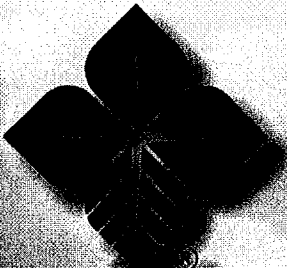
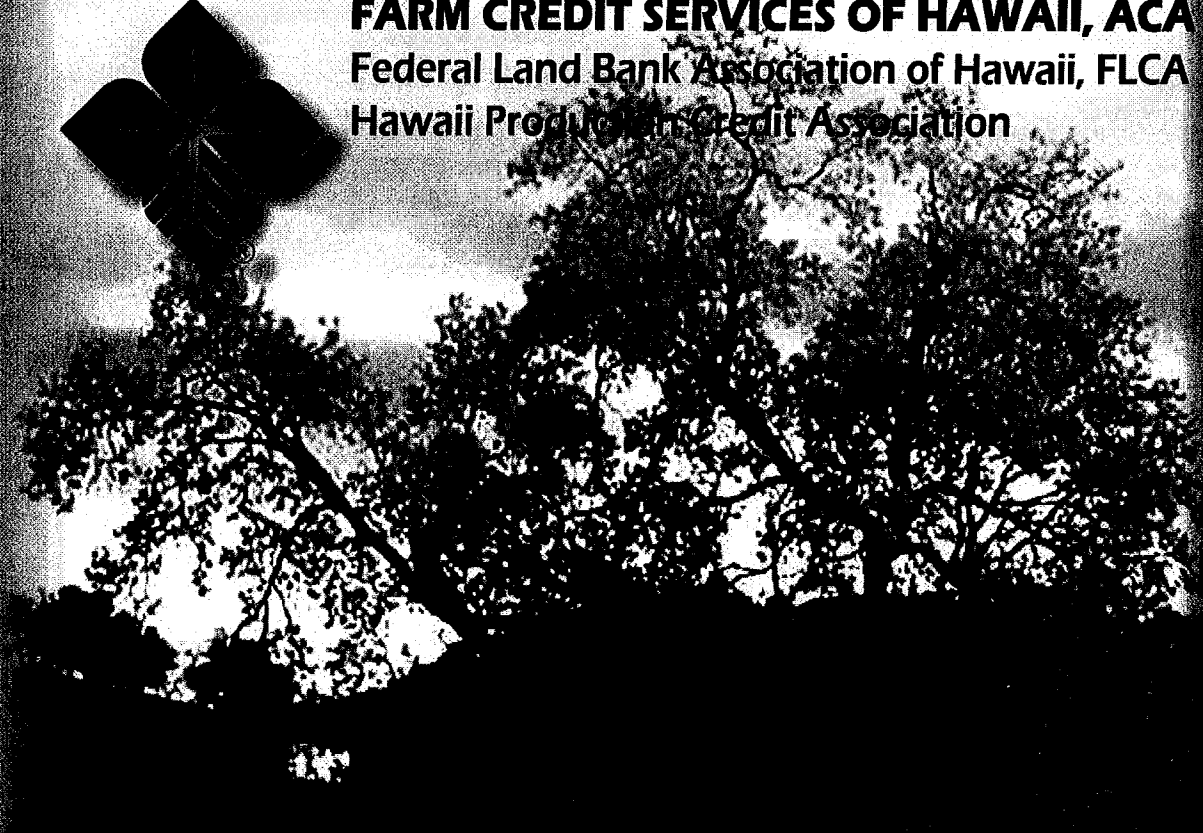


2010

ANNUAL REPORT



FARM CREDIT SERVICES OF HAWAII, ACA
Federal Land Bank Association of Hawaii, FLCA
Hawaii Production Credit Association



Dedicated to the Growth and Prosperity of Agriculture

Farm Credit Services of Hawaii, ACA
2010 Annual Report
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**Farm Credit Services of Hawaii, ACA
Federal Land Bank Association of Hawaii, FLCA
Hawaii Production Credit Association**

We anticipated that 2010 would be a challenging year as the economic meltdown was in full swing and economic activity was anemic at best. While the threat of the economy slipping into a serious depression and or a double dip recession appeared to have passed, the Federal Reserve is not taking chances. They continue with their quantitative easing program with the goal of kick starting the economy and lowering unemployment. State and County municipalities continue to battle budget deficits around the country. We expect 2011 to be another difficult year as major cuts to programs, payrolls, services, etc. will continue to take place.

The results represent the operation as an Agricultural Credit Association (ACA) parent company of the Federal Land Bank Association of Hawaii, FLCA and Hawaii Production Credit Association. The uncertain economic conditions helped to lower funding cost which allowed the Association to keep our stockholder interest rate competitive and also build capital to prepare for future years of significant increase in funding cost. Lower funding cost also had a negative impact on the Association's income from investments. During 2010, we accelerated the incurrence of approximately \$56,000 of expenses from 2011, to take advantage of the competitive funding cost as we anticipated increases in 2011. We also increased by \$154,423 the allowance for loan losses to provide for probable losses inherent in the loan portfolio.

Highlights of the Farm Credit Services of Hawaii, ACA operating performance for 2010 are as follows:

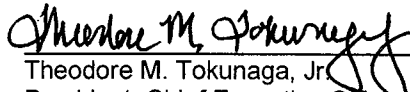
- Total Members Equity increased by \$967,000 from \$19,794,000 as of December 31, 2009 to \$20,761,000 as of December 31, 2010.
- Net income for 2010 amounted to \$1,090,000 and it was \$211,000 higher than 2009 net income of \$879,000.
- Permanent capital ratio increased from December 31, 2009 level of 27.63% to the December 31, 2010 level of 28.35%, an increase of .72%.
- Total loan volume increased by \$997,000 or 1.29%, from \$77,213,000 as of December 31, 2009 to \$78,210,000 as of December 31, 2010.
- Noninterest expense increased from \$2,447,000 as of December 31, 2009 to \$2,467,000 as of December 31, 2010, a \$20,000 increase.
- Acceptable and special mention credit quality increased slightly from 99.10% as of December 31, 2009 to the December 31, 2010 level of 99.29%, a .19% increase.

The Board of Directors declared a dividend of \$125,000 at its February 16, 2011 meeting.

Aloha and Mahalo to our stockholders for their continued support. Thank you to our Board of Directors and staff for an excellent job navigating the Association through these tremendously difficult economic times and strengthening the Association's long term viability.



Faith K. Okabe
Chairman of the Board
Farm Credit Services of Hawaii, ACA



Theodore M. Tokunaga, Jr.
President, Chief Executive Officer & Secretary
Farm Credit Services of Hawaii, ACA

March 15, 2011

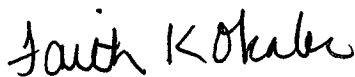
**Farm Credit Services of Hawaii, ACA
Report of Management**

The financial statements of Farm Credit Services of Hawaii, ACA (the Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2010 annual report is consistent with that in the financial statements.

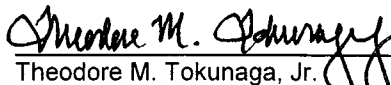
To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, U.S. AgBank, FCB's Risk Management staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

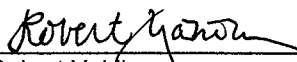
The undersigned certify the Farm Credit Services of Hawaii, ACA Annual Report has been reviewed, prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Faith K. Okabe
Chairman of the Board



Theodore M. Tokunaga, Jr.
President, Chief Executive Officer & Secretary



Robert Yahiku
Chief Financial Officer

March 15, 2011

**Farm Credit Services of Hawaii, ACA
Audit Committee Report**

The Audit Committee (Committee) includes 7 members from the Board of Directors of Farm Credit Services of Hawaii (Association). In 2010, 12 Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2010.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2010 were \$63,639 for audit services and \$7,000 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's financial statements for the year ended December 31, 2010 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2010.



Wendell Koga, Chairman of the Audit Committee

Michael G. Fitzgerald
Mamoru Kaneshiro
Raymond M. Kawamata
David Buddy Nobriga
Faith Okabe
Joseph M. Souki.

March 15, 2011

Farm Credit Services of Hawaii, ACA
Five-Year Summary of Selected Financial Data
December 31, 2010, 2009 and 2008

	December 31,				
	2010	2009	2008	2007	2006
Statement of Condition Data					
Loans	\$ 78,210	\$ 77,213	\$ 74,034	\$ 77,509	\$ 80,707
Less: Allowance for loan losses	(1,505)	(1,255)	(1,195)	(1,175)	(1,175)
Net loans	76,705	75,958	72,839	76,334	79,532
Cash	591	422	329	576	318
Accrued interest receivable	376	386	439	543	631
Investment in AgBank	2,755	2,755	2,755	2,755	2,755
Other assets	698	711	768	522	566
Total assets	<u>\$ 81,125</u>	<u>\$ 80,232</u>	<u>\$ 77,130</u>	<u>\$ 80,730</u>	<u>\$ 83,802</u>
Obligation with maturities of one year or less	\$ 60,364	\$ 60,438	\$ 58,093	\$ 61,992	\$ 65,599
Obligations with maturities greater than one year	-	-	-	-	245
Total liabilities	<u>60,364</u>	<u>60,438</u>	<u>58,093</u>	<u>61,992</u>	<u>65,844</u>
Capital stock and participation certificates	293	291	288	290	302
Unallocated retained earnings	20,468	19,503	18,749	18,448	17,891
Accumulated other comprehensive loss	-	-	-	-	(235)
Total members' equity	<u>20,761</u>	<u>19,794</u>	<u>19,037</u>	<u>18,738</u>	<u>17,958</u>
Total liabilities and members' equity	<u>\$ 81,125</u>	<u>\$ 80,232</u>	<u>\$ 77,130</u>	<u>\$ 80,730</u>	<u>\$ 83,802</u>
Statement of Income Data					
Net interest income	\$ 3,516	\$ 3,237	\$ 2,636	\$ 2,452	\$ 2,524
Provision for loan losses	154	-	-	-	-
Noninterest expense, net	(2,286)	(2,367)	(2,190)	(1,752)	(1,717)
(Benefit from) provision for income taxes	(14)	(9)	20	18	65
Net income	<u>\$ 1,090</u>	<u>\$ 879</u>	<u>\$ 426</u>	<u>\$ 682</u>	<u>\$ 742</u>
Key Financial Ratios					
For the Year					
Return on average assets	1.35%	1.13%	0.55%	0.85%	0.92%
Return on average total members' equity	5.35%	4.53%	2.25%	3.74%	4.22%
Net interest income as a percentage of average earning assets	4.34%	3.30%	3.58%	3.25%	3.27%
At Year End					
Debt to members' equity	2:91:1	3:05:1	3:05:1	3:31:1	3:67:1
Total members' equity as a percentage of total assets	25.59%	24.67%	24.68%	23.21%	21.43%
Net (recoveries) charge-offs as a percentage of average loans	0.12%	0.08%	0%	0%	0%
Allowance for loan losses as a percentage of loans	1.92%	1.63%	1.61%	1.52%	1.46%
Permanent capital ratio	28.35%	27.63%	27.51%	26.19%	24.38%
Total surplus ratio	27.95%	27.22%	27.09%	25.78%	23.97%
Core surplus ratio	24.37%	23.55%	23.31%	22.09%	20.47%
Other					
Cash dividends paid	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125

Farm Credit Services of Hawaii, ACA

Management's Discussion and Analysis

December 31, 2010, 2009 and 2008

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit Services of Hawaii, ACA (the Association) for the year ended December 31, 2010. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operation. You should read these comments along with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.hawaiifarmcredit.com, or upon request. We are located at 2850 Pa'a Street, Suite 100; Honolulu, HI 96819 or may be contacted by calling (800) 894-4996.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of the approximately 90 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of the State of Hawaii. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusiness and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we serve as an intermediary in offering various insurance programs. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

Farm Credit Services of Hawaii, ACA Management's Discussion and Analysis December 31, 2010, 2009 and 2008

We obtain the funding for our lending and operations from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which we are a member. AgBank, its related associations (including Farm Credit Services of Hawaii, ACA), and AgVantis, Inc. (AgVantis) are referred to as the District. We are materially affected by AgBank's financial condition and results of operations. The AgBank and AgBank District quarterly and annual reports are available free of charge by accessing AgBank's web site, www.usagbank.com, or may be obtained at no charge by contacting us at 2850 Pa'a Street, Suite 100; Honolulu, HI 96819, or by calling (800) 894-4996. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology services from AgVantis, which is a technology service corporation. Our current Services Agreement with AgVantis expires when terminated or cancelled by either party. Farm Credit Foundations, a human resource service provider for a number of Farm Credit Institutions, provides our payroll and human resources services.

ECONOMIC OVERVIEW

For many years, agriculture experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity, our financial results were positively impacted. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. In the past 2 ½ years, conditions in the general economy and agricultural economy have been less favorable with the recent instability in the global markets and volatility in production costs. The negative impact to us from these less favorable conditions is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers. Some borrowers who are reliant on off-farm income sources have also been more adversely impacted due to the weakened general economy.

The local economy was affected by the downturn in the national and global economy. As a result of the severe recession in the United States of America, and the slowing global economy, tourism declined in both 2008 and 2009. Although visitor arrivals had somewhat stabilized in 2009, visitor expenditures were down sharply.

This contributed to a rise in unemployment. Unemployment in those years was up sharply from historic low levels. As a result of the slowdown, the local economy in 2009 saw more residents leave the state, then come into it.

The local economy in 2010 started to see signs of a recovery, which was led by an improvement in tourism. Tourism is Hawaii's largest economic driver, and 2010 saw an increase in both visitor spending and arrivals. Tourism growth in the first half of 2010 was fueled mainly by an increase in international arrivals, but the second half of 2010 also saw an improvement in domestic visitors and an improvement in visitor spending as well.

The improvement in tourism contributed to overall growth in the state's GDP in 2010 and an increase in personal income. These positive economic factors contributed to an increase in the state's population, and improvement in the local job market in 2010. Some of the improvement was also due to increased construction activity in the later part of 2010.

Despite these positives, weakness continues in the local, national and global economies. This continued slowness could affect tourism, but the state is projecting a further gain in both visitor arrivals and spending in the next few years. This is projected to result in continued slow, but positive economic growth and further improvements in the job market.

Farm Credit Services of Hawaii, ACA
Management's Discussion and Analysis
December 31, 2010, 2009 and 2008

Overall weather conditions in 2009 were impacted by continued drought conditions on all island locations. Drought was particularly severe on parts of the Big Island. Rainfall totals (for 2010) on parts of the Big Island were at 50 percent or less of normal. Weather forecasts for 2011 had predicted heavy rains for the state from January through May, but those rains have not yet fully materialized.

The dry conditions impacted some crops and pasture conditions. Some of our borrowers were impacted, but overall credit quality and loan performance remained sound.

Sharp increases in land values statewide through 2005 resulted in more conservative advance rates on the new loans made the last 7 years. Nonetheless, the real estate market remains soft and the statewide foreclosure rate is at record levels.

Despite some of the challenges in 2010, overall credit quality remained very sound and overall credit quality continued to exceed District Standards.

LOAN PORTFOLIO

Total loan volume was \$78,210,000 at December 31, 2010, an increase of \$997,000 or 1.29% from loans at December 31, 2009. Loan volume at December 31, 2009 was \$77,213,000, an increase of \$3,179,000 or 4.47% from loans at December 31, 2008. Loan volume at December 31, 2008 was \$74,034,000. The increase in loans from 2010 to 2009 was primarily due to the slowing of loan payoffs. The increase in loans from 2009 to 2008 was due to new loan activity. The types of loans outstanding at December 31 are reflected in the following table (dollars in thousands):

	2010		December 31 2009		2008	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 75,440	97%	\$ 73,923	96%	\$ 70,071	95%
Production and intermediate-term	2,711	3%	3,201	4%	3,842	5%
Rural residential real estate	44	0%	67	0%	93	0%
Other	15	0%	22	0%	28	0%
Total loans	\$ 78,210	100%	\$ 77,213	100%	\$ 74,034	100%

In 2010 real estate mortgage volume increased 2.05% primarily due to the slowing of loan payoffs. In 2009 real estate mortgage volume increased 5.5% primarily due to new loan volume being significantly higher and no large loan payoffs. In 2008 real estate mortgage volume decreased 2.9%, primarily due to the payoff and pay downs of a number of loans, including several large loans. These long-term loans are primarily used to purchase, refinance or improve real estate and have maturities ranging from five years to 40 years. Real estate mortgage loans are also made to rural homeowners. By law, a real estate mortgage loan must be secured by a first lien and may be made only in amounts up to 85 percent of the original appraised value of the property or up to 97 percent of appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies.

The production and intermediate-term volume decreased 15.3% and 16.7% in 2010 and 2009, respectively. The decrease in 2010 and 2009 is primarily due to the payoff and pay downs of several loans and revolving lines of credit. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are typically used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans not exceeding 10 years.

Farm Credit Services of Hawaii, ACA
Management's Discussion and Analysis
December 31, 2010, 2009 and 2008

Additionally, at December 31, 2010, approximately 2.28% of real estate mortgage volume and 0% of production and intermediate-term volume were purchased interests in loans.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by participations purchased and sold, geographic locations served and commodities financed, as illustrated in the following three tables.

We purchase participation interests in loans from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with lending limits we have established. Our volume of participations purchased and sold as of December 31 follows (dollars in thousands):

	2010	2009	2008
Participations purchased	\$ 1,712	\$ 1,904	\$ 2,114
Participations sold	\$ 1,350	\$ 2,112	\$ 1,501

We have no purchased loans, loans sold with recourse, retained subordinated participation interests in loans, and interests in pools of subordinated participation interest that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we occasionally purchase loans outside our territory which are included in other in the following table (dollars in thousands):

	2010		2009		2008	
	Number	Volume	Number	Volume	Number	Volume
Hawaii	223	\$ 46,353	222	\$ 45,899	225	\$ 44,628
Oahu	46	7,945	44	6,972	44	6,864
Kauai	36	7,913	37	8,195	33	7,336
Maui	56	14,287	56	14,244	56	13,092
Other	8	1,712	11	1,903	11	2,114
	<u>369</u>	<u>\$ 78,210</u>	<u>370</u>	<u>\$ 77,213</u>	<u>369</u>	<u>\$ 74,034</u>

Farm Credit Services of Hawaii, ACA
Management's Discussion and Analysis
December 31, 2010, 2009 and 2008

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, generally a large percentage of agricultural operations typically include more than one commodity (dollars in thousands):

Commodity	2010		December 31 2009		2008	
	Amount	%	Amount	%	Amount	%
Fruits and nuts	\$ 27,532	35%	\$ 26,060	34%	\$ 23,176	31%
Flowers and foliage	12,439	16%	13,858	18%	13,578	18%
Cattle and dairy	17,246	22%	15,866	21%	15,140	20%
Vegetables	8,360	11%	8,637	11%	9,383	13%
Other	12,633	16%	12,792	16%	12,757	18%
Total	<u>\$ 78,210</u>	<u>100%</u>	<u>\$ 77,213</u>	<u>100%</u>	<u>\$ 74,034</u>	<u>100%</u>

The Association's credit risk associated with commodities reflects somewhat of a concentration in three broad categories (fruits and nuts; flowers and foliage; and cattle and dairy). It should be noted, however, that there is a wide range of individual commodities within each of those broad categories and they were combined for presentation purposes. If the commodities in those categories were listed individually, then commodity concentration for the portfolio as a whole would be well diversified, with no significant concentration in any one commodity. Overall credit quality within each broad commodity group has been excellent with each of these commodity groups reflecting at least 97% Overall Credit Quality (Acceptable and OAEM loans).

Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

The overall commodity concentration risk has remained relatively stable. The potential risk exposure within each commodity group is modest. The purchase of interests in participation loans decreased but continues to help balance our concentration within the loan portfolio. The Association will continue to evaluate the use of participation loans as an ongoing part of portfolio management in an effort to maintain a loan portfolio with diversified commodities. The Association has also established policies to monitor and control the level of risk in the portfolio. These policies include a concentration of risk policy to limit the concentration of risk in any one commodity, or in large loans. There is also a counterparty-risk policy to monitor the concentration of third party risk (i.e. loan participation purchased) from any one association or institution. Both policies require periodic reporting to the Board of Directors to help the compliance with established risk parameters. As of December 31, 2009, loan volume in all commodities was within established risk parameters for all commodity groups. Large loan volume was also within established risk parameters. As of year-end 2010, all counterparty risks were within established risk parameters.

Statistics and information from Hawaii Agricultural Statistics Service (HASS) are included in the commodity summaries that follow.

Farm Credit Services of Hawaii, ACA Management's Discussion and Analysis December 31, 2010, 2009 and 2008

Fruits and Nuts – Overall performance in this group remained good with most all loans paying per terms. Overall credit quality remained sound at 100 percent, and was helped by FSA loan guarantees on a few loans.

Hawaii fruit growers harvested 53.1 million pounds of fruit (excluding pineapple) for fresh and processed utilization in 2009. This was down 4 percent from 2008 according to the Hawaii Agricultural Statistics Services (HASS). Total fruit acreage (excluding pineapple) decreased 3 percent from 2008 to 3,940 acres.

Overall credit quality for our Macadamia Nut growers has remained good despite weaker prices for Macadamia Nuts in 2007. Prices have improved somewhat since the weaker years, and were up for the 2009/2010 year, with farm prices averaging 70 cents a pound. Yields, however, were lower due to drier weather.

Nursery (Flowers and Foliage) – Grower sales of Hawaii's flower and nursery products totaled \$80.1 million in 2009, which was down 15 percent from the revised totals of the prior year, according to the USDA, National Agricultural Statistics Service, Hawaii Field Office. Most segments of this industry showed decreases from the prior year. Decreases were recorded in cut flowers, cut and potted orchids, lei flowers, foliage sales, landscape plant material, plant rentals and other nursery products. Bedding and garden plants sales remained unchanged. Growers contributed the slower sales to the sluggish economy, crop losses caused by volcanic emissions, adverse weather conditions and the high cost of farming. In addition, some plant exporters have noted restrictions on Hawaii exports have limited their sales.

The slowing local, national and global economy adversely impacted some of our growers. However, overall credit quality at year-end 2010 remained sound at 99.9 percent. Credit quality going forward, however, could be impacted by continued slowness in the economy.

Cattle and Livestock – Overall volume in this area remains very heavily centered in beef cattle. Overall conditions within the national cattle industry have improved as total cow numbers were at their lowest level in the last 53 years. This has reduced the supply of beef relative to demand, and present prices are good. Drought conditions, however, affected local pasture conditions. Rains toward the end of 2010 helped to improve conditions, but most areas of the state were in some sort of drought, or drought like conditions.

Overall credit quality within this commodity was down from prior years, but remained within District Standards at 97 percent. Adverse volume was centered in just one account.

Vegetables – Vegetables and produce continued to rank high (exclusive of pineapples and sugar cane) in terms of the value of farm production within the state. The Hawaii Agricultural Statistics estimated the farm value of vegetables and melons at \$23.9 million in 2008, which was well down from the prior year. The 2008 figures, however, did not include all crops. Overall production was affected by adverse weather conditions.

Weather conditions for much of 2010 reflected dry conditions and most of the state was in some form of drought per the US Drought Monitor. The leeward areas on all islands were in some form of drought.

Despite dry conditions, overall performance within this group has been good, with all borrowers paying in a timely manner. Overall credit quality remains good with overall credit quality at 100 percent. All loans in this commodity group were classified as Acceptable at year-end 2010.

Farm Credit Services of Hawaii, ACA
Management's Discussion and Analysis
December 31, 2010, 2009 and 2008

Other Commodities – Volume in this area is comprised of several other commodities, the largest of which is Coffee. Coffee production for the 2009-2010 year was unchanged from the prior year. The coffee price, however, was down approximately 5 % from the prior year. Our producers had good overall results, however. The overall credit quality in this segment of the portfolio is good at 100 percent. Pay-offs of adverse and criticized borrowers in prior years, have helped to improve overall credit quality in this commodity. As of December 31, 2010, all loans in this commodity group were classified as Acceptable.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy.

Loans originated for less than \$250 thousand accounted for 34.26% of loan volume at December 31, 2010. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31 (dollars in thousands):

<i>(Range in thousands)</i>	2010		2009		2008	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250	\$ 26,801	264	\$ 26,327	268	\$ 25,746	271
\$251 - \$500	24,401	70	22,866	67	21,479	63
\$501 - \$1,000	21,298	32	20,317	30	20,320	30
\$1,001 - \$5,000	5,710	3	7,703	5	6,489	5
\$5,001- \$25,000	-	-	-	-	0	-
Total	\$ 78,210	369	\$ 77,213	370	\$ 74,034	369

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2010 (dollars in thousands):

	Less than 1 year	1 - 3 years	4 – 5 years	Over 5 years	Total
Commitments to extend credit	\$ 1,077	\$ 3,916	\$ 27	\$ 0	\$ 5,020

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

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High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows (dollars in thousands):

	2010	2009	2008
Nonaccrual loans:			
Real estate mortgage loans	\$ 1,164	\$ 619	\$ 617
Production and intermediate-term loans	-	-	-
Residential Real Estate	-	-	-
Total nonaccrual loans	1,164	619	617
Accruing loans 90 days past due:			
Real estate mortgage loans	1,059	-	-
Production and intermediate-term loans	-	-	-
Residential Real Estate	-	-	-
Total accruing loans 90 days past due	1,059	-	-
Restructured accrual loans:			
Real estate mortgage loans	13	741	-
Production and intermediate-term loans	-	-	-
Residential Real Estate	-	-	-
Total restructured accrual loans	13	741	-
Total high risk assets	\$ 2,236	\$ 1,360	\$ 617
Nonaccrual loans to total loans	1.48%	0.80%	0.83%
High risk assets to total loans	2.86%	1.76%	0.83%
High risk assets to total members' equity	10.77%	6.87%	3.24%

We had no other property owned for the years presented.

Accruing restructured loans, including related accrued interest, decreased to \$13,000 during 2010 primarily as a result of loan paydowns of restructured loan agreements entered into during the prior year. The restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Restructured loans do not include loans on which extensions or other non-monetary concessions have been granted, or restructured loans on which monetary concessions have been granted but which remain in nonaccrual status.

Total high risk assets increased \$876,000 or 64.41% at December 31, 2010 compared with year-end 2009. High risk asset volume may increase in the future due to the slowing of the local economy.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased \$545,000 compared with December 31, 2009 and increased \$547,000 compared with December 31, 2008.

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Credit Quality

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

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31:

	2010	2009	2008
Acceptable	98.51%	97.50%	98.30%
OAEM	0.78%	1.60%	1.60%
Substandard	0.71%	0.90%	0.10%
Doubtful	-%	-%	-%
Total	100.00%	100.00%	100.00%

The overall quality of the loan portfolio has remained stable the last several years. Loans classified as "Acceptable" or "OAEM" as a percentage of total loans and accrued interest receivable were 99.29% at December 31, 2010 and 99.1% at December 31, 2009. Loan delinquencies (accruing loans 30 or more past due) as a percentage of accruing loans increased to 1.83% compared to 2.3% at December 31, 2009, and 0.48% at December 31, 2008.

No loans were classified as Doubtful or Loss at December 31, 2010, 2009 and 2008.

Overall Credit Quality (Loans classified as "Acceptable" or "OAEM" as a percentage of total loans and accrued interest) has exceeded 99 percent for each of the last 5 years. The number of adversely classified loans has remained at a very modest level. New loan quality has remained very strong. During 2010, the percentage of new loans meeting all loan underwriting standards was higher than the 2001-2010 historic average. The performance on loans not meeting all standards remained good.

With our borrowers' generally strong financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio remains strong. Agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. While credit quality is anticipated to remain sound in 2011, we expect that the less favorable economic conditions and less government support programs will lead to further weakening in the loan portfolio.

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Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31 (dollars in thousands):

	Year Ended December 31		
	2010	2009	2008
Balance at beginning of year	\$ 1,255	\$ 1,195	\$ 1,175
Charge-offs			
Real estate mortgage	-	-	-
Production and intermediate term	-	-	-
Rural residential real estate	-	-	-
Total charge-offs	<u>-</u>	<u>-</u>	<u>-</u>
Recoveries:			
Real estate mortgage	96	60	20
Production and intermediate term	-	-	-
Rural residential real estate	-	-	-
Total recoveries	<u>96</u>	<u>60</u>	<u>20</u>
Net charge-offs (recoveries)	(96)	(60)	(20)
Provision for loan losses	<u>154</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>\$ 1,505</u>	<u>\$ 1,255</u>	<u>\$ 1,195</u>
Net charge-offs/(recoveries) to average net loans	<u>0.12%</u>	<u>0.08%</u>	<u>0%</u>

The following table presents the allowance for loan losses by loan type as of December 31 (dollars in thousands):

	December 31					
	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 1,023	68%	\$ 773	62%	\$ 713	60%
Production and intermediate-term	482	32%	482	38%	482	40%
Rural residential real estate	-	0%	-	0%	-	0%
Total loans	<u>\$ 1,505</u>	<u>100%</u>	<u>\$ 1,255</u>	<u>100%</u>	<u>\$ 1,195</u>	<u>100%</u>

The allowance for loan losses increased \$250,000 from \$1,255,000 at December 31, 2009, to \$1,505,000 at December 31, 2010. The increase is due to a provision of \$154,000 and recoveries of \$96,000 during the year from one borrower. The increase in provision was due to increased risk in the loan portfolio.

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Overall, charge-off activity remains very low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2010	2009	2008
Allowance for loan losses as a percentage of:			
Loans	1.92%	1.63%	1.61%
Impaired loans	67.31%	92.28%	193.67%
Nonaccrual loans	129.29%	202.75%	193.67%

Young, Beginning and Small Farmers and Ranchers Program

We are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers.

Farm Credit Services of Hawaii, ACA recognizes that young, beginning and small (YBS) farmers represent the future of agriculture in Hawaii and have unique and diverse needs, but may have difficulty finding adequate financing. We are committed to serving the unique and diverse needs of YBS farmers and strive to provide sound, constructive and competitive credit to these farmers in both good times and bad.

We also recognize the role education plays in the ongoing viability of agriculture in Hawaii, and believe that investments in local 4-H and Future Farmers of America are investments in the future of agriculture in Hawaii. We remain committed to the upcoming generation of farmers and ranchers and strive to show our continued support through various outreach activities including scholarships and grants.

The FCA regulatory definitions for YBS farmers and ranchers are shown below:

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans within our chartered territory as a percentage of our loan portfolio (by number) that is within our chartered territory as of December 31. (The percentages for 2009 and 2008 are based on the total portfolio, with 2010 reflecting only the loans within our chartered territory). The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2007 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a loan may be included in multiple categories as each would be included in each category in which the definition was met.

	2010	2009	2008	2007	USDA
Young	7.02 %	7.30 %	8.13 %	8.40 %	5.10%
Beginning	61.52 %	58.92 %	57.45 %	57.45 %	40.60%
Small	71.35 %	69.19 %	68.29 %	69.65 %	96.60%

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We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- **Performance Standard Goals for Loan Officers** – Each loan officer's 2010 and 2011 performance standard required that they obtain new long-term YBS loan volume of \$4,000,000 comprised of the additional sub goals of:

New Young Farmer Loans - Minimum Goal	\$225,000
New Beginning Farmer Loans – Minimum Goal	\$1,295,000
New Small Farmer Loans – Minimum Goal	\$1,359,000
New Minority Farmer Loans – Minimum Goal	\$900,000
Excess above minimum Goal	\$221,000
Total Long Term New Money Goal	\$4,000,000

- **Annual Scholarship Program** – We continue to annually offer two \$1,500 scholarships to two deserving students who will further their education in agriculture at an accredited university of their choice.
- **4-H Livestock Program** – Grant funds of \$500 per island are available to help subsidize qualified 4-H and FFA projects on the islands of Oahu, Kauai, Hawaii, Maui, and Molokai/Lanai (Grant funds total \$2,500). A University of Hawaii extension agent coordinates the distribution of grant funds for the Association. In addition, we donate \$500 each year to trophies awarded to winners at the State Livestock competition, which is the main contest for the year.
- **Speaking Engagements** – We continue speaking engagements at local area high schools and at the University of Hawaii campus at Hilo and Manoa. We also meet with students and teachers from the Tropical School of Agriculture to discuss our role in financing agriculture in the state of Hawaii and the lending programs available to young and beginning farmers.
- **Community Outreach Activities** – We continue to participate in community fairs and trade shows. Participation in at least 12 such fairs and shows are planned for 2011.
- **Coordination with Farm Service Agency (FSA)** – We are a Preferred Lender with Farm Service Agency and continue to actively use the FSA loan guarantee program. We work closely with local FSA offices to "graduate" FSA borrowers from direct lending to Farm Credit Financing. Our Preferred Lender status with Farm Service Agency was renewed for another 5 years in 2010.
- **Advertising** – We have included information on our programs for Young, Beginning, Small and Minority Farmers in our advertising in various magazines and our web site.

Quarterly reports are provided to our Board of Directors detailing the number and volume of our YBS customers to assess our progress in meeting our goals. We have developed quantitative targets to monitor our progress.

The Association's goal for 2010 called for a 5 % increase in YBS volume in each YBS category. The table below summarizes the volume of new loans that were made for each YBS category and the changes in actual YBS volume for 2010.

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The YBS loan volume (\$ in thousands) change is summarized below:

	Young	Beginning	Small
12/31/09 Balance	8,803	50,731	52,421
New loans	816	6,566	7,723
Pay offs, pay downs	(919)	(4,320)	(5,098)
12/31/10 Balance	8,700	52,977	55,046
Increase (decrease)	(103)	2,246	2,625

New YBS loan volume goals (\$ in thousands) are as follows:

	Young	Beginning	Small
2008	928	5,014	5,116
2009	902	4,892	4,883
2010	440	2,537	2,621
2011	435	2,649	2,752

As can be seen in the table, the Association's volume of new loans for Young, Beginning and Small Farmer YBS categories exceeded the new volume goals for each category. New volume goals and actual 2010 results are shown below:

	Young	Beginning	Small
2010 Goal New Volume	440	2,537	2,321
Actual new loan volume	<u>816</u>	<u>6,566</u>	<u>7,723</u>
Margin over (under) goal	376	4,029	5,402

Unfortunately, the slow down in the local and national economy and the large pay-offs/ paydowns of loans in each category did not allow for 5% year-end volume growth in each category. The volume of Young Farmers decreased, but the volume of Beginning and Small Farmers increased from 2009. Although, the volume goals for each category were not met, the number of Young and Beginning Farmers on a percentage basis continued to exceed area demographics. The penetration of Small Farmers remained at a good level.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize the financing programs adopted by the Association Board of Directors to facilitate the extension of credit to YBS farmers, ranchers, or producers or harvesters of aquatic products. The association has specific YBS lending standards and maintains Preferred Lender Status with Farm Service Agency and works with them to obtain loan guarantees on loan applications from YBS applicants. YBS loan policies also allow loan-pricing exceptions to make loans more affordable to YBS applicants.

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CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our portfolio and also in our unfunded loan commitments. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are developed and utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the term of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 25 percent of our permanent capital. Through lending delegations, AgBank restricts individual loan size limits to one borrower to 15 percent of our permanent capital; exceptions must be reported to AgBank. Within these parameters, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity and geographic concentrations, and special lending programs. We have adopted an internal lending limit which was reduced from 7 percent to 6 percent of permanent capital for our highest quality borrowers during 2009.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or risky loans are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is also typically secured. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance which estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The PDs and LGDs are utilized in loan and portfolio management

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processes and are partially utilized for the allowance for loan losses estimate. This Model also serves as the basis for economic capital modeling.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; 5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; 15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; 20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; 25% to 50% range of economic loss
- F - above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2010, we recorded net income of \$1,090,000 compared to \$879,000 in 2009 and \$426,000 in 2008. The increase in net income in 2010 was primarily due to increased net interest income from nonaccrual loans and a decrease in interest expense offset by the increase of the provision for loan losses. The decrease in net income of \$256,000 in 2008 was primarily due to a decrease of noninterest income patronage distribution from the district bank, and increased operating expenses for the conversion of the data processing systems and collection of two loans.

The following table presents the changes in the significant components of net income from the previous year (dollars in thousands):

	2010 vs. 2009	2009 vs. 2008
Net income, in prior year	\$ 879	\$ 426
Change from prior year:		
Interest income	154	(531)
Interest expense	125	1,132
Net interest income	279	601
Provision for loan losses	(154)	-
Noninterest income	101	(232)
Noninterest expense	(20)	55
Provision for income taxes	5	29
Total (decrease)/increase in net income	211	453
Net income, current year	\$ 1,090	\$ 879

Return on average assets increased to 1.35% from 1.13% in 2009 and return on average members' equity increased to 5.35% from 4.53% in 2009 primarily as a result of increased earnings.

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Net Interest Income

Net interest income for 2010 was \$3,516,000 compared to \$3,237,000 for 2009 and \$2,636,000 for 2008. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased volume of accruing assets. The table below provides an analysis of the individual components of the change in net interest income during 2010 and 2009 (dollars in thousands):

	2010 vs. 2009	2009 vs. 2008
Net interest income, prior year	\$ 3,237	\$ 2,636
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned and paid	39	618
Volume of accruing assets/interest bearing liabilities	149	(23)
Interest income on nonaccrual loans	91	6
Increase/(Decrease) in net interest income	279	601
Net interest income, current year	\$ 3,516	\$ 3,237

The following table illustrates net interest margin (net interest income as a percentage of average earning assets) and the average interest rates on loans and debt cost, and interest rate spread:

	For the Year Ended December 31		
	2010	2009	2008
Net interest margin	4.34%	3.30%	3.58%
Interest rate on:			
Average loan volume	5.54%	5.58%	6.22%
Average debt	1.26%	1.53%	3.43%
Interest rate spread	4.28%	4.05%	2.79%

During 2010, the increase in net interest margin and interest rate spread resulted from a 4 basis point decrease in interest rates on average loan volume and a 27 basis point decrease in interest rates on average debt. The spread was negatively impacted by an increase charged by AgBank of 10 basis points effective July 1, 2009 and another 10 basis points effective January 1, 2010 through September 30, 2010.

Provision for Loan Losses/(Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable losses in our loan portfolio. We recorded provision for loan losses of \$154,000 in 2010, compared to no provisions for loan losses in 2009 or 2008. The provision for loan losses recorded during 2010 were primarily due to increased risk in the loan portfolio.

Noninterest Income

During 2010, we recorded noninterest income of \$181,000, compared with \$80,000 in 2009 and \$312,000 in 2008. Patronage distributions from AgBank are our primary source of noninterest income. Beginning in 2009, patronage from AgBank was determined annually instead of quarterly and, except for certain priority patronage, paid after the end of the year. Patronage received was \$37,000 in 2010, \$46,000 in 2009 and \$281,000 in 2008. All patronage was paid in cash. Noninterest income also includes loan fees,

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financially related services income and other noninterest income. Additionally, during 2010 we received a 78,000 distribution from Farm Credit System Insurance Corporation (FCSIC) representing our allocated portion of the excess amount in the System's Insurance fund above the 2% secure base amount.

Noninterest Expense

Noninterest expense for 2010 increased by \$20,000 to \$2,467,000 compared with a decrease of \$55,000 to \$2,447,000, or 2.2% for 2009 compared to 2008. Noninterest expense for each of the three years ended December 31 is summarized below (dollars in thousands):

	2010	2009	2008	Percent of Change	
				2010/2009	2009/2008
Salaries & employee benefits	\$ 1,338	\$ 1,340	\$ 1,147	(0.14)%	16.83%
Occupancy & equipment	173	158	178	9.49%	(11.24)%
Supervisory & examination costs	33	33	36	0%	(8.33)%
Other	893	803	1,036	11.20%	(22.49)%
Total operating expense	2,436	2,334	2,397	4.37%	(2.63)%
Farm Credit Insurance Fund premium	31	113	105	(72.57)%	7.62%
Total noninterest expense	\$ 2,467	\$ 2,447	\$ 2,502	0.82%	(2.20)%

For the year ended December 31, 2010, operating expense increased to \$2,436,000, or 4.37%, compared to the year ended December 31, 2009, primarily due to increased occupancy expense for the repairs and maintenance of the Hilo branch office and higher other expense for professional services for legal, management information system, and internal reviews. Insurance Fund premium decreased \$82,000 to \$31,000 due to a decrease in the premium rate. As of July 1, 2008, the Farm Credit System Insurance Corporation began charging premiums based on debt rather than loan volume. Rates were decreased to 5 basis points during 2010 compared with 20 basis points during 2009. Premium rates were 15 basis points on average loan volume during the first six months of 2008. During the last six months of 2008 premiums were charged on average debt at 15 basis points for the third quarter and 18 basis points for the fourth quarter.

For the year ended December 31, 2009, operating expense decreased \$63,000, or 2.63%, compared to the year ended December 31, 2008, primarily due to the non-occurrence of conversion costs and legal collection costs like those incurred in 2008, offset by increased salaries and employee benefits.

We recorded \$14 thousand in benefit from income taxes during 2010, compared with benefit from \$9 thousand in 2009 and provision for income taxes of \$20 thousand in 2008. The increase was primarily due to the increase of net operating loss carryforwards.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with AgBank, fund loans and other commitments and fund business operations in a cost-effective manner. Our liquidity strategy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with AgBank, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

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Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with AgBank. Our note payable to AgBank is collateralized by a pledge to AgBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA). The GFA is subject to renewal at its expiration date of April 30, 2012 in accordance with normal business practices. The annual average principal balances of the note payable to AgBank were \$60 million in 2010, \$57 million in 2009, and \$58 million in 2008.

We plan to continue to fund lending operations through the utilization of our borrowing relationship with AgBank, retained earnings from current and prior years and from borrower stock investments. AgBank's primary source of funds is the ability to issue System-wide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets have experienced significant volatility in 2009 and 2008, we were able to obtain sufficient to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with AgBank which allows for loans to be match-funded. Borrowings from AgBank match the pricing, maturity, and option characteristics of our loans to borrowers. AgBank manages interest rate risk through the direct loan pricing and their asset/liability management processes. Although AgBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds.

Funds Management

We offer variable, fixed and adjustable prime-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by AgBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture.

Over the past several years, we have been able to build capital primarily through net income retained after payment of dividends. Members' equity at December 31, 2010 totalled \$20,761,000 compared with \$19,794,000 at December 31, 2009 and \$19,037,000 at December 31, 2008. The increase of \$967,000 in shareholder's equity reflects net income and net stock issuances, partially offset by dividends paid. Our capital position is reflected in the following ratio comparisons:

	2010	2009	2008
Debt to members' equity	2:91:1	3:05:1	3:05:1
Members' equity as a percent of loans	26.55%	25.64%	25.71%
Members' equity as a percent of assets	25.59%	24.67%	24.68%

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Retained Earnings

Our retained earnings increased \$ 965,000 to \$20,468,000 from \$19,503,000 at December 31, 2009. The increase was a result of net income of \$1,090,000, partially offset by \$125,000 of dividends declared.

Dividends

We paid dividends of \$125,000 for each of the years ended December 31, 2010, 2009 and 2008. We also declared dividends of \$125,000 in February 2011 which will be paid in March 2011.

Stock

Our total stock and participation certificates increased \$2,000 to \$293,000 at December 31, 2010 from \$291,000 at December 31, 2009. The increase was due to \$20,000 of stock retirements, offset by \$22,130 of issuances. We require a stock investment for each borrower loan. The current initial investment requirement is the lesser of 2 percent of the loan amount or \$1,000.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels; including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow:

Capital ratio	2010	2009	2008	Regulatory Minimum
Permanent capital ratio	28.35 %	27.63 %	27.51 %	7.00 %
Total surplus ratio	27.95 %	27.22 %	27.09 %	7.00 %
Core surplus ratio	24.37 %	23.55 %	23.31 %	3.50 %

As of December 31, 2010, we exceeded the regulatory minimum and capital ratios and are expected to do so throughout 2011. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2010, we have exceeded our goals.

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REGULATORY MATTERS

As of December 31, 2010, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

The Farm Credit Administration is considering the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit system Institutions. The Tier 1/Tier 2 capital structure would be similar to the capital tiers delineated in the Basel Accord that other Federal financial regulatory agencies have adopted for the banking organizations they regulate. Comments on the advance notice of proposed rulemaking are due in May 2011.

On June 16, 2008, the Farm Credit Administration published a proposed rule in the Federal Register that would authorize Banks, Associations or service corporations to invest in rural communities, i.e., communities that have fewer than 50,000 residents and are outside of an urbanized area, under certain conditions. The proposed rule would authorize two types of rural community investments: (1) investment in debt securities that would involve projects or programs that benefit the public in rural communities, and (2) equity investment in venture capital funds, which funds create economic opportunities and jobs in rural communities by providing capital to small or start-up businesses. Under the proposed rule, these investments would be limited to 150% of the institution's total surplus. The comment period closed August 15, 2008.

GOVERNANCE

Board of Directors

We are governed by a seven member board that provides direction oversees our management. Of these directors, five are elected by the shareholders and two are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure than a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member. If the percent of the independent

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directors on the Board falls below 75 percent, the Board will notify the Nominating Committee of the need and desire of the Board to elect shareholders which meet our independence criteria.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of the entire Board of Directors of the Association. During 2010, 12 meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls and auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of the full Board. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints,
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer,
- open lines of communication between the independent auditors, management, and the Audit Committee,
- "plain English" disclosures,
- officer certification of accuracy and completeness of the consolidated financial statements, and
- information disclosure through our website.

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FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed with our Audit Committee. A summary of critical accounting policies relating to determination of the allowance for loan losses follows.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historic charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

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Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 of the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.



Report of Independent Auditors

To the Board of Directors and Shareholders of Farm Credit Services of Hawaii, ACA and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in members' equity, and cash flows present fairly, in all material respects, the financial position of Farm Credit Services of Hawaii, ACA and its subsidiaries (the Association) at December 31, 2010, 2009 and 2008, and the results of its operations and its 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 Company'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

Denver, Colorado
March 15, 2011

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Farm Credit Services of Hawaii, ACA
Consolidated Statement of Condition
December 31, 2010, 2009 and 2008 (in thousands)

	2010	2009	2008
Assets			
Cash	\$ 591	\$ 422	\$ 329
Loans	78,210	77,213	74,034
Less: allowance for loan losses	<u>(1,505)</u>	<u>(1,255)</u>	<u>(1,195)</u>
Net loans	76,705	75,958	72,839
Accrued interest receivable	376	386	439
Investment in AgBank	2,755	2,755	2,755
Premises and equipment, net	402	367	362
Other assets	<u>296</u>	<u>344</u>	<u>406</u>
Total assets	<u>\$ 81,125</u>	<u>\$ 80,232</u>	<u>\$ 77,130</u>
Liabilities			
Notes payable to AgBank	\$ 59,523	\$ 59,417	\$ 56,932
Accrued interest payable to AgBank	53	64	116
Advance conditional payments	355	471	529
Deferred tax liability	60	74	83
Other liabilities	<u>373</u>	<u>412</u>	<u>433</u>
Total liabilities	<u>60,364</u>	<u>60,438</u>	<u>58,093</u>
Commitments and contingencies (See Note 12)			
Members' Equity			
Capital stock and participation certificates	293	291	288
Unallocated retained earnings	<u>20,468</u>	<u>19,503</u>	<u>18,749</u>
Total members' equity	<u>20,761</u>	<u>19,794</u>	<u>19,037</u>
Total liabilities and members' equity	<u>\$ 81,125</u>	<u>\$ 80,232</u>	<u>\$ 77,130</u>

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

Farm Credit Services of Hawaii, ACA
Consolidated Statements of Income
For the years ended December 31, 2010, 2009 and 2008 (in thousands)

	2010	2009	2008
Interest Income			
Loans	\$ 4,275	\$ 4,121	\$ 4,652
Interest Expense			
Notes payable to AgBank	754	878	2,002
Advance conditional payments	5	6	14
Total interest expense	<u>759</u>	<u>884</u>	<u>2,016</u>
Net interest income	3,516	3,237	2,636
Provision for loan losses	154	-	-
Net interest income after provision for loan losses	<u>3,362</u>	<u>3,237</u>	<u>2,636</u>
Noninterest Income			
Patronage distribution from AgBank	37	46	281
Refunds from Farm Credit System Insurance Corporation	78	-	-
Miscellaneous	66	34	31
Total noninterest income	<u>181</u>	<u>80</u>	<u>312</u>
Noninterest Expense			
Salaries and employee benefits	1,338	1,340	1,147
Occupancy and equipment expense	173	158	178
Insurance Fund premium	31	113	105
Supervisory and examination expense	33	33	36
Other operating expenses	892	803	1,036
Total noninterest expense	<u>2,467</u>	<u>2,447</u>	<u>2,502</u>
Income before income taxes	1,076	870	446
Benefit from (provision for) income taxes	14	9	(20)
Net income	<u>\$ 1,090</u>	<u>\$ 879</u>	<u>\$ 426</u>

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

