

Harvest

Association posts record profits in 2010

U.S. AgBank and CoBank merge

**Japan earthquake & tsunami
may boost U.S. exports**



Spring 2011



American AgCredit

MONEY FOR AGRICULTURE



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MONEY FOR AGRICULTURE

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Association has record profits for 2010

Dividend payments total \$26.3 million

2010 proved to be a banner year for American AgCredit. Following the successful merger with Farm Credit of the Heartland, ACA, in late 2009, the Association's full-year earnings and net interest income reached record highs, loan quality remained stable throughout the year, and customer dividend payments topped \$26.3 million.

Overall, American AgCredit's net income was a record \$81.38 million, up 65% from \$49.38 million in 2009. Based on the strength of those 2010 earnings, the \$26.3 million in dividend distributions to customers represents 75 basis points (0.75%), 50% more than the previous year's dividend of 50 basis points (0.50%).

Over the past five years, American AgCredit has returned more than \$106 million in dividends to customer-owners in California and Nevada alone; including Kansas and Oklahoma the amount jumps to more than \$128 million.

Compared to 2009 and 2008 dividend returns—which totaled \$15.8 million and \$14.7 million, respectively—the 2010 dividend payout amount has increased 66% and 79% respectively.

In a year during which 157 commercial banks failed—more than the previous year—American AgCredit continued to thrive. During 2010, American AgCredit opened a Capital Markets Group office in Lake Oswego, Oregon, reorganized its Crop Insurance activities, promoted several key staff, and moved its Santa Rosa branch to a new building.

"We're extremely pleased with our financial results and business performance for 2010," said President and Chief Executive Officer Ron Carli. "In an economic environment that remains challenging and highly volatile, American AgCredit continues to serve as a dependable source of credit for farmers, ranchers and other agribusiness in our territories."

SERVICE UPDATES

New online banking features to roll out summer 2011

Continued enhancements for our online banking customers will result in a slew of new features that will be installed this summer. These new features include the ability to direct any payment more specifically toward your principal, interest and fees, add contact emails to notify other people within your business of your online transactions, and expand search capabilities that allow you to search transaction history by dollar amount, range and description. This change will create new templates and organize them for you alphabetically, and will require approximately 48 hours of downtime from our online banking service. More information will be announced later this year so check your mid-year statements for details.

Loan accounting to be streamlined this summer

A transition to a new loan accounting system will take place later this summer. We're excited to be creating a full-service unified back-end platform for all of our loans, from origination to transactions and pay-off. During the transition to the new system, real-time loan, payment, interest and other financial data may be delayed and possibly unavailable during specific intervals. You can be sure that we're working behind the scenes to seamlessly blend AgCenter (our loan origination system) with our new Loan IQ system, which will result in a new streamlined accounting process. While the exact timing and data specifications are currently undefined, we will keep you posted as the time gets closer. Please keep an eye out on our website (AgLoan.com) for an announcement later this spring!

"A strong capital base and a customer dividend are important components of American AgCredit's philosophy," said President and Chief Executive Officer Ron Carli. "The success of American AgCredit is our Members' success."

Note that with the new Loan Accounting system, all online banking history will be removed, so we recommend storing your online transaction history as often as possible.



A message from
Ron Carli, President & CEO



Needless to say, I believe we are set on the right path at the right time. Moving into 2011, your Association remains strong and stable, and committed to the principles of Farm Credit, providing Money for Agriculture. I wish you a prosperous spring and look forward to presenting another robust earnings report later this year.

Commodities going strong and merger plans

2011 is shaping up to be another successful year for your Association. Profits for Q1 were the largest in the history of American AgCredit and set us well on our way toward our earnings goal for the year. Much of this can be attributed to a dividend from CoBank, and from our lending bank, U.S. AgBank, which gave us a significantly larger dividend than it has in years past. Due to these payments, first quarter earnings are typically higher and we expect to see more typical earnings through the remainder of 2011.

FINANCIALS

Despite a large and unexpected paydown, loan volume remained flat in March, as we were able to add volume to make up for the paydown.

There was also a significant decrease in accruing loan volume due to the usual first quarter paydowns—decreasing from \$4.508 billion at 12/31/10 to \$4.223 billion at 3/31/11. Most importantly, credit quality remained stable in this struggling economy, a real positive as we head into Q2 and higher commodity prices.

Non-accruals, or our non-paying assets are stabilized. We are actively marketing owned properties on our website (AgLoan.com) and have seen a reduction in acquired property. Acquired property was \$32.9 million at 3/31/11 and non-accrual loans were \$70.3 million. This is a low percentage of overall assets and very manageable.

MARKET COMMODITIES

Commodities are still strong in regards to price. Dairy is gaining some ground as milk prices are recovering. Cattle prices are at an all-time high, and the Association's cattle and grain portfolio will grow as credit quality and profits improve.

Areas in the Midwest have experienced very dry weather conditions causing concern for crop yields. Strong commodity prices are prevalent and have positively impacted farm producers. However, these high prices have had a negative impact on beef and

dairy operations that use these crops for feed.

There is substantially more activity with the wine and vineyard industry. We are seeing a growing interest among grape buyers, which is more normal for the season. Wine sales have also strengthened. This bodes well for the longer-term prospects of the industry. Consumers are continuing to look for value and bargain wines, while showing signs of slowly moving back to upscale established brands. With the economy continuing to show incremental improvement, the industry expects wine sales to parallel this trend.

SYSTEM & ASSOCIATION CHANGES

As many of you know, we've submitted a Letter of Intent to merge with an association in Colorado known as Mountain Plains Farm Credit. Mountain Plains holds approximately \$1 billion in assets and is very well-capitalized. We are now beginning the process of formal due diligence and hope to have a disclosure package with a ballot later this fall. If all progresses smoothly, the tentative date for our merger will be January 1, 2012. When combined, our overall capitalization will exceed 18% and will make your Association the most well-capitalized large association, and the 5th largest nationwide.

While we are going through some changes, so is the Farm Credit System. On the horizon is a merger of two system banks, including our discount bank, U.S. AgBank. While this is an important and notable system change, there will be no impact on customers. We are simply changing funding windows and will be able to access the same funds in the same way without disruption. You can read more about this merger on page 7.

Local American AgCredit Directors have spent more than a year and a half reviewing the advantages and disadvantages of the CoBank-U.S. AgBank merger, with the overall conclusion that it will bring efficiencies to customers and will improve long-term earnings.

Japanese earthquake & tsunami effects



Exports may take off

In the aftermath of the tragic earthquake and tsunami in Japan on March 11, food exports to that country are likely to grow substantially. As one of the largest global importers of beef, pork, and grains, shipments to Japan are estimated to remain at high levels, although it will take some time to evaluate Japan's domestic production and how it will be affected by the disasters. Add to this the dangers of radioactivity in domestic production and fishing, and the equation results in an unknown future for Japan's export and domestic agricultural market.

In terms of export value, Japan is the largest market for U.S. pork and the third largest beef export market.

Demand for meat

"Japan is far and away our largest value market for pork exports, \$1.6 billion for last year, and for beef its third largest, about \$640 million last year," says Joe Schuele, communications director for the U.S. Meat Export Federation.

Based on this, analysts predict that beef purchases by Japan will probably climb as radiation leaks from the stricken Fukushima nuclear plant hurt consumption of local foods. According to Susumu Harada, senior director at the Tokyo office of the U.S. Meat Export Federation, Japan is likely to boost imports of beef, pork and chicken.

The disaster caused damage in prefectures including Iwate, Fukushima and Miyagi, which account for about 17 percent of the nation's broiler chickens, 10 percent of its beef cattle, and 9 percent of the hog herd, U.S. Meat Export Federation has said.

By late March, cattle for June delivery on the Chicago Mercantile Exchange reached its highest level in more than a week on signs of rising demand for U.S. beef from overseas buyers.

However, Schuele cautions that he doesn't foresee a big impact on U.S. meat exports to that country. He states that while the devastation along the northeast-





ern coastline is tremendous, the major population centers of Japan have been much less impacted.

Despite this moderate view, JBS SA, the world's largest beef producer, reports that prices for export to Japan rose about 10 percent in two weeks as consumers boosted stocks following the tsunami, according to Chief Executive Officer Wesley Batista.

"U.S. pork exports may particularly benefit from increased import demand for protein in Japan," said Tim McRae, an economist with Meat & Livestock Australia.

Wheat & corn market

Another market that may see gains is wheat as Japan is the world's fifth-largest wheat importer. Wheat and corn rose on speculation that food contamination in Japan from a damaged nuclear power plant may worsen, boosting the Asian nation's grain imports, and as dry weather in the U.S. threatened wheat yields.

Japan, the world's largest corn buyer, was forecast by the USDA to import 16.1 million tons of the grain this year.

Seafood demand

Higher exports will most likely be in seafood. Japan consumes about 9 million metric tons of seafood a year, second behind China, which has more than 1.3 billion people. According to the UN Food and Agriculture Organization, it's the world's largest fish importer.

Cobalt, iodine and cesium have all been detected in the sea near the crippled nuclear plant north of Tokyo. Shoppers have been avoiding most fresh fish. And although the extent of contamination remains unclear, the damage to farms and livelihoods is spreading. At one of Japan's busiest fish markets, Yasumichi Tanaka said the daily catch is dwindling. "Fish supplies from the radiation contaminated regions have been totally halted."

Is contamination a real threat?

Inspectors around the world are keeping a close eye on food imports from Japan, and some countries have ordered special inspections or even outright bans on fish coming from areas near the plant. Both the United States and the European Union are screening food samples from radiation-affected areas of Japan and are regularly monitoring radioactivity in imported seafood and crops. Singapore widened its ban on Japanese-produced foods after finding radioactive contamination in Japanese vegetables.

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Japan normally produces a slight surplus of rice but imports large quantities of wheat, corn, sorghum, and soybeans, primarily from the United States. Japan is the third-largest market for U.S. agricultural exports, and is the largest market for EU agricultural exports.

Japan's small agricultural sector is highly subsidized and protected, with government regulations that favor small-scale cultivation instead of large-scale agriculture as practiced in North America.

Financial Statements (\$000s)

Locations



STATEMENT OF CONDITION	March 31		Dec. 31	
	2011	2010	2010	2009
	Unaudited	Unaudited	Audited	Audited
ASSETS				
Loans	\$4,293,104	\$4,620,379	\$4,574,439	\$4,747,370
Less: allowance for loan losses	(18,635)	(17,542)	(18,227)	(12,293)
Net Loans	4,274,469	4,602,837	4,556,212	4,735,077
Investment in the U.S. AgBank	119,327	119,327	119,327	119,327
Investment in CoBank	15,320	13,598	13,598	11,622
Accrued interest receivable	37,866	41,188	42,167	44,792
Premises and equipment	33,488	30,242	32,664	27,829
Other Property Owned	32,953	5,753	25,739	4,626
Other Assets	23,558	26,716	36,538	39,901
Total Assets	\$4,536,981	\$4,839,661	\$4,826,245	\$4,983,174
LIABILITIES				
Note payable to Farm Cr. Bank	\$3,418,106	\$3,778,821	\$3,696,605	\$3,925,037
Funds Held Accounts	18,858	10,008	11,414	7,001
Accrued interest payable	11,571	14,163	15,841	17,598
Other liabilities	28,888	30,130	62,496	58,640
Total Liabilities	\$3,477,423	3,833,122	\$3,786,356	\$4,008,276
MEMBERS' EQUITY				
Common stock and participation certificates	\$6,324	6,645	\$6,371	\$6,722
Preferred stock	104,236	121,601	125,957	116,286
Additional Paid in Capital	206,226	206,226	206,226	206,226
Unallocated retained earnings	742,772	672,067	701,335	645,664
Total Members' Equity	1,059,558	1,006,539	1,039,889	974,898
Total Liabilities and Members' Equity	\$4,536,981	\$4,839,661	\$4,826,245	\$4,983,174
STATEMENT OF INCOME	For the three months ended March 31			
Unaudited	2011	2010		
Interest income	\$54,011	\$60,596		
Interest expense	(21,419)	(26,197)		
Net interest income	32,592	34,399		
Other income	28,429	16,859		
Loan Loss (Provision)/Benefit	(1,780)	(6,704)		
Operating and other expenses	(17,742)	(18,859)		
Income before taxes	41,499	25,695		
Benefit /(Provision) for income taxes	(19)	709		
Net income	\$41,480	\$26,404		

CENTRAL REGION

PETALUMA, CA	(707) 793-9023
SANTA ROSA, CA	(707) 545-7100
ST. HELENA, CA	(707) 963-9437
UKIAH, CA	(707) 462-6531

HEARTLAND REGION

(800) 466-1146

CONCORDIA, KS	(785) 243-4689
EL DORADO, KS	(316) 321-2707
HUTCHINSON, KS	(620) 663-3305
KINGMAN, KS	(620) 532-5102
LARNED, KS	(620) 285-2193
PONCA CITY, OK	(580) 765-5690
PRATT, KS	(620) 672-7406
SALINA, KS	(785) 825-4641
WICHITA, KS	(316) 721-1100

INTERMOUNTAIN REGION

ALTURAS, CA	(530) 233-4304
ELKO, NV	(775) 738-8496
FALLON, NV	(775) 423-3136
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TULELAKE, CA	(530) 667-4236
YREKA, CA	(530) 842-1304

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LAKE OSWEGO, OR	(503) 639-7563
ROSEVILLE, CA	(916) 784-1060

SALINAS REGION

SALINAS, CA	(831) 424-1756
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SOUTHERN REGION

INDIO, CA	(760) 342-4726
ONTARIO, CA	(909) 947-2371
TEMECULA, CA	(951) 296-0175

VALLEY DISTRICT

MERCED, CA	(209) 384-1050
OAKDALE, CA	(209) 847-0353
STOCKTON, CA	(209) 944-7478
TURLOCK, CA	(209) 667-5101

U.S. AgBank and CoBank merge

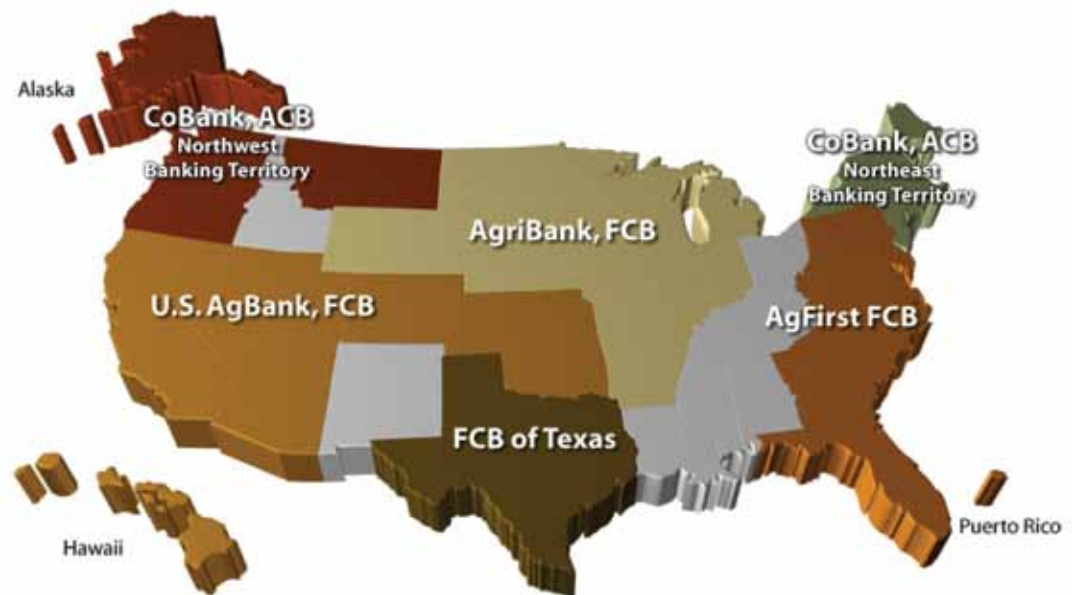
Signaling a shift in funding for the Western Region of the Farm Credit System, U.S. AgBank and CoBank, two of the five banks in the Farm Credit System, announced in December their intention to merge.

Currently, American AgCredit's funding bank is U.S. AgBank, however, there has been an increasing involvement with CoBank, including participation of large volume loans, adaptation of CoBank's online banking system, incorporation of CoBank's Cash Management System, and an alliance partnership involving marketing, public relations and other outreach efforts.

"We welcome the merger and believe it's in the best interests of the Farm Credit System as a whole," said American AgCredit CEO Ron Carli. "Much like our recent merger, the geographic and market diversity this merger brings is substantial and critical to the future success of the system."

The merged entity will be called CoBank. Robert B. Engel, CoBank's president & chief executive officer, will be the chief executive of the combined entity. Darryl Rhodes, chief executive of U.S. AgBank, will retire after the merger.

"The merged bank will enjoy substantial diversification benefits through the combination of two highly complemen-



tary loan portfolios, enhancing its ability to withstand risk," CoBank President and Chief Executive Robert B. Engel said.

According to current U.S. AgBank CEO Darryl Rhodes, the merger would create a larger pool of capital over which to spread risk and create a portfolio in which wholesale loan risk is well balanced with retail loan risk. "In addition, the merger would strengthen human capital by combining the AgBank staff expertise in wholesale lending services with the wholesale and retail lending expertise of CoBank," he said.

As a financial entity, the bank will con-

tinue to operate as a borrower-owned cooperative, just as it does now. No staff reductions are planned as part of the merger. "This merger is all about strengthening the organization for the future and not about cost reductions," Rhodes said.

The merger application was submitted to the FCA on March 31 following unanimous votes by the boards of the two banks. If approved by the FCA and the stockholders, the merger is expected to close on October 1, 2011.

For more information, log on to <http://usagbankcobankmerger.com/>

Japanese earthquake & tsunami effects

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But according to Charles Ebinger of the Brookings Institution, the danger of radiation-contaminated foods is greatly exaggerated. "An average adult would have to drink a quart of contaminated milk each day for one year to receive the same radiation as one CAT scan."

The latest fish radiation readings are above background levels, but still nowhere near the safety limits. The highest radiation reading for fish from the Japanese port of Choshi was 3 becquerels per kilogram of cesium-137 — far below Japan's limit of 500 becquerels per kilogram, or Bq/kg.

Scientists also support this limited radia-

tion theory, as radiation is dispersed differently in water than on land. The concept: The greater the volume of water, the higher the dilution, and the lower the impact. It's dispersed in a much deeper three-dimensional space.

All this at the moment is theoretical since very little data is coming directly out of Japan. As of late March 26, some 99 products were found to be contaminated in Tokyo and five other prefectures.

While it is still too early to tell, "Radioactive contamination in food in Japan is likely to rise," says Taku Ohhara, an official at Japan's Ministry of Health, Labor and Welfare,

which will lead to higher food exports.

Ultimately, the biggest factor, according to Schuele, will be how well Japan's economy absorbs the economic blow from the disaster — and whether that eventually affects consumer spending on meat products.

According to Florida State University oceanographer William Burnett, an expert on the environmental effects of radioactivity, "That particular part of Japan is deeply dependent on agriculture and fish, so I think inside the Japanese economy, we'll see pockets of areas that have been exposed to contamination, see their economy hurt very much."

West Coast Events

- | | | |
|--|---|--|
| MAY 2 14th Annual American AgCredit Golf Tourney, <i>Oakdale CA</i> | MAY 25 Ag in the Classroom Fundraiser, <i>Sacramento, CA</i> | AUG Turlock Open House, <i>Turlock, CA</i> |
| MAY 6 Sierra Vista Children's Golf Tourney, <i>Turlock, CA</i> | JUNE 2 Temecula Customer Appreciation Dinner, <i>Temecula, CA</i> | AUG 20 Children's Guardian Dinner Fundraiser, <i>Oakdale, CA</i> |
| MAY 6 Duarte Nursery Friends Day Trade Show, <i>Turlock, CA</i> | JUNE 15 – 19 Merced County Fair, <i>Merced, CA</i> | AUG 26 – 27 CA Wool Growers Association Annual Convention, <i>Bass Lake, CA</i> |
| MAY 10 Wine Industry Symposium, <i>Napa, CA</i> | JUNE 15 – 19 San Joaquin County Fair, <i>Stockton, CA</i> | SEPT 9 Harvest Luncheon, <i>Modesto, CA</i> |
| MAY 13-15 Zinfest Wine Festival, <i>Lodi, CA</i> | JUNE 16 District 6th Dairy Princess Contest & Dinner, <i>Turlock, CA</i> | SEPT 15 Merced County Holstein Golf Tourney, <i>Merced, CA</i> |
| MAY 18-19 Board Meeting, <i>Stockton, CA</i> | JULY 14 – 31 CA State Fair, <i>Sacramento, CA</i> | SEPT 17 Cowboy Museum Dinner, <i>Oakdale, CA</i> |
| MAY 21 Kiwanis Club — Maytini Party, <i>Turlock, CA</i> | JULY 15 – 24 Stanislaus County Fair, <i>Turlock, CA</i> | SEPT 17 Hilmar Stevinson Ag Booster Dinner, <i>Hilmar, CA</i> |
| MAY 21 Linden Cherry Festival, <i>Linden, CA</i> | JULY 20 – 21 Board Meeting, <i>Wichita, KS</i> | |

Heartland Events

- | | | |
|--|--|--|
| APRIL 28 Women in Ag Conference, <i>Salina, KS</i> | JULY 19 – 22 Ellsworth County Fair, <i>Ellsworth, KS</i> | JULY 30 – AUG 3 Butler County 4-H Fair, <i>El Dorado, KS</i> |
| MAY 5 – 7 3-I Show, <i>Garden City, KS</i> | JULY 20 – 23 Pawnee Co Fair, <i>Larned, KS</i> | AUG 3 – 6 Salina County Fair, <i>Salina, KS</i>
<i>Parade w/Aggie #2: Wednesday August 3</i> |
| JUNE 9 – 11 Miss Kansas Pageant, <i>Pratt, KS</i> | JULY 20 – 23 Pratt Co Fair, <i>Pratt, KS</i> | AUG 3 – 6 Lincoln County Fair, <i>Sylvan Grove, KS</i> |
| JULY 6 – 10 Barton County Fair, <i>Great Bend, KS</i> | JULY 20 – 23 Chautauqua County 4-H Fair, <i>Sedan, KS</i> | AUG 3 – 6 Rush County Fair, <i>LaCrosse, KS</i> |
| JULY 6 – 9 Sedgwick County Fair, <i>Cheney, KS</i> | JULY 22 – 24 Barber Co Fair, <i>Medicine Lodge, KS</i> | AUG 5 – 7 Sumner County 4-H Fair, <i>Wellington, KS</i> |
| JULY 11 – 16 Comanche County Fair, <i>Coldwater, KS</i> | JULY 25 – 30 Kiowa Co Fair, <i>Greensburg, KS</i> | AUG 5 – 9 Harvey County 4-H Fair, <i>Newton, KS</i> |
| JULY 13 – 15 Edwards County Fair, <i>Kinsley, KS</i> | JULY 28 – AUG 1 Cowley County 4-H Fair, <i>Winfield, KS</i> | AUG 18 – 19 K-State Risk & Profit Conference, <i>Manhattan, KS</i> |
| JULY 13 – 16 Stafford County Fair, <i>St. John, KS</i> | JULY 28 – AUG 1 Kingman County & 4-H Fair, <i>Kingman, KS</i> | SEPT 9 – 18 Kansas State Fair, <i>Hutchinson, KS</i> |
| JULY 19 – 22 Ottawa County Fair <i>Minneapolis, KS,</i>
<i>Parade w/Aggie #2: Tuesday, July 19</i> | | |



American AgCredit

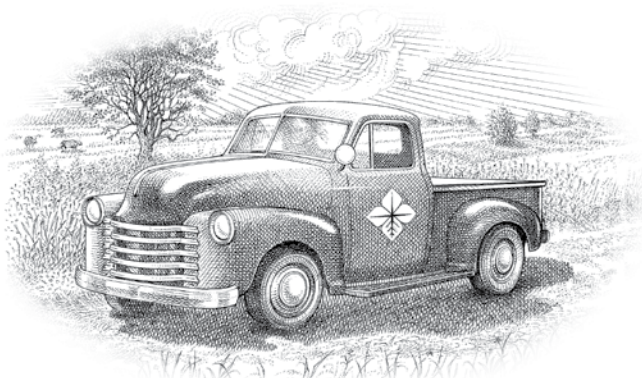
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