

**FEDERAL LAND BANK ASSOCIATION OF NORTH
MISSISSIPPI, FLCA**

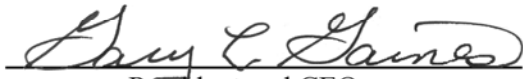
**2009
Quarterly Report
First Quarter**



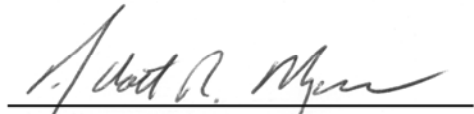
For the Quarter Ended March 31, 2009

REPORT OF MANAGEMENT


The undersigned certify that this report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



President and CEO
April 22, 2009



Chairman, Board of Directors
April 22, 2009



Chief Financial Officer
April 22, 2009

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Federal Land Bank Association of North Mississippi, FLCA (Federal Land Credit Association), referred to as the Association, for the three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The financial statements were prepared under the oversight of the Association's audit committee.

Results of Operations:

For the first quarter of 2009, the Association had net income of \$305,806, compared with net income of \$945,963 for the fourth quarter of 2008 and net income of \$1,178,259 for the first quarter of 2008 reflecting a decrease of 67.7 percent and a decrease of 74.1 percent, respectively. The decrease versus the fourth quarter of 2008 was primarily due to a charge off of \$676,186 related to one participation loan and an increase of \$264,019 in salaries and benefits expense, partially offset by a reversal of specific reserves of \$279,022.

Net interest income was \$2,447,841 for the first quarter of 2009, compared to \$2,431,945 for the fourth quarter of 2008 and \$2,395,631 for the first quarter of 2008.

Interest income for the first quarter of 2009 decreased by \$439,700 (or 6.7 percent) compared to the fourth quarter of 2008 and increased \$144,886 (or 2.3 percent) over the first quarter of 2008, primarily due to a decrease in average loan volume and interest rates.

Interest expense for the first quarter of 2009 decreased by \$455,596 (or 11.0 percent) over the fourth quarter of 2008 and \$197,096 (or 5.1 percent) over the first quarter of 2008, primarily due to a decrease in average debt volume and borrowing rates.

Average loan volume as of March 31, 2009, was \$406,420,512, compared to \$384,322,954 as of December 31, 2008, and \$361,283,596 as of March 31, 2008. The average spread on the loan portfolio for the first quarter of 2009 was 1.94 percent, compared to 1.85 for the fourth quarter of 2008 and 1.99 percent for the first quarter of 2008.

The Association recorded \$0 in recoveries and \$676,186 in charge-offs for the quarter ended March 31, 2009, and \$0 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.04 percent and 0.09 percent of total loans outstanding as of March 31, 2009, and March 31, 2008, respectively.

The Association's return on average assets for the three months ended March 31, 2009, was 0.29 and 1.68 percent for the same period in 2008. The Association's return on average equity for the three months ended March 31, 2009, was 1.92 and 8.92 percent for the same period in 2008. The decreases in both ratios are results of a charge off of \$676,186 taken in the first quarter of 2009 as well as significant investments in new employees and office buildings coupled with increased expenses related to the defined benefit pension plan (DB Plan). The investment in new employees is to assist in managing the Association's growth and the increase in new business opportunities as well as for succession plans. Generally, the Association expects to see returns approximately three to four years after a new employee is hired. The increase in DB Plan expenses is due to a five year plan to fully fund the Association's Accumulated Benefit Obligation for employees participating in the DB Plan. This is the first year of the plan. After the plan is completed, the Association will resume the regular required contributions to the DB Plan. See Note 5, "Employee Benefit Plans," to the financial statements for more information on the Association's employee benefit plans.

Loan Portfolio:

Total loans outstanding at March 31, 2009, including nonaccrual loans and sales contracts, were \$406,474,456 compared to \$409,681,482 at December 31, 2008, reflecting an decrease of 0.8 percent. The following table reflects the credit quality of the Association's loan volume:

	March, 31 2009	December, 31 2008	March, 31 2008
Acceptable	96.7%	98.5%	97.1%
Special mention	1.1%	0.5%	1.8%
Substandard	2.2%	1.0%	1.1%
Doubtful	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

Nonaccrual loans as a percentage of total loans outstanding were 0.25 percent, 0.30 percent, and 0.58 percent at March 31, 2009, December 31, 2008, and March 31, 2008, respectively.

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	March 31, 2009		December 31, 2008		March 31, 2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 1,029,082	44.5%	\$ 1,246,585	79.8%	\$ 2,144,754	87.4%
90 days past due and still accruing interest	907,987	39.3%	-	0.0%	103,461	4.2%
Formally restructured	-	0.0%	217,549	13.9%	204,357	8.3%
Other property owned, net	373,906	16.2%	99,076	6.3%	-	0.0%
Total	\$ 2,310,975	100.0%	\$ 1,563,210	100.0%	\$ 2,452,572	100.0%

Twelve associations in the District, along with two other Farm Credit associations, participated in a loan to one borrower with the original funded balance of \$68.5 million. The Association owned approximately 5.56 percent of the loan. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant under collateralized position and a credit default. The lead lending association is currently pursuing collection efforts and in the third quarter of 2007 liquidated part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, in the second half of 2007 the Association, along with the four other Capital Markets of the South (CMS) member associations, repurchased, on a pro-rata basis, the portions of the loan held by all other non-CMS participants. As part of loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

In 2008, collection efforts continued, resulting in legal judgments against the borrowers and allowing the lead lender to foreclose on portions of the real estate collateral, with sales proceeds being applied against the outstanding balance of the loan. On October 10, 2008, the foreclosed property was sold to a third party for \$7,001,000. The sale was consummated by the middle of November 2008, and the lead lender received \$6,971,336. The lead lender is still in the process of foreclosing on the remaining portions of the real estate collateral. In addition, the borrowers have surrendered various other real and personal properties, all of which are to be liquidated and applied against the loan balance. All sales of remaining real estate collateral and other properties are expected to be completed in the first half of 2009.

During 2007, net charge-offs of \$28.9 million were recognized on the loan; the Association's portion of the 2007 charge-offs was \$4.8 million. No further charge-offs or allowance reserves were required to be recognized in 2008. As of March 31, 2009, the total book balance remaining was \$2,413,392, of which the Association's portion was \$461,226. Also, as of March 31, 2009 the Association had no specific reserves remaining related to this loan. For more information on impaired loans and the allowance for loan losses, see Note 2 to the financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

For information on the Capital Markets of the South, see Note 4, "Capital Markets," to the financial statements included in this quarterly report.

Legal Proceedings:

In relation to the participation loan described in "Loan Portfolio" section of Management's Discussion and Analysis, above, there is only one remaining lawsuit as of the date of this report. The overall character of the lawsuit is for damages incurred as a result of alleged wrongful acts of the borrower and other third-party defendants. The lead lender brought this civil lawsuit in the U.S. Federal District Court in Texas, the borrower's domicile state, and the trial was held in February 2009. On March 19, 2009, the court rendered judgment in favor of the lead lender against all parties, jointly and severally, on all counts for \$41,549,236 in actual damages. Because the lead lender was granted a judgment for violation of the RICO statute, it is expected that the court will treble

the judgment to \$124,647,710. One defendant has appealed the judgment. The lead lender intends to pursue the assets of all liable parties in satisfaction of the judgment.

In February 2009, the lead lender received approval to foreclose the lien of its mortgage on real estate collateral held in Muhlenberg County, in Kentucky, and intends to foreclose such lien in the second quarter of 2009. The lead lender has been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery. All counterclaims asserted by the borrower and others against the lead lender have been dismissed in all legal proceedings.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System wide obligations and with lendable equity. The following schedule summarizes the Association’s borrowings.

	March 31, 2009	December 31, 2008	March 31, 2008
Note payable to the Bank	\$ 356,719,367	\$ 359,552,371	\$ 318,522,880
Accrued interest on note payable	1,201,721	1,389,256	1,263,287
Total	\$ 357,921,088	\$ 360,941,627	\$ 319,786,167

Capital Resources:

The Association’s capital position increased by \$2,359,510 at March 31, 2009, compared to March 31, 2008. The Association’s debt as a ratio of members’ equity was 5.59:1 as of March 31, 2009, compared to 5.72:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association’s permanent capital ratio at March 31, 2009, was 13.7 percent, which is in compliance with the FCA’s minimum permanent capital standard. The Association’s core surplus ratio and total surplus ratio at March 31, 2009, were 13.2 and 13.2 percent, respectively, which is in compliance with the FCA’s minimum surplus standard.

Capital Distributions:

On October 29, 2008, the board of directors approved a 35 basis point, or .35 percent, patronage distribution (to be based on 2008 average daily balance loan volume) to be paid in January 2009. The following patronage distributions were declared in 2008, 2007, and 2006, respectively.

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>	<u>Dividend</u>	<u>Special Distribution</u>
December 2008	January 2009	\$ 1,227,000	-	-
December 2007	January 2008	489,465	296,154	824,633
December 2006	January 2007	1,418,300	-	-

Relationship with the Farm Credit Bank of Texas:

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2008 Annual Report of Federal Land Bank Association of North Mississippi, FLCA more fully describe the Association’s relationship with the Bank.

The Tenth Farm Credit District’s (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District’s quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its Web site at www.farmcreditbank.com.

The Association’s annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Federal Land Bank Association of North Mississippi, FLCA, P.O. box 667, Senatobia, MS 38668-0667 or calling (662) 562-9671. Copies of the Association’s quarterly stockholder reports can also be found at the Association’s website, www.mslandbank.com, or can be requested by e-mailing Jessica.stanford@farmcreditbank.com.

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
Consolidated Statement of Income
(Unaudited)

	For the Three Months Ended March 31,	
	2009	2008
<u>INTEREST INCOME</u>		
Loans	\$ 6,152,044	\$ 6,296,930
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	3,704,203	3,901,299
Net interest income	2,447,841	2,395,631
<u>PROVISION FOR LOSSES</u>		
Provision for loan losses	463,351	3,804
Provision for acquired property losses	5,500	-
Net interest income after provision for loan losses	1,978,990	2,391,827
<u>NONINTEREST INCOME</u>		
Income from the Bank:		
Patronage income	66,626	70,390
Loan fees	230,719	423,227
Financially related services income	1,020	1,428
Gain (loss) on other property owned, net	57,158	-
Gain (loss) on sale of premises and equipment, net	-	13,311
Other noninterest income	23,066	39,819
Total noninterest income	378,589	548,175
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,260,639	996,620
Purchased services	233,890	212,556
FCSIC insurance expense	169,773	133,998
Travel	67,497	80,561
Advertising	42,737	78,331
Occupancy and equipment	84,586	56,583
Supervisory and exam expense	33,982	46,966
Public and member relations	49,248	41,183
Directors' expense	31,703	32,646
Communications	22,320	18,649
Training	6,821	11,808
Other insurance expense	32,134	8,205
Other noninterest expense	16,443	43,637
Total noninterest expenses	2,051,773	1,761,743
Net income	\$ 305,806	\$ 1,178,259

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
Consolidated Balance Sheet
(Unaudited)

	March 31,	December 31,
	2009	2008
<u>ASSETS</u>		
Cash	\$ 310,886	\$ 1,847,311
Loans	406,474,456	409,681,482
Less: allowance for loan losses	169,831	382,665
Net loans	<u>406,304,625</u>	<u>409,298,817</u>
Accrued interest receivable	6,259,225	9,118,066
Investment in and receivable from the Bank:		
Capital stock	6,600,020	6,600,020
Other	-	6,069
Other property owned, net	373,906	99,076
Premises and equipment	3,402,997	3,460,792
Other assets	1,418,481	201,661
Total assets	<u><u>\$ 424,670,140</u></u>	<u><u>\$ 430,631,812</u></u>
 <u>LIABILITIES</u>		
Note payable to the Bank	\$ 356,719,367	\$ 359,552,371
Accrued interest payable	1,201,721	1,389,256
Drafts outstanding	866,830	1,572,136
Patronage distributions payable	-	1,227,000
Other liabilities	1,458,877	2,762,816
Total liabilities	<u><u>360,246,795</u></u>	<u><u>366,503,579</u></u>
 <u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,304,895	2,304,985
Unallocated retained earnings	61,919,847	61,614,041
Accumulated other comprehensive income	198,603	209,207
Total members' equity	<u><u>64,423,345</u></u>	<u><u>64,128,233</u></u>
Total liabilities and members' equity	<u><u>\$ 424,670,140</u></u>	<u><u>\$ 430,631,812</u></u>

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
Consolidated Statement of Changes in Members' Equity
(Unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2007	\$ 2,145,585	\$ 58,400,708	\$ 299,795	\$ 60,846,088
Net income	-	1,178,259	-	1,178,259
Amortization of costs included in net periodic pension costs	-	-	(10,626)	(10,626)
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158	-	(9,326)	-	(9,326)
Capital stock/participation certificates issued	135,075	-	-	135,075
Capital stock/participation certificates retired	(75,635)	-	-	(75,635)
Balance at March 31, 2008	<u>\$ 2,205,025</u>	<u>\$ 59,569,641</u>	<u>\$ 289,169</u>	<u>\$ 62,063,835</u>
Balance at December 31, 2008	\$ 2,304,985	\$ 61,614,041	\$ 209,207	\$ 64,128,233
Net income	-	305,806	-	305,806
Amortization of costs included in net periodic pension costs	-	-	(10,604)	(10,604)
Capital stock/participation certificates issued	84,635	-	-	84,635
Capital stock/participation certificates retired	(84,725)	-	-	(84,725)
Balance at March 31, 2009	<u>\$ 2,304,895</u>	<u>\$ 61,919,847</u>	<u>\$ 198,603</u>	<u>\$ 64,423,345</u>

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Federal Land Bank Association of North Mississippi, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Alcorn, Attala, Benton, Bolivar, Calhoun, Chickasaw, Choctaw, Clay, Coahoma, Desoto, Itawamba, Lafayette, Lee, Lowndes, Marshall, Monroe, Noxubee, Oktibbeha, Panola, Pontotoc, Prentiss, Quitman, Sunflower, Tallahatchie, Tate, Tippah, Tishomingo, Tunica, Union, Webster, Winston, and Yalobusha in the state of Mississippi. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements.

The preparation of these financial statements requires the use of management's estimates. The results for the quarter and the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2008. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>	<u>March 31, 2008</u>
Balance at beginning of quarter	\$ 382,665	\$ 347,878	\$ 337,779
(Provision Reversal) provision for loan losses	463,352	34,787	3,804
Charge-offs	(676,186)	-	-
Recoveries	-	-	-
Balance at end of quarter	<u>\$ 169,831</u>	<u>\$ 382,665</u>	<u>\$ 341,583</u>

The following table presents information concerning impaired loans:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>	<u>March 31, 2008</u>
Impaired loans with related allowance	\$ 8,425	\$ 471,399	\$ 2,053,710
Impaired loans with no related allowance	1,472,268	992,735	413,883
Total impaired loans	<u>\$ 1,480,693</u>	<u>\$ 1,464,134</u>	<u>\$ 2,467,593</u>
Allowance on impaired loans	\$ 10,185	\$ 289,207	\$ 289,207
Average impaired loans	\$ 2,314,501	\$ 2,078,537	\$ 2,458,284
Interest income on impaired loans for the quarter	\$ 16,645	\$ 17,980	\$ 8,132

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a venture created for the purpose of expanding the participants' lending opportunities. Created in 2003, the CMS group was comprised of the Association, the Federal Land Bank Association of North Alabama, FLCA, the Federal Land Bank Association of South Alabama, FLCA, Southern Ag Credit, ACA (formerly Land Bank South, FLCA), and the Louisiana Federal Land Bank Association, FLCA. Existing CMS loans will continue to be serviced as in the past, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations will continue to generally share equally in the costs of operating the venture. The Association's pro-rata share of income from CMS operations are recorded in the statement of income in their respective line items.

As of March 31, 2009 and 2008, the Association had CMS-related loan volume outstanding of \$22,266,998 and \$26,709,923, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$8,566,292 as of March 31, 2009.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

Employee Benefit Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Thrift Plus Plan of the District. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the quarter ended March 31, 2008, made on their behalf into various investment alternatives.

The structure of the District's retirement plans is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$35,679 for the three months ended March 31, 2009, compared to \$24,965 for the same period in 2008. For the DB Plan, the Association recognized pension costs of \$248,107 for the three months ended March 31, 2009, compared to \$207,245 for the same period in 2008.

Other Postretirement Benefits: The following table summarizes the components of net periodic benefit costs for the three months ended March 31, 2009 and 2008:

	March 31, 2009	March 31, 2008
Service Cost	\$ 502	\$ 6,043
Interest Cost	6,688	13,909
Amortization of prior service costs	15,502	(10,754)
Amortization of net (gain) loss	(10,604)	127
Net periodic benefit cost	\$ 11,586	\$ 9,325

The Association anticipates accruing an additional amount of \$34,758 for the plan for 2009.