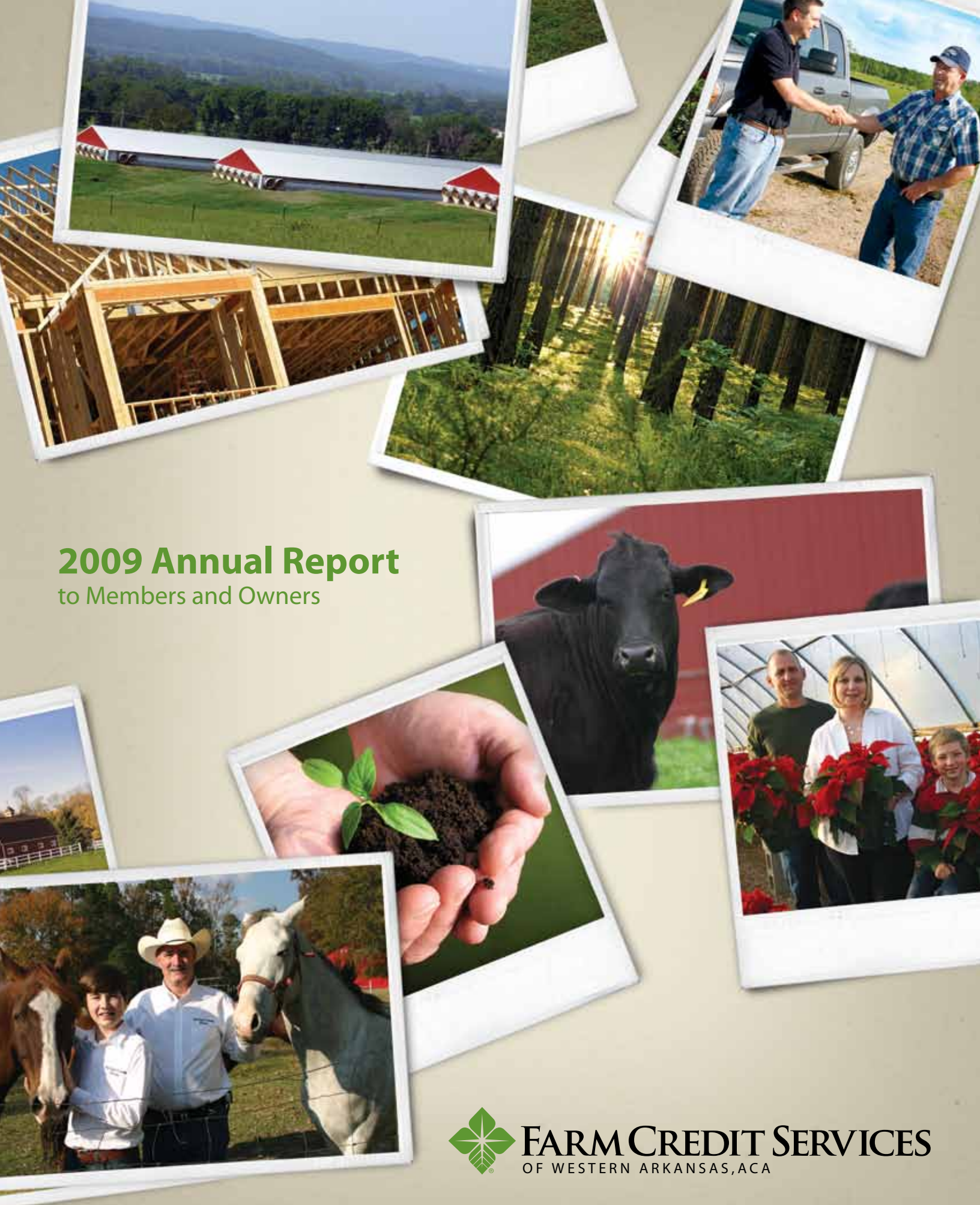


2009 Annual Report
to Members and Owners



FARM CREDIT SERVICES
OF WESTERN ARKANSAS, ACA

Maximizing our customers' financial success is our continued mission.



Add it Up!

We put cash back in our members' hands.

1997	\$ 970,000	1998	\$ 3.2 million
1999	\$ 2.9 million	2000	\$ 3.2 million
2001	\$ 3.6 million	2002	\$ 3.8 million
2003	\$ 4.4 million	2004	\$ 4.5 million
2005	\$ 4.6 million	2006	\$ 5.0 million
2007	\$ 5.1 million	2008	\$ 4.3 million

2009 \$5.4 million

\$51 MILLION

is how much money Farm Credit has paid back to its members (in cash) since 1997!

We pay our members back a share of the profits because we're a cooperative – and our members OWN the company! As a cooperative our members also have some unique privileges.

- Farm Credit borrowers buy stock (up to \$1000) in the company and become immediate members!
- Stock investment means that Farm Credit is owned by the members it serves. There's peace of mind knowing that decisions are made right here in western Arkansas - by farmers just like you!
- As owners, all members have a voice in running the company! This includes voting for, or choosing to run for, board of director positions.
- Members share in the company's profits through our Patronage Refund Program.

With interest rates at or below competitor levels, members earn patronage refunds based on the size of and interest rate on their loan(s). Patronage is generally paid out in cash in late February based on the profits from the prior year's earnings.

Members love their patronage refund and we've heard it called "Christmas in February." There have been members who've used it to pay bills, buy furniture, take family vacations, purchase needed equipment, and many routinely just put it back into their farms.

2009 REFLECTIONS

from the Chairman of the Board of Directors and CEO

Last year, Chairman Crumpacker and I described the issues and events of 2008 as volatile. For 2009, I am not sure that there is a better word to use than the same one, "volatile", but add to it by saying "highly volatile".

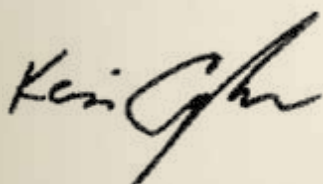
In 2009, we continued to deal with the affects of the Clinton plant closing, then it was announced that the El Dorado Pilgrim plant was also to be closed. With your Association being the largest and most significant agriculture lender in western Arkansas, it is obvious that these two events had a considerable affect on our day-to-day activities and annual results for the past two years. Our hats are off to our members and staff, as they face overwhelming challenges and deal with them in a professional, caring manner.

Although interest and energy costs were relatively stable during 2009, income, expenses and excessively wet weather were all factors impacting members' bottom-line profitability. Showing the true character of our member-owners, those that needed to tighten their belts did so; keeping their loans current and minimizing past-due loan levels for your Farm Credit. While the final outcomes of these Pilgrim's plant closings and the nationwide economic downturn are still not clear, an obvious fact is that your Association remains financially strong and dependable.

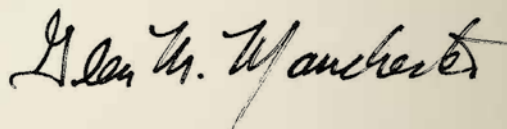
As a dependable source of credit, we never shrink away from providing our member-owners and prospective customers the loan funds they need, at times when they need it based on their demonstrated ability to pay it back satisfactorily over reasonable terms. Strong: Let the numbers do the talking; your Association's strength is displayed in the accompanying Consolidated Financial Statements. In fact, we finished the year having the best Permanent Capital Ratio of the AgriBank District (our source of funds that provides wholesale money to Farm Credit Services in 15 states across the Mid West).

Because of this strength and your Association's ability to overcome the volatilities and adversities of the past two years, we are very pleased to inform you that your Association's Board of Directors approved \$5,400,000 patronage refund of 2009 Association earnings to be paid out in 2010. This continues our long history of paying out patronage in the form of cash. In fact, since 1997, Farm Credit Services of Western Arkansas has never missed allocating cash patronage, which now totals more than \$51,000,000! That's an unquestionable track record of good results that demonstrates STRENGTH!

Being dependable and strong is a result of your Association's passion to maximize your financial success. That message is being spread by you, over and over again, resulting in our stockholder numbers increasing 7%; reaching more than 4700 at FYE 2009. Thank you for telling your family, friends and neighbors that your Farm Credit is a dependable, strong financial resource for you, your family, your farming operation and your rural community.



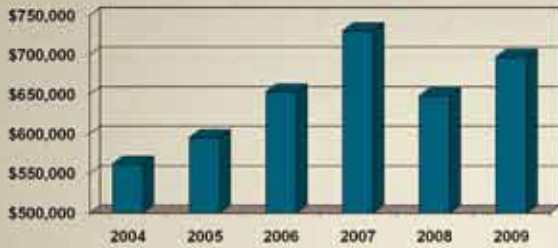
Kevin Crumpacker
Chairman, Board of Directors



Glen M. Manchester
President and Chief Executive Officer



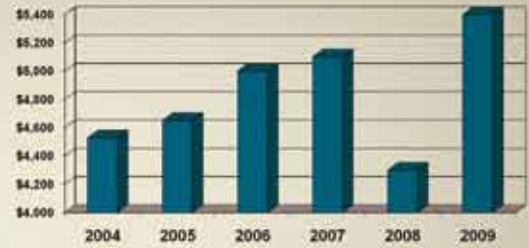
ACA Loan Growth 2004 - 2009 (000's)



Loan Volume

In 2009 our growth was very conservative as the demand for agricultural lending slowed.

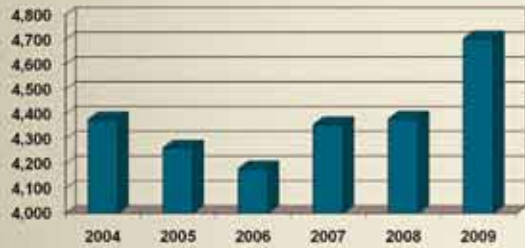
Patronage Refunds 2004 - 2009 (000's)



Patronage Distributions to Members

Our commitment to our customers is seen in our history of patronage refunds. We were able to distribute \$5.4 million to members for 2009. We have distributed more that \$51 million in patronage to members since 1998.

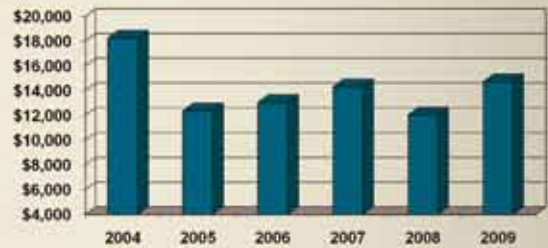
Customer Growth 2004 - 2009



Voting Customers

Although our portfolio was minimal in 2009, we saw a large increase in customers during 2009.

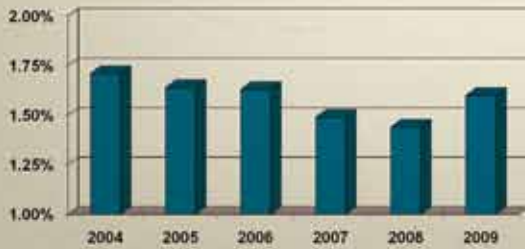
Net Income 2004 - 2009



Net Income

We continue to see strong net income numbers in 2009 even with the need to recognize additional provision for loan loss due to 2008 & 2009 market economics.

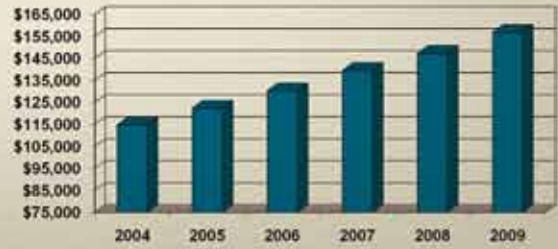
Net Operating Rate 2004 - 2009



Net Operating Rate

Due to an increase in FCSIC premiums during 2009 we saw a slight increase in our net operating rate.

Total Member Equity 2004 - 2009 (000's)



Total Member Equity

Members' equity saw a \$9.5 million increase in 2009 from 2008, a 6.4% improvement. Our business plan requires adequate capital in order for us to serve customers as competitively as possible.

FINANCIAL HIGHLIGHTS

ACA Loan Growth

Was conservative in 2009 due to market and economic conditions, plus overall demand for ag loans slowed in 2009.

Patronage Refunds

We continued our strong history of Patronage Refunds by distributing \$5.4 million to member-owners for 2009. We've distributed more than \$51.0 million to member-owners since 1997.

Customer Growth

Strong customer growth in 2009 to more than 4700 member/stockholders.

Net Income

Strong net income result in 2009 despite recognizing additional provision for loan loss due to 2008-2009 economic conditions.

Net Operating Rate

As part of the Farm Credit Act, system institutions established an insurance fund to insure system obligations are met, and borrower capital is protected. Net operating rate increased in 2009 due to increase in FCSIC insurance premiums

Total Member Equity

\$9.5 million increase in 2009 from 2008, which is a 6.4% improvement. Our business plan requires adequate capital in order for us to competitively serve members.

TABLE OF CONTENTS

Farm Credit Services of Western Arkansas, ACA

Message from the Chairperson of the Board and Chief Executive Officer	1
Consolidated Five-Year Summary of Selected Financial Data	2
Management's Discussion and Analysis	3
Report of Management	9
Report of Audit Committee	10
Report of Independent Auditors	11
Consolidated Financial Statements	12
Notes to Consolidated Financial Statements	16
Disclosure Information Required by Regulations	25

AgriBank, FCB's financial condition and results of operations materially affect members' investment in Farm Credit Services of Western Arkansas, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 3115 W. 2nd Court, Russellville, Arkansas 72801, (479) 968-1434 or at www.myaglender.com contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@AGRIBANK.COM. The reports are also available through AgriBank, FCB's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available on our website 40 days after the end of each calendar quarter.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER



Dear Farm Credit Customer:

Improved Results – In a Highly Volatile 2009

We are pleased to provide you with the 2009 Annual Report, on behalf of the board of directors and employees of Farm Credit Services of Western Arkansas (the Association). Last year, we said, "Your Farm Credit Association is well capitalized to withstand even additional risk and adversity in the years to come." Those factors were manifest in 2009. In preparation of a foreseeable tough financial year, the directors set the direction of the Association to provide for dependability and quality of assets as key goals for the past year. The efforts of the employees and members measured up to that direction and provided stable results during a second, consecutive, highly unstable year.

Accomplishments we recognize that your Association most notably made in 2009 include:

- Net income of more than \$14.7 million dollars (up from \$12.1 million in 2008).
- Declaration of a \$5.4 million dollar CASH patronage refund, payable in 2010. (Compares to \$4.3 million to customers in early 2009)
- More than \$51 million patronage declared since 1997.
- Total surplus growth, after patronage distribution, to more than \$152 million.
- Improved a strong capital position to 18.58% (a year ago at 18.35%).
- Growth of total loans serviced and owned, even in a slow economy.
- And, most noteworthy to us, membership grew by more than 7% to more than 4,700.

Key negative issues impacting performance were primarily a result of the two poultry integrators closing over the past two years and allowances established for potential losses for these customers and other loans. Results that we want to improve include:

- Need of establishing increased (above historical levels) allowances for loan losses.
- Adversely classified assets, although improved from 2008.
- Non-accrual loans reduction, although relatively no change from 2008.
- Past due loans, considered at a manageable level based on the current situation.

Although the past two years have provided many challenges, we're proud of our accomplishments. We are determined to emerge from the challenges and be stronger from the experiences. Despite 2009's improvement in earnings performance and stabilization of the credit portfolio, we recognize the need for diligence of risk management. As was stated last year, we are well capitalized to withstand even additional risk and adversity in the years to come. The same is true as we enter 2010.

The enclosed 2009 Annual Report will confirm our commitment toward maximizing our members' financial success. To be the most trusted agricultural and rural community lender in western Arkansas is the ultimate confirmation of that goal. We take pride in serving you and want to also serve your neighbors. We aren't backing away from that objective. The fact that we remain a strong, well capitalized institution, positioned to meet and serve the needs of this area's farmers, ranchers, agribusinesses and rural homeowners, is something for which you can be proud. Likewise, we are proud of your referrals and consider them the ultimate compliment about your Farm Credit team.

If we can be of service, please don't hesitate to call upon us or your local branch office team. Best wishes for a great 2010!

Sincerely,

Kevin Crumpacker
Chairperson of the Board of Directors
Farm Credit Services of Western Arkansas, ACA

Glen Manchester
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

March 16, 2010

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

	2009	2008	2007	2006	2005
Statement of Condition Data					
Loans	\$697,395	\$648,413	\$730,484	\$653,438	\$595,400
Allowance for loan losses	4,294	4,636	1,441	1,291	691
Net loans	693,101	643,777	729,043	652,147	594,709
Investment securities	2,673	4,687	--	--	--
Investment in AgriBank, FCB	25,799	26,668	22,159	22,159	22,159
Other property owned	895	222	95	534	764
Other assets	14,703	13,858	15,300	14,248	12,917
Total assets	\$737,171	\$689,212	\$766,597	\$689,088	\$630,549
Obligations with maturities of one year or less	\$580,423	\$541,919	\$627,021	\$558,778	\$508,170
Total liabilities	580,423	541,919	627,021	558,778	508,170
Protected members' equity	--	--	2	2	11
Capital stock and participation certificates	4,118	4,001	4,039	3,994	4,108
Unallocated surplus	152,630	143,292	135,535	126,314	118,260
Total members' equity	156,748	147,293	139,576	130,310	122,379
Total liabilities and members' equity	\$737,171	\$689,212	\$766,597	\$689,088	\$630,549
Statement of Income Data					
Net interest income	\$21,804	\$22,065	\$22,359	\$20,461	\$19,505
Provision for (reversal of) loan losses	1,980	3,269	102	707	(658)
Patronage income	5,210	3,158	2,336	2,106	1,956
Other expense, net	10,028	9,755	9,966	8,762	9,805
Provision for (reversal of) income taxes	285	149	317	45	(55)
Net income	\$14,721	\$12,050	\$14,310	\$13,053	\$12,369
Key Financial Ratios					
Return on average assets	2.1%	1.7%	2.0%	2.0%	2.0%
Return on average members' equity	9.6%	8.3%	10.6%	10.4%	10.4%
Net interest income as a percentage of average earning assets	3.2%	3.2%	3.3%	3.3%	3.4%
Members' equity as a percentage of assets	21.3%	21.4%	18.2%	18.9%	19.4%
Net chargeoffs as a percentage of average loans	0.3%	--	--	--	--
Allowance for loan losses as a percentage of loans	0.6%	0.7%	0.2%	0.2%	0.1%
Permanent capital ratio	18.6%	18.3%	17.5%	18.2%	19.1%
Total surplus ratio	18.0%	17.7%	16.9%	17.6%	18.4%
Core surplus ratio	18.0%	17.7%	15.8%	16.1%	16.5%
Other					
Patronage distribution payable to members	\$5,400	\$4,300	\$5,100	\$5,000	\$4,650

The patronage distribution to members accrued for the year ended December 31, 2009, will be distributed in cash during the first quarter of 2010. The patronage distributions accrued for the years ended December 31, 2008, 2007, 2006, and 2005 were distributed in cash during the first quarter of the following year. No income was distributed to members in the form of dividends, stock or allocated surplus during these time periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Services of Western Arkansas, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations.

Merger Activity

The Boards of Directors of FCS of Missouri, ACA and FCS of Western Arkansas, ACA had previously approved a joint management agreement that included a plan to merge the entities effective July 1, 2005. During the second quarter of 2005, the merger proposal was rejected by the shareholders of FCS of Western Arkansas, ACA. The joint management agreement was terminated effective September 1, 2005.

Forward-Looking Information

This Annual Report includes 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 "anticipate", "believe", "could", "estimate", "may", "should", "will", "expect", or other variations on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, 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,
- fluctuations in the agricultural, energy, financing, and leasing sectors,
- economic conditions and credit performance of our loan portfolio, portfolio growth and seasonal factors,
- changes in our estimates underlying the allowance for loan losses,
- periodically occurring weather-related conditions and plant and animal disease that impact agricultural productivity and income and consumer demand,
- changes in United States government support of the agricultural industry, and
- bio-terrorism and other terrorism.

Loan Portfolio

Loan volume totaled \$697.4 million at December 31, 2009. The changes in loan volume for the last two years were as follows (in thousands):

Change in loan volume	2009 vs. 2008		2008 vs. 2007	
Accrual				
Mortgage	\$48,736	11.2%	(\$114,683)	(20.9%)
Commercial	594	0.3%	27,199	15.3%
Nonaccrual	(348)	(3.9%)	5,413	155.9%
Total loans	\$48,982	7.6%	(\$82,071)	(11.2%)

Our focus on customer satisfaction and marketing led to an increase in our mortgage portfolio in 2009. Additionally, 2009 saw increased opportunities in the timber industry. Our capital markets portfolio saw some minimal growth in 2009. Our commercial portfolio remained relatively constant, with not much growth in 2009.

In May 2008, we sold \$189.1 million of a participation interest in real estate loans to AgriBank, FCB (AgriBank). AgriBank has established a separate patronage pool for these assets. Any patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. AgriBank historically has paid patronage in an amount that approximates the net earnings of those loans. As required by our agreement with AgriBank, we purchased additional AgriBank common stock equal to 8% of the pool assets.

Portfolio Distribution

We are chartered to serve certain counties in western Arkansas. Approximately 15.4% of our total loan portfolio was in Washington and Benton counties at December 31, 2009. The bulk of our portfolio is concentrated in poultry and livestock operations.

Financial Market Volatility

During 2009, the severe stress in the financial markets began to and has continued to stabilize. Throughout this period of financial market volatility, AgriBank has been able to access the debt capital markets across the yield curve to support the District mission of providing credit to farmers, ranchers and other eligible borrowers. This has enabled us to continue receiving the funding to support our full array of loan products. We have responded to funding challenges with appropriate actions, including adjusting loan structures and payment terms, and in appropriate cases, increased pricing to customers.

Agricultural Conditions

The Food, Conservation, and Energy Act of 2008 (FCEA/farm bill) was enacted into law in June 2008. FCEA includes significant federal financial support for wheat, feed grains, cotton, rice, oilseeds and dairy, largely continuing the same total level of financial support to agriculture, while changing the distribution and methods of allocating such support. FCEA also contains new, expanded assistance to certain specialty crops, and added price support and trade protection for domestically produced sugar. FCEA continues the direct payment, loan rate and countercyclical payments (CCP) programs from previous farm support legislation, but the levels of support provided by each program have changed. Such support may be unable to cover operating losses due to the dramatic changes in commodity prices for inputs as well as outputs. Also, FCEA provides a new income support program called Average Crop Revenue Election (ACRE), which provides countercyclical support to farmers of many major commodities and it is based on average statewide farm income of recent years rather than more local average incomes. Enrollment in ACRE is low, however, so at an aggregate level ACRE is not a significant source of farm support. Instead, federal farm support revenue has shifted to subsidized crop insurance programs which, with revenue insurance products, now provide more federal support for farm operations than traditional farm support programs.

From an overall economic perspective, 2009 was both an interesting and challenging year for farmers in western Arkansas. A pyramid of issues across several producer segments occurred throughout the year. At the top of the pyramid, were the lingering woes from the ongoing recession and stagnant economy. This created a variety of pocketbook impacts. In between, a year of extreme and unusual weather patterns

impacting agriculture and producers. Finally, across the bottom of the pyramid we found a bear market for many of the meat protein industries, volatile price fluctuations in crops, and a timber/forestry industry in the fourth year of declining demand and prices.

Arkansas has fared much better economically when compared to other states or regions across the country. A key indicator of the economic impact is our unemployment rate; the Arkansas rate rose to its highest level at 7.6% in October, the highest percentage in 21 years.

Northwest Arkansas continued to feel the recession's impact, reflected most in the devaluation of home and real estate prices in that area. The good news is that most economists predict that northwest Arkansas will be poised for recovery faster than other parts of the state/country.

The impact from 2008's high grain and fuel prices continued to impact the poultry industry in western Arkansas throughout 2009. Poultry integrators continued to experience a sea of red ink well into 2009 as they reduced production and controlled costs to survive the economic downturn. Contract producers also saw revenues decline with reduced flock placements in 2009.

The major impact in 2009 came from large poultry integrators, due in part to the idled plants in Clinton (August 2008) and El Dorado (February 2009). The customer's subsequent bankruptcy and then proposed sale had the poultry industry, lenders, producers and the public all watching closely.

From these two closed complexes, the Farm Credit system (the System) had financed approximately 90 poultry producers. The System implemented action plans that 1) assessed the financial impact and risk and took steps to mitigate those risks; 2) implemented procedures to work with impacted producers based on their individual circumstances.

The poultry industry can't wait to close the 2009 chapter on oversupply, falling prices and economic stagnation. And despite starting off the new year with Russia banning U. S. poultry imports over chlorine; the outlook for the poultry industry in 2010 is optimistic.

Current USDA outlook reports for this year project broiler meat production will grow by 3 percent and broiler and turkey meat global export is forecast to grow by 2 to 4 percent this year. The combination of plentiful supplies, rising consumption levels and an improving macroeconomic outlook will boost the environment for international poultry trade.

Beef producers also felt the impact of a stagnant and yet volatile global economy in 2009. In today's world, beef price depends on the price of oil, price of corn, the exchange rate, beef demand both foreign and domestic, among other factors. If you believe the economy will be rebounding soon, then there are better days/months/years ahead for beef producers. Beef analysts forecast higher exports in 2010 as tighter global beef supplies help boost North American prices, along with recovering Asian demand. Throughout the 2009 planting season, Arkansas row crop producers have been challenged by a wet spring, dry June, and then excessive rainfall from July through harvest until year-end.

Saying crop prices were mixed, fluctuating and changing was easy in 2009. The economy and rainfall were contributing factors in what happened with or to crop producers last year. Going into 2010 that outlook stays mixed. The good news is that crop input cost should be more manageable now when compared to '08 and '09.

When it comes to an agricultural segment or industry in a real slump, look no further than forestry and timber. After facing declining markets and prices since 2006 and long before the talk of a recession, or the 2008 financial meltdown, no industry has probably been beaten up more or longer. Economic recovery and real housing recovery are the two keys for timber and forest products price improvement. Both are in the near forecast and expected to take hold, creating higher prices, but significant price

volatility as sudden demand surges could catch the lumber market by surprise. The predictions for the industry now look forward to rising housing starts, lean distribution channel inventories and some lingering government stimulus programs should kick-start lumber demand and even prices in 2010. These factors indicate that there are enough building blocks in place to allow for some much needed market improvement. But in terms of real prices improvement and industry profitability, it could be 2012-2014 when the industry and producers and companies can breathe a sigh of relief and perhaps smile again.

Finally, in Arkansas you cannot reflect on 2009 without commenting on the weather. Due to various occurrences during the year, almost every county was listed under FEMA or USDA disaster relief due to winter storms, tornados, and flooding. The year began with a major ice storm that reeked havoc across the northern third of the state. More than 45 tornados occurred with 26 being the normal average. A bright spot was that the mercury did not cross the 100 degree point for the first time in six years in many locales. Finally, no reflection is complete without mentioning 2009 rainfall; more than double the normal state average for the year. This was undisputedly the wettest annual year on record with 15 Arkansas cities setting all-time rainfall records. Last but not least, extremely cold temperatures ensued at Christmas and extended well into the new year breaking records not seen in two decades. Finally, for the first time in more than a century, Fayetteville and Ft. Smith had measurable snowfall on Christmas. It had been more than a century since the two cities both had measurable snowfall on Christmas day.

Analysis of Risk

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of December 31	2009	2008	2007
Loans:			
Accruing restructured	\$473	\$ --	\$335
Past due 90 days or more still accruing	184	130	650
Nonaccrual	8,537	8,885	3,472
Total risk loans	9,194	9,015	4,457
Other property ow ned	895	222	95
Total risk assets	\$10,089	\$9,237	\$4,552
Risk loans			
as a percentage of total loans	1.3%	1.4%	0.6%
Total delinquencies			
as a percentage of total loans	0.9%	0.4%	0.8%

Nonaccrual loans decreased slightly from 2009, but remain higher than management's objectives. The increase in nonaccrual loans over the past two years due can be attributed to the economic uncertainty surrounding the poultry growers in our portfolio.

The increase in nonaccrual loans was minimal. Total risk loans as a percentage of total loans remains well within our established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at December 31, 2009, and represented 1.2% of our total portfolio. At December 31, 2009, 43.9% of our nonaccrual loans were current.

The credit quality of our portfolio improved during 2009. Adversely classified assets decreased from 5.0% of the portfolio at December 31, 2008, to 3.9% of the portfolio at December 31, 2009. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2009, \$62.7 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as:

- loan loss history,
- portfolio quality, and
- current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

As of December 31	2009	2008	2007
Allowance as a percentage of:			
Loans	0.6%	0.7%	0.2%
Nonaccrual loans	50.3%	52.2%	41.5%
Total risk loans	47.3%	51.4%	32.3%
Net chargeoffs as a percentage of average loans	0.3%	--	--
Adverse assets to risk funds	21.0%	26.5%	7.8%

In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2009.

Young, Beginning and Small Farmers and Ranchers

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products.

Mission Statement

The mission statement for Young, Beginning, and Small Ranchers and Farmers (YBS) is to maximize their financial success by providing industry leading financial services, agricultural expertise, and cooperative educational opportunities to help them succeed in the marketplace.

Demographics

The 2007 USDA Ag-census is a source of demographic data for YBS farmer comparison and reflects the 41 counties served by Farm Credit Services of Western Arkansas. Of these farmers, 6.7% (2,038) are young farmers, 28.5% (8,697) are beginning farmers, and 90.1% (25,700) are small farmers. While the data is from the Ag-census, which is based on the number of farmers, our portfolio data is based on the number of loans in each category.

Outreach Programs

As part of our commitment to supporting YBS farmers, each branch office supports a number of local events and activities that respond to their needs. Our Advisory Committee has recommended that we be very active in supporting youth and educational opportunities. We introduced a Youth Loan Program with a \$2,500 maximum loan limit to all eligible 4-H and FFA members. In 2009 the program produced 87 new members, and total youth loan program volume of \$166,000.

In addition to our support for YBS, we provide regional outreach educational programs and opportunities with an annual grant of \$15 thousand to the University of Arkansas Cooperative Extension Service. We sponsor and participate in a number of workshops, seminars, and events sponsored by the University.

We provide essential related services as part of our commitment to the YBS farmer. We offer these services throughout the year through our normal delivery channels.

Safety and Soundness of the Program

In October 2008 the YBS policy was updated by the board and deemed to be within compliance and spirit of FCA regulations. Our board monitors the program on an ongoing basis and reviews YBS results on a quarterly basis.

Implementation of this policy is carried out through a sound, adequate, and constructive credit and related services program for YBS farmers and ranchers.

Our goals for the 2009 YBS program are as follows:

Goals	Customers by percentage*	Loan Volume*
Young	29%	25%
Beginning	39%	33%
Small	93%	60%

The following table shows our YBS program results at December 31, 2009:

Actual	Customers by percentage*	Loan Volume*
Young	32%	25%
Beginning	41%	33%
Small	93%	59%

*Aggregate percentages exceed 100% as the categories overlap with one another.

Additional Loan Information

Additional loan information is included in Notes 3, 4, 12, 13 and 14.

Investments

In addition to loans, we hold certain investments. These investments represent our share of investment notes in a trust of equipment loans. These were purchased through our participation in Capital Finance Group. Investments totaled \$2.7 million at December 31, 2009 and \$4.7 million at December 31, 2008.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2009	2008	2007
Net income	\$14,721	\$12,050	\$14,310
Return on average assets	2.1%	1.7%	2.0%
Return on average members' equity	9.6%	8.3%	10.6%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets discussed in the Loan Portfolio section, and
- changes in members' equity discussed in the Capital Adequacy section.

The following table summarizes the changes in components of net income (in thousands):

	2009 vs. 2008	2008 vs. 2007
Increase (decrease) in net income		
Net interest income	(\$261)	(\$294)
Provision for loan losses	1,289	(3,167)
Patronage income	2,052	822
Financially related services and miscellaneous income, net	212	380
Operating and other expenses	(485)	(169)
Provision for income taxes	(136)	168
Total change in net income	<u>\$2,671</u>	<u>(\$2,260)</u>

Net Interest Income

Net interest income was \$21.8 million for the year ended December 31, 2009. The following table quantifies changes in net interest income (in thousands):

	2009 vs. 2008	2008 vs. 2007
Changes in net interest income due to:		
Changes in volume	(\$459)	\$725
Changes in rates	293	(1,026)
Changes in nonaccrual income and other interest income	(95)	7
Net change	<u>(\$261)</u>	<u>(\$294)</u>

Net interest income included income on nonaccrual loans that totaled \$182 thousand in 2009, \$85 thousand in 2008, and \$88 thousand in 2007. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 3.2% in 2009, 3.2% in 2008, and 3.3% in 2007.

Provision for Loan Losses

The provision for loan losses decreased compared to last year due to the exit of a large poultry integrator from bankruptcy and producers being picked up by other integrators.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of \$1.6 million in 2009, \$1.5 million in 2008, and \$1.9 million in 2007. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 30 basis points in 2009, 27 basis points in 2008, and 34 basis points in 2007.

We also received patronage income related to our sale of a participation interest in certain real estate loans to AgriBank, as described in the Loan Portfolio section of this report. We received patronage income in an amount that approximates the net earnings of those loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. Similar to the patronage on our note payable described above, we also received patronage income based on the estimated note payable of the asset pool loans. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of \$3.6 million in 2009 and \$1.5 million in 2008.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. Additionally, we earn equalization on any stock investment in AgriBank required to be held when our growth exceeds a targeted growth rate. The equalization rate is set by AgriBank's Board of Directors and is targeted at the average cost of funds for all affiliated associations as a group. We did not receive any equalization income in 2009. Equalization income totaled \$129 thousand for 2008 and \$428 thousand for 2007. As of March 2008, we no longer had any preferred stock investment in AgriBank.

Financially Related Services and Miscellaneous Income, Net

The increase in financially related services and miscellaneous income, net is primarily due to an increase in fee income over last year.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (in thousands):

For the year ended December 31	2009	2008	2007
Salaries and benefits	\$5,543	\$5,479	\$5,555
Purchased and vendor services	1,214	1,064	1,086
Advertising and promotion	494	430	444
Communications	232	212	204
Occupancy and equipment	713	697	651
Examination	267	257	251
Farm Credit System insurance	1,135	945	944
Other	1,455	1,484	1,264
Total	\$11,053	\$10,568	\$10,399
Operating rate	1.6%	1.5%	1.5%

The modest increase in operating expenses were primarily related to higher insurance premiums on Farm Credit system insurance and purchased services.

Provision for Income Taxes

We recorded tax expense of \$285 thousand for the year ended December 31, 2009, compared to \$149 thousand for 2008, and \$317 thousand for 2007. Patronage distributions to members reduced our tax liability in 2009, 2008, and 2007. See Note 9 for additional discussion.

Funding and Liquidity

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2009, our average balance was \$545.4 million with an average interest rate of 2.9%. Our average balance during 2008 was \$556.9 million with an average interest rate of 4.1% and during 2007 our average balance was \$561.2 million with an average interest rate of 5.3%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2009, we had \$83.8 million available under our line of credit. We generally apply excess cash to this line of credit.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan and lease programs to our borrowers. We determine interest margins charged on each lending program based on:

- cost of funds,
- market conditions, and
- the need to generate sufficient earnings.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our interest rate risk.

Capital Adequacy

Total members' equity increased \$9.5 million during 2009 due to net income for the period, an increase in capital stock and participation certificates outstanding, and offset partially by patronage distribution accruals.

Members' equity position information is as follows (in thousands):

As of December 31	2009	2008	2007
Members' equity	\$156,748	\$147,293	\$139,576
Surplus as a percentage of members' equity	97.4%	97.3%	97.1%
Permanent capital ratio	18.6%	18.3%	17.5%
Total surplus ratio	18.0%	17.7%	16.9%
Core surplus ratio	18.0%	17.7%	15.8%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2009, our permanent capital, total surplus, and core surplus ratios significantly exceeded the regulatory minimum requirements. See Note 8 for further discussions of these regulatory ratios.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2009, our optimum permanent capital target was 15%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

We are involved in an initiative designed to improve our credit delivery, related services, and marketplace presence.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank Investment Bond to optimize members' use of funds.

Relationship with AgriBank

Borrowings

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship.

Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a spread component, which includes cost of servicing and bank profit, and
- a risk premium component, if applicable.

In the periods presented, we were not subject to the risk premium component. Effective in 2010, an additional 2.8 basis points has been added to the spread component related to the cost of AgriBank's new liquidity plan. The marginal cost of debt approach simulates match funding the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from interest rate risk.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2009, we were required to maintain a common stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4%.

In May 2008, we sold \$189.1 million of a participation interest in real estate loans to AgriBank. As part of this transaction, we are required to hold AgriBank common stock equal to 8% of the quarter-end balance of these loans. We met this requirement through the conversion of excess stock held and the purchase of additional stock.

At December 31, 2009, \$22.6 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and \$3.2 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years

Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank,
- patronage based on the balance and net earnings of the pool of loans sold to AgriBank, and

Beginning in 2009, patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain:

- information systems,
- financial services,
- accounting and reporting services,
- retail product processing and support, and
- human resource services.

The total cost of services we purchased from AgriBank was \$729 thousand in 2009, \$679 thousand in 2008, and \$676 thousand in 2007.

Affect on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members' investment. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 3115 W. 2nd Court, Russellville, Arkansas 72801, (479) 968-1434 or at www.myaglender.com or contact AgriBank at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available on our website 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

Insight Technology Unit

We participate in the Insight Technology Unit with other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. The Insight Technology Unit is governed by representatives of each participating association. The expenses are shared prorata based on the number of loans and leases of each participant.

REPORT OF MANAGEMENT

Farm Credit Services of Western Arkansas, ACA



We prepare the consolidated financial statements of Farm Credit Services of Western Arkansas, ACA and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of Farm Credit Services of Western Arkansas, ACA. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

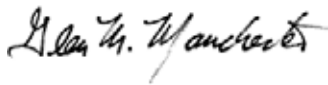
To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of Farm Credit Services of Western Arkansas, ACA.


The undersigned certify we have reviewed Farm Credit Services of Western Arkansas, ACA's annual report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Kevin Crumpacker
Chairperson of the Board of Directors
Farm Credit Services of Western Arkansas, ACA



Glen Manchester
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA



Lori Schumacher
Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

March 16, 2010

REPORT OF AUDIT COMMITTEE

Farm Credit Services of Western Arkansas, ACA



The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Farm Credit Services of Western Arkansas, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

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

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2009.



Duane Wilson
Chairperson of the Audit Committee
Farm Credit Services of Western Arkansas, ACA

Kenny Brixey, Scott Carter, Kevin Crumpacker, and Chuck Davis

March 16, 2010

PricewaterhouseCoopers LLP
225 South Sixth Street
Suite 1400
Minneapolis MN 55402
Telephone (612) 596 6000
www.pwc.com

Report of Independent Auditors

To the Board of Directors and Members of
Farm Credit Services of Western Arkansas, ACA

In our opinion, the accompanying consolidated statement of condition 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 Farm Credit Services of Western Arkansas, 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 16, 2010

CONSOLIDATED STATEMENT OF CONDITION

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

As of December 31	2009	2008	2007
ASSETS			
Loans	\$697,395	\$648,413	\$730,484
Allowance for loan losses	4,294	4,636	1,441
Net loans	693,101	643,777	729,043
Investment securities	2,673	4,687	--
Investment in AgriBank, FCB	25,799	26,668	22,159
Accrued interest receivable	5,922	6,126	8,481
Premises and equipment, net	3,408	3,529	3,610
Other property owned	895	222	95
Other assets	5,373	4,203	3,209
Total assets	\$737,171	\$689,212	\$766,597
LIABILITIES			
Note payable to AgriBank, FCB	\$563,803	\$523,621	\$604,842
Accrued interest payable	3,832	4,936	7,681
Patronage distribution payable	5,400	4,300	5,100
Net deferred income tax liability	314	226	414
Other liabilities	7,074	8,836	8,984
Total liabilities	580,423	541,919	627,021
MEMBERS' EQUITY			
Protected members' equity	--	--	2
Capital stock and participation certificates	4,118	4,001	4,039
Unallocated surplus	152,630	143,292	135,535
Total members' equity	156,748	147,293	139,576
Total liabilities and members' equity	\$737,171	\$689,212	\$766,597

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

CONSOLIDATED STATEMENT OF INCOME

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

Year ended December 31	2009	2008	2007
Interest income	\$37,527	\$44,938	\$52,177
Interest expense	15,723	22,873	29,818
Net interest income	21,804	22,065	22,359
Provision for loan losses	1,980	3,269	102
Net interest income after provision for loan losses	19,824	18,796	22,257
Other income			
Patronage income	5,210	3,158	2,336
Financially related services and miscellaneous income, net	1,025	813	433
Total other income	6,235	3,971	2,769
Operating and other expense			
Salaries and employee benefits	5,543	5,479	5,555
Other operating expense	5,510	5,089	4,844
Total operating and other expense	11,053	10,568	10,399
Income before income taxes	15,006	12,199	14,627
Provision for income taxes	285	149	317
Net income	\$14,721	\$12,050	\$14,310

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

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2006	\$2	\$3,994	\$126,314	\$130,310
Net income			14,310	14,310
Unallocated surplus designated for patronage distributions			(5,089)	(5,089)
Capital stock/participation certificates issued		545		545
Capital stock/participation certificates retired		(500)		(500)
Balance at December 31, 2007	2	4,039	135,535	139,576
Net income			12,050	12,050
Unallocated surplus designated for patronage distributions			(4,293)	(4,293)
Capital stock/participation certificates issued		464		464
Capital stock/participation certificates retired	(2)	(502)		(504)
Balance at December 31, 2008	--	4,001	143,292	147,293
Net income			14,721	14,721
Unallocated surplus designated for patronage distributions			(5,383)	(5,383)
Capital stock/participation certificates issued		539		539
Capital stock/participation certificates retired		(422)		(422)
Balance at December 31, 2009	\$ --	\$4,118	\$152,630	\$156,748

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Farm Credit Services of Western Arkansas, ACA
(Dollars in thousands)

Year ended December 31	2009	2008	2007
Cash flows from operating activities			
Net income	\$14,721	\$12,050	\$14,310
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	328	370	366
Provision for loan losses	1,980	3,269	102
Stock patronage received from AgriBank, FCB	(404)	--	--
(Increase) decrease in accrued interest receivable	(221)	2,089	(1,371)
(Increase) decrease in other assets	(1,170)	(994)	30
(Decrease) increase in accrued interest payable	(1,104)	(2,745)	725
(Decrease) increase in other liabilities	(1,674)	(336)	3,277
Loss (gain) on sale of other property owned	5	(72)	(18)
Gain on sale of premises and equipment	(13)	(17)	(12)
Total adjustments	(2,273)	1,564	3,099
Net cash provided by operating activities	12,448	13,614	17,409
Cash flows from investing activities			
(Increase) decrease in loans, net	(51,414)	81,971	(76,981)
Decrease (increase) in investment securities, net	2,014	(4,687)	--
Redemptions (purchases) of investment in AgriBank FCB, net	1,273	(4,509)	--
Proceeds from other property owned, net	74	318	752
Purchases of premises and equipment, net	(194)	(272)	(250)
Net cash (used in) provided by investing activities	(48,247)	72,821	(76,479)
Cash flows from financing activities			
Increase (decrease) in note payable to AgriBank, FCB, net	40,182	(81,221)	64,141
Patronage distributions	(4,283)	(5,093)	(4,989)
Capital stock and participation certificates retired, net	(100)	(121)	(82)
Net cash provided by (used in) financing activities	35,799	(86,435)	59,070
Net change in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	\$ --	\$ --	\$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$524	\$451	\$527
Stock applied against loan principal	307	370	399
Stock applied against interest	--	--	1
Interest transferred to loans	425	266	184
Loans transferred to other property owned	752	373	295
Patronage distributions payable to members	5,400	4,300	5,100
Supplemental information			
Interest paid	\$16,827	\$22,873	\$29,818
Taxes paid	93	611	424

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Services of Western Arkansas, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

Farm Credit System Lending Institutions: The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2009, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and 89 associations. AgriBank and its affiliated associations are collectively referred to as the District. At December 31, 2009, the District consisted of seventeen Agricultural Credit Associations that each have wholly-owned Federal Land Credit Association and Production Credit Association subsidiaries. Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are also authorized to provide lease financing options for agricultural purposes. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly, or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers. Associations are also authorized to purchase and hold certain types of investments.

Farm Credit System Regulator: The Farm Credit Administration (FCA) is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

Farm Credit Insurance Fund: 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 used:

- to insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to insure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Insurance Corporation. Each Farm Credit System bank has been required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound.

Effective July 1, 2008, the basis for assessing premiums was changed from loans to debt outstanding. Adjustments to debt outstanding are made for nonaccrual loans and impaired investments which are assessed a surcharge and guaranteed loans which are deductions to the premium

base. AgriBank, in turn, assesses the associations premiums each year based on these same factors. Prior to July 1, 2008, the premiums were based on annual average loan principal outstanding and AgriBank assessed the associations' annual premiums based on the average principal outstanding of accrual and nonaccrual loans of the associations.

Association

Farm Credit Services of Western Arkansas, ACA and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Baxter, Benton, Boone, Calhoun, Carroll, Clark, Columbia, Conway, Crawford, Dallas, Faulkner, Franklin, Garland, Grant, Hempstead, Hot Spring, Howard, Johnson, LaFayette, Little River, Logan, Madison, Marion, Miller, Montgomery, Nevada, Newton, Ouachita, Perry, Pike, Polk, Pope, Saline, Scott, Searcy, Sebastian, Sevier, Union, Van Buren, Washington and Yell in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans, and the authority to provide lease financing options, and holds certain types of investments. The PCA makes short-term and intermediate term loans and has the authority to provide lease financing options for agricultural production or operating purposes.

We offer various risk management services, including credit life and term life insurance for borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA (the parent) and Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Mortgage loan terms range from 5 to 40 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to the yield. Other loan fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses is not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

Investments: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost. If an investment is determined to be other-than-temporarily impaired, the impairment loss is taken through earnings in the period of impairment and the amortized cost of the investment is reduced by the amount of impairment.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- portfolio quality and concentration, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired.

Changes in the allowance for loan losses consist of provision activity, recorded as "Provision for loan losses" on the Consolidated Statement of Income, and charge-offs and recoveries.

Investment in AgriBank: Accounting for our investment in AgriBank is on a cost plus allocated equities basis. The investment in AgriBank is in the form of Class P common stock.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

Other Property Owned: We record other property owned, which consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, at fair value less estimated selling costs. Income and expense from operations and carrying value adjustments are included in "Financially related services and miscellaneous income, net" on the Consolidated Statement of Income.

Employee Benefit Plans: The defined contribution plan allows eligible employees to save for their retirement either pre-tax/post-tax or both with an employer match on a percentage of the employee's contributions. For employees hired after December 31, 2006, the defined contribution plan is the only retirement plan available, and we provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees participate in the defined benefit retirement plan of the Seventh Farm Credit District. The plan is comprised of two benefit formulas. Effective October 1, 2001, all new benefits-eligible employees participate in the cash balance formula. Employees hired prior to October 1, 2001, were on the final average pay formula. These employees were given a one-time option to convert to the cash balance formula or to remain on a final average pay formula. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees.

We also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. Prior to December 1, 2008, retirees were also provided with a life insurance benefit. The anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. We pay the accrued patronage during the first quarter after each subsequent year.

Statement of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly;
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

Effective January 1, 2009, we adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures, but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued new guidance on investment fair value measurements and impairments. The new guidance was effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. We adopted the guidance during the second quarter of 2009. The impact of adoption resulted in additional investment disclosures, but did not have an impact on our financial condition or results of operations.

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. Under this Standard, subsequent events that arise from conditions that existed at the date of the balance sheet are recognized in the financial statements, while subsequent events that arise from conditions that did not exist as of the balance sheet date are not recognized in the financial statements. The guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

In June 2009, the FASB issued new 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 effective for financial statements issued for interim and annual periods ending after September 15, 2009. This guidance impacted how we refer to guidance in our disclosures but did not have an impact on our 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 and other postretirement benefits plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was effective for fiscal years ending after December 15, 2009. The impact of adoption resulted in additional District level benefit plan disclosures, but did not have an impact on our financial condition or results of operations.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by providing clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also requires additional disclosure about transfers of financial assets and a transferor's continuing involvement with transferred assets. This guidance is effective as of January 1, 2010. This guidance must be applied to transfers occurring on or after the effective date. Adoption of this guidance is not expected to have a material impact on our financial statements.

NOTE 3: LOANS AND INVESTMENT SECURITIES

Loans consisted of the following (in thousands):

As of December 31, 2009	Amount	Percentage
Long-term agricultural mortgage	\$541,066	55.9%
Production	58,179	6.0%
Intermediate term	96,393	10.0%
Rural home	5,139	0.5%
Participations purchased	111,878	11.6%
Other	155,548	16.0%
Subtotal	968,203	100.0%
Participations sold	(270,808)	
Total loans	\$697,395	
As of December 31, 2008	Amount	Percentage
Long-term agricultural mortgage	\$572,840	60.2%
Production	142,123	14.9%
Intermediate term	121,542	12.8%
Rural home	5,348	0.6%
Participations purchased	106,424	11.2%
Other	2,915	0.3%
Subtotal	951,192	100.0%
Participations sold	(302,779)	
Total loans	\$648,413	

As of December 31, 2007	Amount	Percentage
Long-term agricultural mortgage	\$519,281	66.4%
Production	84,831	10.8%
Intermediate term	112,792	14.4%
Rural home	5,527	0.7%
Participations purchased	59,932	7.7%
Other	--	0.0%
Subtotal	782,363	100.0%
Participations sold	(51,879)	
Total loans	<u>\$730,484</u>	

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration Regulations or General Financing Agreement limitations. The following table presents information regarding participations purchased and/or sold (in thousands):

As of December 31, 2009	Participations	
	Purchased	Sold
Participations purchased from / sold to:		
AgriBank, FCB	\$ --	\$184,287
Other Farm Credit institutions	111,878	86,521
Non-Farm Credit institutions	--	--
Total participations purchased/sold	<u>\$111,878</u>	<u>\$270,808</u>

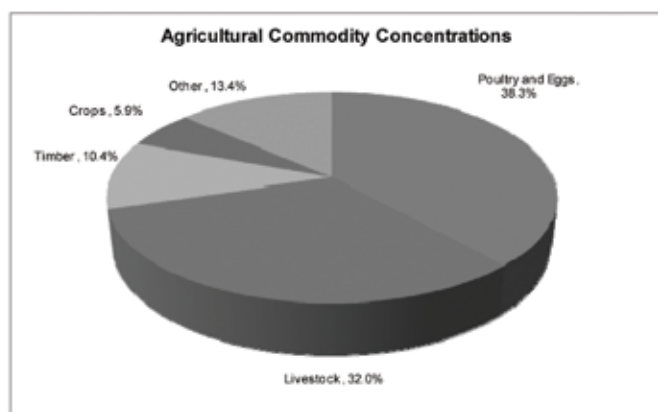
The participation volume with other Farm Credit institutions is largely due to participations on loans to agri-businesses. The AgriBank participation volume is largely due to participation interests in real estate loans.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory.

At December 31, 2009, volume plus commitments to our ten largest borrowers totaled an amount equal to 61.6% of members' equity.

Our agricultural commodity concentrations at December 31, 2009, were as follows:



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in western Arkansas. Approximately 15.4% of our total loan portfolio was in Washington and Benton counties at December 31, 2009.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan information (in thousands). Accruing volume includes accrued interest receivable.

As of December 31	2009	2008	2007
Nonaccrual loans:			
Current as to principal and interest	\$3,748	\$7,993	\$410
Past due	4,789	892	3,062
Total nonaccrual loans	<u>8,537</u>	<u>8,885</u>	<u>3,472</u>
Accruing restructured loans	473	--	335
Loans past due 90 days or more still accruing	184	130	650
Total risk loans	<u>\$9,194</u>	<u>\$9,015</u>	<u>\$4,457</u>
Volume with specific reserves	\$5,374	\$7,101	\$833
Volume without specific reserves	3,820	1,914	3,624
Total risk loans	<u>\$9,194</u>	<u>\$9,015</u>	<u>\$4,457</u>
Total specific reserves	\$2,281	\$2,953	\$73
For the year ended December 31			
Income on accrual risk loans	\$122	\$11	\$77
Income on nonaccrual loans	182	85	88
Total income on risk loans	<u>\$304</u>	<u>\$96</u>	<u>\$165</u>
Average recorded investment	\$8,787	\$4,059	\$2,716

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2009.

Investment Securities

We hold investment securities consisting of investment notes in a trust of equipment loans. The securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio. The following table presents the book value, unrealized gain/loss and fair value of the investment securities (in thousands).

As of December 31	2009	2008
Book value	\$2,673	\$4,687
Gross unrealized gains	14	--
Gross unrealized losses	--	(871)
Estimated fair value	\$2,687	\$3,816
Weighted Average Yield	2.3%	3.8%

Income is recorded in interest income and totaled \$85 thousand in 2009 and \$162 thousand in 2008.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

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

For the year ended December 31	2009	2008	2007
Balance at beginning of year	\$4,636	\$1,441	\$1,291
Provision for loan losses	1,980	3,269	102
Loan recoveries	39	109	121
Loan chargeoffs	(2,361)	(183)	(73)
Balance at end of year	\$4,294	\$4,636	\$1,441

The volume of loans charged off this year was due primarily to the poultry and bio-fuel segments of our portfolio. The provision for loan losses decreased compared to last year due to the movement of a large poultry integrator out of bankruptcy, customers being picked up by other grower contracts, and actual charge-offs in 2009 related to bio-fuel segments of our portfolio, which comprises 1.3% of our total portfolio.

NOTE 5: INVESTMENT IN AGRIBANK

At December 31, 2009, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate.

At December 31, 2009, we were required by AgriBank to maintain an investment equal to 8% of the quarter-end balance of the participation interest in real estate loans sold to AgriBank under the asset pool program.

The following summarizes investment balances (in thousands):

As of December 31:	2009	2008	2007
Common stock	\$25,799	\$26,668	\$14,456
Preferred stock	--	--	7,703
Total investment	\$25,799	\$26,668	\$22,159

NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

As of December 31	2009	2008	2007
Land, buildings and improvements	\$4,709	\$4,652	\$4,530
Furniture and equipment	2,150	2,027	1,978
Subtotal	6,859	6,679	6,508
Less: accumulated depreciation	(3,451)	(3,150)	(2,898)
Total	\$3,408	\$3,529	\$3,610

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and our assets serve as collateral. The total line of credit was \$650 million and the outstanding principal under the line of credit was \$563.8 million as of December 31, 2009. The interest rate is adjusted monthly and was 2.7% at December 31, 2009. During 2009, our average balance was \$545.4 million with an average interest rate of 2.9%. Our average balance during 2008 was \$556.9 million with an average interest rate of 4.1% and during 2007 our average balance was \$561.2 million with an average interest rate of 5.3%. The maturity date is May 31, 2010, for our note payable, at which time the note will be renegotiated.

The General Financing Agreement provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2009, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all customers to whom a lease is issued and of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with Farm Credit Administration Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2009, our ratio was 18.6%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by

average risk-adjusted assets. At December 31, 2009, our ratio was 18.0%.

- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2009, our ratio was 18.0%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all preferred stock which is the amount of our investment in AgriBank that is in excess of the required amount. At December 31, 2009, and December 31, 2008, we no longer had any preferred stock. At December 31, 2007, we included 34.8% of our investment in AgriBank in capital. These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2009. All shares and participation certificates were \$5.00 par value.

As of December 31, 2009	Shares Outstanding
Class C common stock (at-risk)	811,409
Series 2 participation certificates (at-risk)	12,231

Under our bylaws, we are also authorized to issue Class B, Class D and Class E common stock and Class F preferred stock. This stock is at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared during the last three years.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2009, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of preferred stock, and
- lastly prorata, to holders of all classes of common stock and participation certificates.

In the event of impairment, losses will be absorbed first by holders of common stock and participation certificates; then by holders of preferred stock.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of \$5.4 million at December 31, 2009, \$4.3 million at December 31, 2008, and \$5.1 million at December 31, 2007. The patronage distributions were paid in cash during the first quarter of each subsequent year. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The Farm Credit Administration Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2010.

NOTE 9: INCOME TAXES

Provision for Income Taxes

Our provision for income taxes follows (in thousands):

For the year ended December 31	2009	2008	2007
Current:			
Federal	\$170	\$278	\$308
State	27	59	64
Total current	197	337	372
Deferred:			
Federal	26	(156)	(64)
State	62	(32)	9
Total deferred	88	(188)	(55)
Provision for income taxes	\$285	\$149	\$317
Effective tax rate	1.9%	1.2%	2.2%

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	2009	2008	2007
Federal tax at statutory rate	\$5,102	\$4,147	\$4,973
State tax, net	28	21	33
Patronage distributions	(1,836)	(1,462)	(1,734)
Net effect of non-taxable entity	(3,053)	(2,525)	(2,981)
Other	44	(32)	26
Provision for income taxes	\$285	\$149	\$317

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	2009	2008	2007
Allowance for loan losses	\$242	\$270	\$125
Postretirement benefits accrual	204	200	199
Accrued incentive	52	--	--
Accrued patronage income not received	(108)	(47)	(155)
AgriBank 2002 allocated stock	(339)	(339)	(339)
Accrued pension asset	(375)	(356)	(304)
Depreciation	(35)	(38)	(40)
Other assets	45	84	100
Net deferred tax liabilities	(\$314)	(\$226)	(\$414)
Gross deferred tax assets	\$543	\$554	\$424
Gross deferred tax liabilities	(\$857)	(\$780)	(\$838)

A valuation reserve for the deferred tax assets was not necessary at December 31, 2009, December 31, 2008, or December 31, 2007.

We have not provided deferred income taxes on approximately \$19.6 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$114.4 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

At December 31, 2009, we had no uncertain income tax positions.

NOTE 10: EMPLOYEE BENEFIT PLANS

Pension and Post Retirement Benefit Plans

Complete financial information for the pension and post retirement benefit plans may be found in the AgriBank, FCB and Affiliated Associations 2009 Annual Report.

In December 2007, the District adopted the FASB guidance on "Compensation – Retirement Benefits", which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The FASB guidance on "Compensation – Retirement Benefits" also requires that employers measure the benefit obligation and plan assets as of fiscal year end starting in 2008. The Standard allows for the use of the measurements determined for the prior year-end.

As disclosed in the District Annual Report, the defined benefit plans reflect an unfunded liability totaling \$239.8 million at December 31, 2009. Our individual association increases our prepaid pension asset when contributions are made and reduces our prepaid pension asset as annual expense is recorded. At December 31, 2009 to reflect the \$239.8 million unfunded liability on the District balance sheet, the District reversed the prepaid pension assets and recorded the unfunded position as a liability with an offsetting charge to accumulated other comprehensive income (AOCI). The \$239.8 million unfunded liability represents potential future contributions that may need to be made by the participating employers. The \$332.0 million recorded in AOCI represents potential future expense that may need to be recognized by the participating employers. The amount ultimately to be contributed and the amount ultimately recognized as expense, and the timing of those contributions and expenses, are subject to many variables including performance of plan assets and

levels of interest rates. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements. Based on the District's methodology for allocating expenses and contributions at December 31, 2009, our share of the \$332.0 million potential future expense would be approximately \$8.4 million and our share of the \$239.8 million potential future cash contributions would be \$5.2 million.

Pension: Certain employees participate in a District-wide multi-employer defined benefit retirement plan (the Plan). The Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. We recognize our proportional share of expense and contribute a proportional share of funding. As a participant in the Plan, we contributed \$658 thousand for 2009, \$754 thousand for 2008 and \$389 thousand for 2007. Plan expenses included in salaries and employee benefits expense in the Consolidated Statement of Income were \$549 thousand for 2009, \$429 thousand for 2008 and \$575 thousand for 2007.

Life Insurance and Retiree Medical Plans: District employers also provide certain health and life insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits (primarily health care benefits and life insurance) included in salaries and employee benefits expense were \$63 thousand for 2009, \$52 thousand for 2008 and \$71 thousand for 2007.

Retirement Savings Plan

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contributions under the plan were \$204 thousand in 2009, \$201 thousand in 2008, and \$173 thousand in 2007.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in Farm Credit Administration Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2009, involved more than a normal risk of collectability.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2009	2008	2007
As of December 31:			
Total related party loans and leases	\$9,812	\$10,690	\$9,337
For the year ended December 31:			
Advances to related parties	\$11,150	\$11,576	\$10,164
Repayments by related parties	12,143	10,420	10,557

The composition of related parties can be different each year end due primarily to changes in the makeup of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including certain information systems, certain financial services, certain accounting and reporting services, selected retail product processing and support services, and certain human resource services. The total cost of services we purchased from AgriBank was \$729 thousand in 2009, \$679 thousand in 2008, and \$678 thousand in 2007.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2009, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$112.6 million. Additionally, we had \$5 million of issued standby letters of credit as of December 31, 2009.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: FAIR VALUE MEASUREMENTS

The FASB guidance on "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between

market participants in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Note 2 for a more complete description of the three input levels.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2009 or December 31, 2008. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

As of December 31, 2009	Fair Value Measurement Using			Total Fair Value	Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	\$ --	\$2,769	\$940	\$3,709	\$672
Other property owned	--	1,238	--	\$1,238	(5)

As of December 31, 2008	Fair Value Measurement Using			Total Fair Value	Gains (Losses)
	Level 1	Level 2	Level 3		
Loans	\$ --	\$3,210	\$938	\$4,148	(\$2,880)
Other property owned	--	233	--	233	72

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. 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: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 14: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans

repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

Investment Securities: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates.

Note Payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

As of December 31, 2009	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$693,101	\$707,165
Investment securities	2,673	2,687
Financial liabilities:		
Note payable to AgriBank, FCB	\$563,803	\$572,174
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$160)
As of December 31, 2008	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$643,777	\$655,479
Investment securities	4,687	3,816
Financial liabilities:		
Note payable to AgriBank, FCB	\$523,621	\$530,662
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$110)

As of December 31, 2007	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$729,043	\$735,687
Financial liabilities:		
Note payable to AgriBank, FCB	\$604,842	\$609,423
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$122)

NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2009, December 31, 2008 and December 31, 2007, follow (in thousands):

2009	First	Second	Third	Fourth	Total
Net interest income	\$5,320	\$5,261	\$5,483	\$5,740	\$21,804
Provision for (reversal of)					
loan losses	652	(492)	(88)	1,908	1,980
Patronage income	685	1,378	1,204	1,943	5,210
Other expense, net	2,339	2,486	2,538	2,665	10,028
Provision for income taxes	24	54	52	155	285
Net income	\$2,990	\$4,591	\$4,185	\$2,955	\$14,721
2008	First	Second	Third	Fourth	Total
Net interest income	\$6,260	\$5,834	\$4,865	\$5,106	\$22,065
Provision for (reversal of)					
loan losses	76	(136)	2,404	925	3,269
Patronage income	505	869	353	1,431	3,158
Other expense, net	1,974	2,475	2,778	2,528	9,755
Provision for					
(reversal of) income taxes	171	35	(38)	(19)	149
Net income	\$4,544	\$4,329	\$74	\$3,103	\$12,050
2007	First	Second	Third	Fourth	Total
Net interest income	\$5,539	\$5,534	\$5,499	\$5,787	\$22,359
Provision for (reversal of)					
loan losses	9	167	25	(99)	102
Patronage income	481	483	487	885	2,336
Other expense, net	2,253	2,513	2,508	2,692	9,966
Provision for					
(reversal of) income taxes	22	(2)	(51)	348	317
Net income	\$3,736	\$3,339	\$3,504	\$3,731	\$14,310

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 16, 2010, which is the date the financial statements were issued.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Services of Western Arkansas, ACA
(Unaudited)

DESCRIPTION OF BUSINESS

General information regarding the business is discussed in Note 1 of this annual report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" portion of this annual report.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Russellville	Ow ned	Headquarters
Arkadelphia	Ow ned	Branch
Bentonville	Ow ned	Branch
Booneville	Leased	Branch
Clarksville	Leased	Branch
Danville	Ow ned	Branch
DeQueen	Ow ned	Branch
El Dorado	Leased	Branch
Fayetteville	Ow ned	Branch
Foreman	Leased	Branch
Glenwood	Ow ned	Branch
Greenbrier	Ow ned	Branch
Greenforest	Ow ned	Branch
Greenwood	Leased	Branch
Harrison	Ow ned	Branch
Hope	Ow ned	Branch
Huntsville	Ow ned	Branch
Lincoln	Ow ned	Branch
Magnolia	Ow ned	Branch
Mena	Ow ned	Branch
Morrilton	Ow ned	Branch
Nashville	Ow ned	Branch
Ozark	Ow ned	Branch
Paris	Ow ned	Branch
Perryville	Leased	Branch
Russellville	Ow ned	Branch
Sheridan	Leased	Branch
Siloam Springs	Ow ned	Branch
Texarkana	Ow ned	Branch
Van Buren	Ow ned	Branch
Waldron	Ow ned	Branch

LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 9 and Note 12 of this annual report. We were not subject to any enforcement actions at December 31, 2009.

DESCRIPTION OF CAPITAL STRUCTURE

Information regarding our capital structure is discussed in Note 8 of this annual report.

DESCRIPTION OF LIABILITIES

Information regarding liabilities is discussed in Note 7 and Note 12 of this annual report.

SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" portion of this annual report.

BOARD OF DIRECTORS

Information regarding directors who served as of December 31, 2009, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Kevin Crumpacker, Chairperson, is a self-employed livestock farmer. He is the treasurer for RiverSouth Rural Water District. His term on the board expires in 2012.

Kenny Brixey, Vice Chairperson, is a self-employed livestock farmer. He also serves on the Board of the Perry County Farm Bureau, which is involved in insurance. His term on the board began in 2009 and expires in 2012.

Bruce Alford is a self-employed livestock farmer. He also serves as President of the Red River Levee District, which is involved in levee maintenance. His term on the board began in 2009 and expires in 2013.

Randy Arnold is a self-employed livestock, poultry, and hay farmer. He also serves as Vice-President of Crawford County Farm Bureau, which is involved in insurance. His term began in 2008 and expires in 2011.

Troy Buck is a self-employed livestock, hay, and poultry farmer. He's also a Vo-Ag teacher. He serves on the Arkansas Farm Bureau, which is involved in insurance. His term on the board began in 2007 and expires in 2010.

Steve Burke is a self-employed livestock and poultry farmer. He is a director of the Hempstead County Farm Bureau, which is involved in insurance. His term on the board began in 2008 and expires in 2011.

Scott Carter is a part-time livestock and timber farmer and a manager at Firestone Tube Company. His term on the board began in 2007 and expires in 2010.

Chuck Davis is a self-employed feed dealer and livestock and grain farmer. He is also the President of Chuck Davis Farms as well as President

of Davis Feed Company, Inc., which is a retail feed business. His term on the board began in 2007 and expires in 2010.

Dwayne L. Davis is a self-employed dairy and beef farmer. He also serves as a director on the Washington County Farm Bureau which is involved in insurance. His term on the board began in 2009 and expires in 2013.

Robert D. Dixon is a self-employed livestock farmer. He retired in 2005 from Dow Chemical USA. He is a justice of the peace in Yell County and owner of Bob Dixon Monument. His term on the board began in 2009 and expires in 2011.

Ronnie J. Hubbard, Outside Director, is Vice President of Operations at Winrock International, which is a nonprofit international development organization. He is a board member of London Economic Development for the city of London, Arkansas. His term on the board began in 2007 and expires in 2010.

Bill Mainer is a self-employed poultry and livestock farmer. He is also on the Board of Directors of AgriBank, FCB in St. Paul, MN. His term on the board began in 2007 and expires in 2010.

William Martin is a self employed grain farmer. He serves on the Board of Agri Co-op Supply in Morrilton, Arkansas, which sells farm supplies, and on the Conway County Farm Bureau Board in Morrilton, Arkansas, which is involved in insurance. His term on the board began in 2008 and expires in 2012.

L. Duane Wilson, Outside Director, is a retired CPA, and acts as the financial expert for the audit committee. He's a self-employed livestock farmer as well as a farming and financial consultant. He is also a manager of Wilson River Farm, LLC, which is a livestock farm, as well as serving on the board of M. Speer Foundation, which is a charitable foundation. He is the CFO of The Grey Barn, LLC, a nursery and landscaping company. His term on the board began in 2007 and expires in 2011.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of \$325 per day. Board members also receive a \$1,200 annual retainer fee. The chairperson is paid an additional retainer fee of \$2,000 and the vice chairperson is paid an additional retainer fee of \$1,000.

Information regarding compensation for each director who served during 2009 follows:

Directors Name	No. of Days served		Name of Committee*	Total Compensation
	Board Meetings	Other (including bd committees)		
Bruce Alford	14	10	Governance	\$9,177
Randy Arnold	14	13	Audit/Compensation	7,870
Kenny Brixey	13	13	Legislative/PR/Compensation	8,897
Troy Buck	13	9	Legislative/PR	7,788
Steve Burke	14	14	Legislative/PR/Compensation	8,916
Scott Carter	12	8	Audit	6,646
Tim Crowley (did not seek re-election)	11	10	Audit	7,225
Kevin Crumpacker	14	19	Audit/Compensation	11,258
Chuck Davis	13	19	Governance	8,955
Davis, Dwayne (newly elected)	2	-	Legislative/PR	765
Dixon, Bob (newly elected)	2	-	Governance	718
Ron Hubbard	9	12	Legislative/PR	7,195
Joe Don Koenigsder (not re-elected)	11	4	Governance	5,245
Bill Mainer	13	5	Governance/Compensation	5,925
William Martin	13	6	Audit	5,840
Duane Wilson	14	10	Audit	8,285
Total	182	152		\$110,705

Board members are paid an annual stipend and are not compensated for attendance at other Board and or committee meetings.

SENIOR OFFICERS

The senior officers include:

Glen Manchester, President and Chief Executive Officer
(August 2005 to present)

Brandon Haberer, Chief Credit Officer
(November 2008 to present)

Lori Schumacher, Chief Financial Officer
(December 2005 to present)

Tom Peebles, Executive Vice President
(September 2005 to present)

Tom Cox, Sr. Vice President, Sales and Marketing
(January 2006 to present)

Terry Vest, Sr. Vice President, Collateral Services
(January 2006 to present)

Justin Carter, Vice President, Risk Management
(July 2009 to present)

Prior to August 2005, Glen Manchester was an Executive Vice President and Lori Schumacher was at Entergy, Inc. where she was a project controller.

Brandon Haberer began his career at Farm Credit in June 2008 as a Senior Business Analyst. Prior to joining us, Brandon was the Senior Vice President of Commercial and Agricultural lending at the Bank of the Ozarks.

Justin Carter began his career with Farm Credit Services in May 1999 as a Credit Trainee. Prior to holding his current position, Justin has held positions as loan officer and vice president/branch manager in the Arkadelphia and Siloam offices.

All other senior officers have been with Farm Credit Services of Western Arkansas for the past five years.

Other business interests where a senior officer served as a director or senior officer includes: Glen Manchester, Chief Executive Officer, served as a board member of the Arkansas 4H Foundation, Farm Credit Foundation Trust Committee, and Insight Technology Group. Brandon Haberer, Chief Credit Officer, is a chairman for the Adult Development Center, which is involved in adult rehabilitation. He also serves as a board member on the Watalula Water Association, which is involved with rural water.

A summary of compensation earned by senior officers and other highly compensated individuals during 2009 follows (in thousands):

Name of Individual	Year	Salary	Bonus	Deferred/Perquisites	Other	Total
Glen Manchester	2009	\$213	\$68	\$ --	\$ --	\$281
Glen Manchester	2008	201	106	--	1	308
Glen Manchester	2007	182	105	--	--	287
Aggregate Number of Highly Compensated Employees (excluding CEO)						
ten	2009	\$976	\$183	\$ --	\$ --	\$1,159
ten	2008	891	264	--	8	1,163
ten	2007	1,017	357	2	--	1,376

Members may request information on the compensation paid during 2009 to the individuals listed in the preceding table.

Senior officer incentives are paid annually based on performance criteria established by the Board of Directors. The criteria include return on assets, loan volume, credit quality, personal objectives and performance ratings. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

Information regarding related party transactions is discussed in Note 11 of this annual report.

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 3115 W. 2nd Court, Russellville, Arkansas 72801, (479) 968-1434 or at www.myaglender.com.

The total directors' travel, subsistence and other related expenses were \$64 thousand in 2009, \$87 thousand in 2008, and \$69 thousand in 2007.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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

MEMBER PRIVACY

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT

There were no changes in independent auditors since the last annual report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2009 were \$27 thousand. The fees paid were for audit services.

FINANCIAL STATEMENTS

The "Report of Management", "Report of Audit Committee", "Report of Independent Auditors," "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

CREDIT AND SERVICES TO YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Information regarding credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products is discussed in the "Management's Discussion and Analysis" portion of this annual report.

EQUAL EMPLOYMENT OPPORTUNITY

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

Farm Credit Services of Western Arkansas Funds Held Program

We offer a Funds Held Program ("Program") that provides for Borrowers to make uninsured advance payments on designated loans for the purpose of paying future maturities or other related charges.

The following terms and conditions apply to Program accounts in connection with loans from the Associations, subject to any rights that the Associations or Borrower may have as specified in loan documents governing designated loans.

Handling Advance Payments

- Advance payments received on a loan participating in the Program before the loan has been billed will normally be placed in the Program account ("Account") as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that the Associations may have to apply such payments in a different manner as specified in loan documents governing designated loans.
- Advance payments received on a loan participating in the Program after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.
- Funds received in excess of the billed amount or other related charges will be placed in the Account.
- If a special prepayment of principal is desired, Borrowers must so specify at the time funds are paid to the Associations.
- When an installment becomes due, any accrued interest in the Account and other funds in the Account will be automatically applied toward payment of the installment or related charges on the due date. If the balance in the Account is not adequate to pay the installment or related charges in full, Borrowers are expected to pay the difference by the installment due date. Any excess funds will remain in the Account.

Even when no installment or related charge is due, the Associations may, at its option, apply funds from the Account without notice to Borrower as follows:

- **Protective Advances.** If the Borrowers fail to pay when due other items as required pursuant to the mortgage, deed of trust, promissory note or any other loan documents, the Associations may apply funds in the Account to pay them.
- **Account Ceiling.** At any given point in time, the total in the Account may not exceed two years of principal and interest payments on the related loan(s), or the unpaid balance of the related loans, whichever is the smaller amount. If the Account balance exceeds the unpaid balance of the loan, the Associations may apply the funds in the Account to repay the entire unpaid balance and will return any excess funds.
- **Transfer of Security.** If Borrowers sell, assign, or transfer any interest in the underlying collateral, the Associations may apply the funds in the Account against the remaining loan balance.
- **Deceased Borrowers.** If all Borrowers are deceased, the Associations may apply the funds in the Account to the remaining loan balance.

Interest on the Account

Interest will accrue on the Account at a rate determined by the Associations, but the rate may never exceed the interest rate charged on the related loan. The current interest rate is calculated at a rate equal to the interest rate on the related loan. Interest on Account balances will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Associations may change the interest rate from time to time, and may provide for different interest rates for different categories of loans. The Borrowers receive periodic statements of accounts, including Account balances, interest rates, and amounts of interest credit to the Account.

Borrower Withdrawals from Accounts

The Associations may permit Borrowers to withdraw funds from the Account at the Associations' discretion based on a credit review of each specific request. The Associations permit up to four (4) withdrawals by Borrowers from Accounts within a calendar year.

Liquidation

Account balances are not insured. In the event of Association liquidation, all Borrowers having balances in these uninsured Accounts shall be notified according to FCA Regulations then in effect. Applicable FCA Regulations now provide that the notice shall instruct that the funds ceased earning interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the Borrowers unless, within 15 days notice, the Borrower provides direction to the Associations to apply the funds according to existing loan documents.

Termination

If the Associations terminate the Program, Account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

Real Service. Real Commitment. Real Advantages. RIGHT NOW!



Real Service

We deliver real service that's local and personal. Consistently high customer satisfaction ratings from our members prove that we don't just say it, we live it! Real service extends to after-hours, and even on-farm visits if that's what it takes to serve you or your family's needs.

Ag and rural lending is our only business. That's **real commitment!** We understand Arkansas agriculture. Our lending staff has ag expertise you can rely on and most have farm backgrounds or operate farms, themselves. Others have honed their ag skills and knowledge with ag degrees or valuable ag experience.

Farm Credit's been around for more than 90 years and is committed to agriculture in both good times and bad. That's especially important in tough economic times when some lenders pull back from ag lending,

We're a lot like you, and being a cooperative means we're saving for a rainy day! Our capital is more than \$150 million strong.

Real Advantages

We know you have choices when searching for a lender. So why not consider the real advantages that set us apart from traditional banks:

- 1) Very competitive interest rates! Really!
- 2) Flexible Interest Rate Conversion Options
All our loans have conversion options, so you can easily convert your interest rate when markets change - even multiple times during the life of your loan!
- 3) Funds Held Program
We know that nothing is guaranteed in farming, so we offer an incentive for you to put money in "savings" with us. You earn the same interest rate on the money you put into Funds Held as the interest rate you have on your loan. You may use the money you build up in Funds Held to pay your loan, or do what you like with it. You'll never find another savings account that earns interest like this!
- 4) Loans and Terms Made For You
We base your loan on your ability to pay the loan back from earnings, and terms are structured on the useful life of the asset financed. Credit on these terms means we're continually maximizing your financial success.
- 5) We get to YES! fast and close your loan promptly. **Right now!**

A Great Land and even Greater People!

Farm Credit Services is proud to serve western Arkansas

Customer service is our number one priority...

and your financial success and prosperity as a Farm Credit member is what we strive for every day in every aspect of our business.

That's our mission. That's our goal. That's our commitment to you!



Real Service

"As you know, family incomes have changed (decreased) drastically the past 18 months. FCS has recognized this and has counseled me on different ways to consolidate or refinance so I can continue as an FCS customer. Greatly appreciated." **Van Buren Farm Credit member**

"FCS gave us a chance years ago. We had never dealt with any type of farm loans, only banks. We have found FCS to be fair, cooperative, and honest in their treatment of their patrons. Today, that's unusual." **Magnolia Farm Credit member**

Real Commitment

"The staff has been available on a couple of weekends to deal with issues. This says a lot about the attitude of the staff and the dedication to customer service." **Ozark Farm Credit member**

"The staff at our local branch is always so helpful and they take care of us. Our 11-year-old son has already started his cattle business because of FCS." **Nashville Farm Credit member**

"Other lenders look at the farmer as a way to make money. FCS looks at farmers as the future." **Fayetteville Farm Credit member**



Real Advantages

"Past experiences have been good. Like the no hassle, no penalty for paying extra on principal and the same interest rate for funds held as a loan. Lets you have peace of mind by paying ahead."

Morrilton Farm Credit member

"They have competitive interest rates and are an agricultural lender that you can trust. They're also friendly, have reasonable loan terms and a knowledgeable staff, and they understand agriculture." **De Queen Farm Credit member**

Right Now

"When we applied for a loan on the place we wanted to buy, we had an answer from a rep within 24 hours. This was the easiest transaction I was ever involved in." **Ozark Farm Credit member**

"My needs are met by Farm Credit. Fast, friendly, complete financial assistance when needed." **Paris Farm Credit member**

"Efficient and friendly service. Willing to help you with your needs. Great for cattle and agriculture." **Paris Farm Credit member**





3115 West 2nd Court, Russellville, AR 72801

PRSRT STD
U.S. POSTAGE
PAID
BENTONVILLE, AR
PERMIT NO. 60



**Farm Credit –
Trusted for Generations**