follows.

Substantially all employees of the Association are eligible to participate in either the First South Farm Credit, ACA Retirement Plan (the FS Plan) or the District sponsored AgFirst Farm Credit Cash Balance Retirement Plan (the CB Plan), which are defined benefit plans. The FS Plan is considered a single employer plan and the CB Plan is considered a multi-employer plan. These two Plans are noncontributory. The FS Plan includes eligible Association employees and the CB Plan includes eligible District employees. For participants hired prior to January 1, 2009, benefits are provided under the FS Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2009, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution under the CB Plan is based on a formula of 3.00 - 5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. Contributions into the FS Plan were \$2,224 for 2009, \$2,497 for 2008, and \$759 for 2007. Expenses for the FS plan included in salaries and employee benefits were \$3,585 for 2009, \$737 for 2008, and \$1,005 for 2007.

FASB issued guidance on employers' accounting for defined benefit pension and other postretirement plans requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007 by the Association for the single employer defined benefit pension plan, resulting in a credit to other assets of \$6,092, a credit to other liabilities of \$125 and a debit to accumulated other comprehensive income (loss) (AOI) of \$6,217.

This FASB guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension liability by \$184.

This FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. These amounts are subsequently recognized as components of net periodic benefit costs over time. For 2009 and 2008, \$3,612 and \$(17,413) has been recognized as a net credit and debit, respectively, to AOCI to reflect these elements.

The funding status and the amounts recognized in the Consolidated Balance Sheets of the Association for the retirement plan follow:

	Pension Benefits		
	2009	2008	2007*
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year	\$ 48,636	\$ 43,394	\$ 42,820
Service cost	1,414	1,547	1,264
Interest cost	3,010	3,431	2,522
Actuarial loss (gain)	3,046	2,284	(1,599)
Benefits paid	(1,608)	(2,020)	(1,613)
Benefit obligation at end of year	\$ 54,498	\$ 48,636	\$ 43,394
<b>Change in plan assets</b>			
Fair value of plan assets, beginning of year	\$ 32,674	\$ 43,269	\$ 38,663
Actual return on plan assets	7,818	(10,634)	5,755
Employer contributions	2,224	2,497	759
Benefits paid	(1,608)	(2,020)	(1,613)
Expenses	(321)	(438)	(295)
Fair value of plan assets, end of year	\$ 40,787	\$ 32,674	\$ 43,269
Funded status	\$ (13,711)	\$ (15,962)	\$ (125)
Fourth quarter contributions	-	-	-
Net amount recognized	\$ (13,711)	\$ (15,962)	\$ (125)
Amounts recognized consist of:			
Pension assets	\$ -	\$ -	\$ -
Pension liabilities	(13,711)	(15,962)	(125)
Net amount recognized	\$ (13,711)	\$ (15,962)	\$ (125)

\*The measurement date for 2007 is September 30.

The following represent the amounts included in accumulated other comprehensive income at December 31, 2009:

	Pension Plan
Net actuarial loss (gain)	\$ 20,351
Prior service costs (credit)	(333)
Net transition obligation (asset)	-
Total amount recognized in OCI	\$ 20,018

The accumulated benefit obligation for the defined benefit plans was \$46,027 and \$40,988 at December 31, 2009 and 2008 and \$36,679 at September 30, 2007, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2009	2008	2007
Projected benefit obligation	\$ 54,498	\$ 48,636	\$ 43,394
Accumulated benefit obligation	46,027	40,988	36,679
Fair value of plan assets	40,787	32,674	43,269

Components of net periodic benefit cost and other amounts recognized in other comprehensive income as of December 31 are as follows:

	Pension Benefits		
	2009	2008	2007
<b>Net periodic benefit (income) cost</b>			
Service cost	\$ 1,414	\$ 1,238	\$ 1,264
Interest cost	3,010	2,745	2,522
Expected return on plan assets	(2,530)	(3,382)	(3,017)
Amortization of net (gain) loss	-	(12)	(338)
Amortization of prior service cost	(58)	(58)	(58)
Recognized net actuarial (gain)/loss	1,749	206	632
Net periodic benefit (income) cost	\$ 3,585	\$ 737	\$ 1,005

The estimated net actuarial gain, transition asset/liabilities and prior service cost for the pension plan that will be amortized into income during 2010 are \$1,364, \$0 and \$58, respectively.

Other changes in plan assets and benefit obligations recognized in other comprehensive income follows:

	2009	2008
Net actuarial loss (gain)	\$ (1,921)	\$ 17,587
Amortization of net actuarial loss (gain)	(1,749)	(206)
Adjustment for adoption of new accounting guidance	-	(38)
Amortization of prior service cost	58	58
Amortization of transition obligation (asset)	-	12
Total recognized in other comprehensive income	\$ (3,612)	\$ 17,413
Total recognized in net periodic pension cost and other comprehensive income	\$ (27)	\$ 18,334

Assumptions:	2009	2008	2007
<b>Weighted-average assumptions used to determine benefit obligations at December 31</b>			
Discount rate	5.90%	6.30%	6.45%
Rate of compensation increase	4.50%	4.50%	4.50%
<b>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31</b>			
Discount rate	6.30%	6.45%	6.00%
Expected long-term return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%	4.50%

In 2009, 2008 and 2007 the Association used a long-term rate of return of 8.00 percent. The Association utilizes a weighted average of expected returns for each major class based on the asset allocation percentages for the plan assets. Prevailing market

conditions, historical trends and peer comparisons were also utilized in assigning the 8.00 percent expected rate of return.

The fair values of the Association's pension plan assets at December 31, 2009 by asset category are as follows. See Note 13 regarding a description of the three levels of inputs and the classification within the fair value hierarchy.

Fair Value Measurements at December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
<b>Asset Category</b>				
Cash and cash equivalents	\$ 1,647	\$ -	\$ -	\$ 1,647
Equity securities:				
Mutual funds	14,300	14,759	-	29,059
Fixed income securities:				
U.S. Treasuries	-	1,940	-	1,940
Corporate Bonds	-	4,042	-	4,042
MBS	-	3,250	-	3,250
CMOs	-	831	-	831
Foreign bonds	-	18	-	18
Other investments	-	-	-	-
Total	\$ 15,947	\$ 24,840	\$ -	\$ 40,787

Target allocation for asset categories for 2010 are as follows:

Asset Category	
Equity securities	60-70%
Debt securities	30-40%
	100%

### Cash Flows

**Contributions:** The total employer contribution expected during 2010 is \$887.

**Estimated Benefit Payments:** Estimated future benefit payments are as follows:

2010	\$ 1,934
2011	\$ 2,089
2012	\$ 2,785
2013	\$ 3,327
2014	\$ 3,582
2015-2019	\$ 20,927

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$654 for 2009, \$430 for 2008 and \$342 for 2007. Additional financial information for the Plan may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2009 Annual Report.

The Association also participates in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. This 401(k) plan requires the Association to match 50 percent of employee optional contributions up to a maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service.

Employer contributions to this plan were \$337, \$333 and \$325 for the years ended December 31, 2009, 2008 and 2007, respectively.

### Note 11 — Related Party Transactions

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

Total loans to such persons at December 31, 2009 amounted to \$21,958. During 2009, \$30,756 of new loans were made and repayments totaled \$26,083. In the opinion of management, none of these loans outstanding at December 31, 2009 involved more than a normal risk of collectibility.

### Note 12 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2009, \$307,662 of commitments to extend credit and no commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2009, the Association had outstanding \$10,477 of standby letters of credit, with expiration dates ranging from January 1, 2010 to October 1, 2018. The maximum potential

amount of future payments the Association may be required to make under these existing guarantees is \$10,477.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2009, the Association's inventory of standby letters of credit had a fair value of \$586 and was included in other liabilities.

**Note 13 — Fair Value Measurement**

As described in Note 2, effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of standby letters of credit, impaired loans and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

**Level 1**

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at December 31, 2009.

**Level 2**

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2009.

**Level 3**

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

Level 3 assets at December 31, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a Level 3 asset at December 31, 2009. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at December 31, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

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

	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 586	\$ 586
Total Liabilities	\$ -	\$ -	\$ 586	\$ 586

	December 31, 2008			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 454	\$ 454
Total Liabilities	\$ -	\$ -	\$ 454	\$ 454

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for 2008 and 2009:

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2009	\$ 454
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	132
Transfers in and/or out of level 3	-
Balance at December 31, 2009	<u>\$ 586</u>

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2008	\$ 338
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	116
Transfers in and/or out of level 3	-
Balance at December 31, 2008	<u>\$ 454</u>

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

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

	December 31, 2009				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 5,155	\$ 5,155	\$ (3,963)
Other property owned	\$ -	\$ -	\$ 756	\$ 756	\$ 16

	December 31, 2008				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 7,205	\$ 7,205	\$ (2,613)

**Note 14 — Disclosures About Fair Value Of Financial Instruments**

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

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

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

	December 31, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash	\$ 9,906	\$ 9,906	\$ 7,223	\$ 7,223
Loans, net of allowance	\$ 1,146,100	\$ 1,178,934	\$ 1,047,570	\$ 1,081,356

<b>Financial liabilities:</b>				
Notes payable to AgFirst Farm Credit Bank	\$ 1,007,408	\$ 1,020,697	\$ 909,718	\$ 932,283

	December 31, 2007	
	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>		
Cash	\$ 8,356	\$ 8,356
Loans, net of allowance	\$ 1,234,495	\$ 1,266,201
<b>Financial liabilities:</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,088,297	\$ 1,108,655

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

- A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.

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

Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.



The carrying value of accrued interest approximates its fair value.

- C. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. As described in Note 4, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 9.58 percent of the issued stock of the Bank as of December 31, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.9 billion and shareholders' equity totaled \$1.6 billion. The Bank's earnings were \$309 million during 2009.

In addition, the Association has an investment of \$33 related to other Farm Credit institutions.

- D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.
- E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

**Note 15 — Quarterly Financial Information (Unaudited)**

Quarterly results of operations for the years ended December 31, 2009, 2008 and 2007 follow:

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 6,278	\$ 7,341	\$ 8,353	\$ 9,421	\$ 31,393
Provision for (reversal of allowance for) loan losses	1,466	3,317	294	(14)	5,063
Noninterest income (expense), net	(1,455)	(2,105)	(1,894)	(1,390)	(6,844)
Net income (loss)	\$ 3,357	\$ 1,919	\$ 6,165	\$ 8,045	\$ 19,486

  

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,547	\$ 7,295	\$ 7,747	\$ 7,022	\$ 29,611
Provision for (reversal of allowance for) loan losses	(463)	508	1,315	(201)	1,159
Noninterest income (expense), net	(2,528)	(1,256)	(1,347)	(3,099)	(8,230)
Net income (loss)	\$ 5,482	\$ 5,531	\$ 5,085	\$ 4,124	\$ 20,222

  

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 8,070	\$ 8,554	\$ 8,952	\$ 8,542	\$ 34,118
Provision for (reversal of allowance for) loan losses	250	400	400	—	1,050
Noninterest income (expense), net	(2,807)	(2,904)	(2,652)	(3,639)	(12,002)
Net income (loss)	\$ 5,013	\$ 5,250	\$ 5,900	\$ 4,903	\$ 21,066

**Note 16 – Subsequent Events**

The Association has evaluated subsequent events and has determined there are none requiring disclosure through March 12, 2010, which is the date the financial statements were issued.



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