

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

**2009
Quarterly Report
Third Quarter**

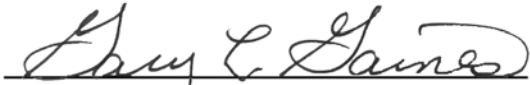


Part of the Farm Credit System

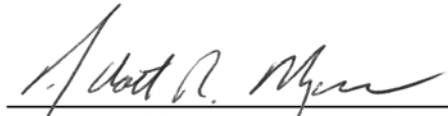
For the Quarter Ended September 30, 2009

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it 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.



Gary L. Gaines
President and CEO
November 10, 2009



Abbott R. Myers
Chairman, Board of Directors
November 10, 2009



J. Matthew Walden
Chief Financial Officer
November 10, 2009

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

The following commentary reviews the financial performance of the Federal Land Bank of North Mississippi, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated there under.

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

Significant Events:

On August 25, 2009, the Association's stockholders approved the establishment of a Production Credit Association (PCA) and an Agricultural Credit Association (ACA) holding company. The PCA will operate as a wholly-owned subsidiary of the ACA and will allow the Association an opportunity to provide short-term lending. Equity ownership in the existing Federal Land Bank Association of North Mississippi, FLCA will be transferred to the ACA. Concurrent with the change in corporate structure, the Association's name will change from Federal Land Bank Association of North Mississippi, FLCA, to Mississippi Land Bank, FLCA. Likewise, the new ACA holding company will operate under the name Mississippi Land Bank, ACA, and the PCA will operate under the name Mississippi, PCA. This change in corporate structure is pending final approval by FCA, and if approved will become effective on or after January 1, 2010.

Loan Portfolio:

Total loans outstanding at September 30, 2009, including nonaccrual loans and sales contracts, were \$420,391,840 compared to \$409,681,482 at December 31, 2008, reflecting an increase of 2.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.3 percent at September 30, 2009, compared to 0.2 percent at December 31, 2008.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending September 30, 2009, and \$0 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.5 percent and 0.1 percent of total loans outstanding as of September 30, 2009, and December 31, 2008, respectively.

The following table reflects the credit quality of the Association's loan portfolio:

	September 30, 2009	December 31, 2008	September 30, 2008
Acceptable	96.6%	98.5%	97.9%
Special mention	0.8%	0.5%	0.9%
Substandard	2.6%	1.0%	1.2%
Doubtful	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

Risk Exposure:

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.

	September 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 5,640,649	93.8%	\$ 775,186	71.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	217,549	19.9%
Other property owned, net	370,782	6.2%	99,076	9.1%
Total	<u>\$ 6,011,431</u>	<u>100.0%</u>	<u>\$ 1,091,811</u>	<u>100.0%</u>

The increase in nonaccruals and related allowance is primarily attributable to several ethanol participation loans in the portfolio. Current supply exceeds demand and therefore ethanol plants have cut or ceased production until demand catches up. Currently there is a government mandate to increase production by one billion gallons per year for the next 15 years. Also, gas prices are expected to stay around \$2.40 to \$2.50 per gallon and corn prices have decreased recently. These two factors coupled with the government mandate indicate that current ethanol capacity will be fully utilized to meet the 20+ billion gallon ethanol requirement in the future.

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 second 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 September 30, 2009, the total book balance remaining was \$2,413,392, of which the Association's portion was \$461,226. Also, as of September 30, 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, "Allowance for Loan Losses," included in this quarterly report.

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

Results of Operations:

The Association had net income of \$931,674 and a net loss of \$45,207 for the three and nine months ended September 30, 2009, as compared to net income of \$1,094,611 and \$3,503,697 for the same periods in 2008 reflecting a decrease of 14.9 and 101.3 percent, respectively. The significant decrease in net income is due to a charge off of \$676,186 taken in the first quarter of 2009, \$2,036,430 of additional allowance for loan losses, and approximately \$1,000,000 of additional expense related to the DB Pension plan. See Note 6, "Employee Benefit Plans," to the financial statements for more information on the Association's employee benefit plans.

Net interest income was \$2,537,832 and \$7,490,327, respectively, for the three and nine months ended September 30, 2009, compared to \$2,474,973 and \$7,336,529 for the same periods in 2008.

Interest income for the first nine months of 2009 decreased by \$793,807 or 4.2 percent from the same periods of 2008, primarily due to a decrease in yields on earning assets partially offset by an increase in average loan volume.

Interest expense for the first nine months of 2009 decreased by \$947,605, or 8.1 percent, from the same periods of 2008 due to a decrease in interest rates partially offset by an increase in average debt volume.

Average loan volume for the third quarter of 2009 was \$418,654,483, compared to \$392,968,661 in the third quarter of 2008. The average spread on the loan portfolio for the third quarter 2009 was 1.98 percent, compared to 1.92 percent in the third quarter of 2008.

The Association's return on average assets for the nine months ended September 30, 2009, was (0.01) and 1.19 percent for the same period in 2008. The Association's return on average equity for the nine months ended September 30, 2009, was (0.09) and 7.46 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, \$2,036,430 of additional allowance for loan losses, 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 second year of the plan. After the plan is completed, the Association will resume the regular required contributions to the DB Plan. See Note 6, "Employee Benefit Plans," to the financial statements for more information on the Association's employee benefit plans.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (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.

	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Note payable to the Bank	\$ 372,970,405	\$ 359,552,371
Accrued interest on note payable	1,135,431	1,389,256
Total	<u>\$ 374,105,836</u>	<u>\$ 360,941,627</u>

Capital Resources:

The Association's capital position decreased by \$31,815 at September 30, 2009, compared to December 31, 2008. The Association's debt as a ratio of members' equity was 5.87:1 as of September 30, 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 September 30, 2009, was 13.2 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2009, were 12.7 and 12.7 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 December 31, 2008 Annual Report of Federal Land Bank 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 OF NORTH MISSISSIPPI, FLCA

BALANCE SHEET

	September 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 755,767	\$ 1,847,311
Loans	420,391,840	409,681,482
Less: allowance for loan losses	<u>2,195,507</u>	<u>382,665</u>
Net loans	418,196,333	409,298,817
Accrued interest receivable	10,135,011	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	370,782	99,076
Premises and equipment	3,521,908	3,460,792
Other assets	509,510	201,661
Total assets	<u><u>\$ 440,089,331</u></u>	<u><u>\$ 430,631,812</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 372,970,405	\$ 359,552,371
Accrued interest payable	1,135,431	1,389,256
Drafts outstanding	89,935	1,572,136
Patronage distributions payable	-	1,227,000
Other liabilities	<u>1,797,142</u>	<u>2,762,816</u>
Total liabilities	<u><u>375,992,913</u></u>	<u><u>366,503,579</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,350,190	2,304,985
Unallocated retained earnings	61,568,834	61,614,041
Accumulated other comprehensive income (loss)	<u>177,394</u>	<u>209,207</u>
Total members' equity	64,096,418	64,128,233
Total liabilities and members' equity	<u><u>\$ 440,089,331</u></u>	<u><u>\$ 430,631,812</u></u>

FEDERAL LAND BANK OF NORTH MISSISSIPPI, FLCA

STATEMENT OF INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 5,998,735	\$ 6,404,355	\$ 18,181,206	\$ 18,975,013
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	3,460,903	3,929,382	10,690,879	11,638,484
Net interest income	2,537,832	2,474,973	7,490,327	7,336,529
<u>PROVISION FOR LOSSES</u>				
Provision for loan losses	3,963	1,015	2,503,744	10,098
Provision (Provision reversal) for acquired property	(6,400)	-	5,500	-
Net interest income after provision for loan losses	2,540,269	2,473,958	4,981,083	7,326,431
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	60,899	64,520	190,525	200,143
Loan fees	133,509	165,397	559,784	968,604
Financially related services income	-	1,677	2,284	4,454
Gain on other property owned, net	-	-	57,158	-
Gain on sale of premises and equipment, net	-	-	-	13,311
Other noninterest income	81,241	935	112,027	45,188
Total noninterest income	275,649	232,529	921,778	1,231,700
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,177,763	959,992	3,647,852	2,919,543
Insurance Fund premiums	176,413	125,354	516,503	399,356
Purchased services	171,172	144,777	595,719	554,681
Travel	81,690	114,033	246,536	284,065
Occupancy and equipment	71,169	63,907	216,890	182,167
Advertising	70,415	58,771	183,935	181,371
Supervisory and exam expense	33,982	32,016	101,946	110,998
Training	28,052	39,431	55,311	70,639
Public and member relations	22,791	18,353	97,192	94,987
Communications	18,415	11,543	61,734	45,270
Directors' expense	9,505	7,664	83,312	72,277
Other insurance expense	-	10,331	56,409	53,917
Other noninterest expense	22,877	25,704	84,729	85,163
Total noninterest expenses	1,884,244	1,611,876	5,948,068	5,054,434
Net income	\$ 931,674	\$ 1,094,611	\$ (45,207)	\$ 3,503,697

FEDERAL LAND BANK OF NORTH MISSISSIPPI, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2007	\$ 2,145,585	\$ 58,400,708	\$ 299,795	\$ 60,846,088
Net income	-	3,503,697	-	3,503,697
Amortization of costs included in periodic retirement benefit costs	-	-	(31,878)	(31,878)
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	361,810	-	-	361,810
Capital stock/participation certificates retired	(219,825)	-	-	(219,825)
Balance at September 30, 2008	<u>\$ 2,287,570</u>	<u>\$ 61,895,079</u>	<u>\$ 267,917</u>	<u>\$ 64,450,566</u>
Balance at December 31, 2008	\$ 2,304,985	\$ 61,614,041	\$ 209,207	\$ 64,128,233
Net income	-	(45,207)	-	(45,207)
Amortization of costs included in periodic retirement benefit costs	-	-	(31,813)	(31,813)
Capital stock/participation certificates issued	253,600	-	-	253,600
Capital stock/participation certificates retired	(208,395)	-	-	(208,395)
Balance at September 30, 2009	<u>\$ 2,350,190</u>	<u>\$ 61,568,834</u>	<u>\$ 177,394</u>	<u>\$ 64,096,418</u>

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Federal Land Bank 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.

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

In April 2009, the FASB issued guidance, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”. The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted the guidance in second quarter 2009. The adoption did not have a material impact on the financial condition or results of operations of the Association.

In April 2009, the FASB issued guidance, “Recognition and Presentation of Other-Than-Temporary Impairments”, which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changes existing impairment guidance related to accounting for certain investments in debt and equity securities by eliminating the “ability and intent to hold” provision. In addition, impairment is now considered to be other than temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security’s entire amortized cost basis (even if the entity does not intend to sell). The “probability” standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a “credit loss”). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security’s carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually.

The guidance was effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Association adopted the guidance but held no investments in debt securities during the first nine months of 2009.

In May 2009, the FASB issued guidance, "Subsequent Events", which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

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 nine months ended September 30, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — 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:

	September 30, 2009	September 30, 2008
Balance at beginning of quarter	\$ 2,191,544	\$ 346,863
Provision for loan losses	3,963	1,015
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 2,195,507</u>	<u>\$ 347,878</u>

The following table presents information concerning impaired loans:

	September 30, 2009	September 30, 2008
Impaired loans with related allowance	\$ 2,760,026	\$ 2,051,886
Impaired loans with no related allowance	2,880,623	480,231
Total impaired loans	<u>\$ 5,640,649</u>	<u>\$ 2,532,117</u>
Allowance on impaired loans	\$ 2,066,136	\$ 289,207
Average impaired loans	\$ 5,646,966	\$ 2,498,672
Interest income on impaired loans for the quarter	\$ 32,317	\$ 9,688

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 September 30, 2009 and 2008, the Association had CMS-related loan volume outstanding of \$21,454,680 and \$28,475,306, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$4,276,485 as of June 30, 2009.

NOTE 5 — FAIR VALUE MEASUREMENTS:

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 11 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2009 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Gains (losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans *	\$ -	\$ -	\$ 2,602,736	\$ 2,602,736	\$ -
Other property owned	-	-	376,282	376,282	-

* Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance, "Accounting by Creditors for Impairment of a Loan". The fair value was based upon the underlying collateral since these were collateral dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 11 to the 2008 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2008 Annual Report.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other

matters. As a results, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Cost to sell represent transaction costs and are not included as a component of the assets fair value.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the nine months ended September 30, 2009:

	Other Benefits	
	2009	2008
Service cost	\$ 20,065	\$ 18,129
Interest cost	46,505	41,726
Amortization of prior service costs	(31,813)	(32,261)
Amortizations of net (gain) loss	-	384
Net periodic benefit cost	<u>\$ 34,757</u>	<u>\$ 27,978</u>

The Association presently anticipates contributing an additional \$11,586 to fund its defined pension plan in 2009 for a total \$46,344.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2009, which is the date the financial statements were available to be issued, and determined that there are no subsequent events to report.