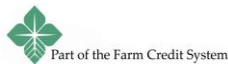


# **MISSISSIPPI LAND BANK, ACA**

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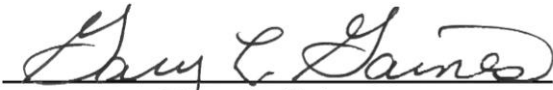
**2010  
Quarterly Report  
First Quarter**



**For the Quarter Ended March 31, 2010**

## 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  
May 10, 2010



Abbott R. Myers  
Chairman, Board of Directors  
May 10, 2010



J. Matthew Walden  
Chief Financial Officer  
May 10, 2010

**MISSISSIPPI LAND BANK, ACA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Mississippi Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the three months ended March 31, 2010. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2009, 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 thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

**Significant Events:**

On January 4, 2010, the Land Bank of North Mississippi, FLCA (FLCA) changed its name to Mississippi Land Bank, FLCA. The Association also formed Mississippi Land Bank, ACA (ACA) and Mississippi, PCA (PCA), and structured the FLCA and the PCA as subsidiaries of the ACA parent company. Long-term land loans continue to be made through the FLCA while short- and intermediate-term loans and operating loans are made through the PCA.

On March 9, 2010, the Association recorded its share of the gain from the sale of two ethanol plants previously held as acquired property. The Association's share of the gain was \$150,975.

On March 30, 2010, the Association recorded its share of a recovery of a previously charged off participation loan. The Association's share of the recovery was \$74,803. For more information, see Note 2 to the financial statements, "Allowance for Loan Losses," included in this quarterly report.

**Loan Portfolio:**

Total loans outstanding at March 31, 2010, including nonaccrual loans and sales contracts, were \$427,555,817 compared to \$422,705,982 at December 31, 2009, reflecting an increase of 1.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.3 percent at March 31, 2010, compared to 1.3 percent at December 31, 2009.

The Association recorded \$74,803 in recoveries and \$0 in charge-offs for the quarter ending March 31, 2010, and \$0 in recoveries and \$676,186 in charge-offs for the same period in 2009. The Association's allowance for loan losses was 0.5 percent and 0.5 percent of total loans outstanding as of March 31, 2010, and December 31, 2009, respectively. For more information, see Note 2 to the financial statements, "Allowance for Loan Losses," included in this quarterly report.

**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.

	March 31, 2010		December 31, 2009		March 31, 2009	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 5,549,050	93.1%	\$ 5,532,054	92.1%	\$ 1,029,082	44.5%
90 days past due and still accruing interest	42,273	0.7%	104,503	1.7%	907,987	39.3%
Other property owned, net	370,781	6.2%	370,782	6.2%	373,906	16.2%
Total	\$ 5,962,104	100.0%	\$ 6,007,339	100.0%	\$ 2,310,975	100.0%

**Results of Operations:**

The Association had net income of \$1,520,209 for the three months ended March 31, 2010, as compared to net income of \$337,940 for the same period in 2009 reflecting an increase of 349.9 percent. The primary reasons for the increase were an increase of \$321,724 due to increased interest rate spreads and loan volume and a decrease of \$534,861 in the provision of loan losses compared to 2009.

Net interest income was \$2,769,565 for the three months ended March 31, 2010, compared to \$2,447,841 for the same period in 2009, primarily due to a twenty-nine basis point increase in average loan spread compared to March 31, 2009.

Interest income for the first three months of 2010 decreased by \$231,070 or 3.8 percent from the same period of 2009, primarily due to a decrease in yields on earning assets partially offset by an increase in average loan volume. Interest expense for the first three months of 2010 decreased by \$552,794, or 14.9 percent, from the same period of 2009 due to an decrease in interest rates partially offset by an increase in average debt volume.

The effects of changes in interest rates on net interest income over the past three quarters are presented in the following tables:

	<u>March 31, 2010</u>	<u>December 31, 2009</u>	<u>March 31, 2009</u>
Yield on loans	<b>5.67%</b>	5.81%	6.14%
Cost of interest-bearing liabilities	<b>3.44%</b>	3.81%	4.20%
Interest rate spread	<b>2.23%</b>	2.00%	1.94%

Average loan volume for the first quarter of 2010 was \$423,857,689, compared to \$414,672,720 and \$406,420,512 at December 31, 2009 and the first quarter of 2009, respectively. The average spread on the loan portfolio for the first quarter 2010 was 2.23 percent, compared to 2.00 percent and 1.94 percent at December 31, 2009 and the first quarter of 2009, respectively.

The Association's return on average assets for the three months ended March 31, 2010, was 1.33 compared to 0.23 percent for the same period in 2009. The Association's return on average equity for the three months ended March 31, 2010, was 8.83, compared to 1.53 percent for the same period in 2009. The primary reason for the significant increases from 2009 to 2010 is a large charge-off taken in the first quarter of 2009 that greatly reduced the earnings for that period.

#### **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 Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<u>March 31, 2010</u>	<u>December 31, 2009</u>	<u>March 31, 2009</u>
Note payable to the Bank	<b>\$ 371,063,802</b>	\$ 372,505,676	\$ 356,719,367
Accrued interest on note payable	<b>1,036,691</b>	1,068,305	1,201,721
Total	<b><u>\$ 372,100,493</u></b>	<u>\$ 373,573,981</u>	<u>\$ 357,921,088</u>

Under the Farm Credit Act of 1971, as amended (Act), the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At March 31, 2010, the Association's note payable was within the specified limitations previously mentioned.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, and reduction of lending limits or repayment of indebtedness. The Association was subject to remedies at December 31, 2009, due to falling below the minimum standard for return on assets outlined in the financing agreement. The Association submitted an action plan to remedy the covenant which was approved by the Bank. The Association expects to be in compliance with the financing agreement by June 30, 2010. For the years ended December 31, 2008 and 2007, the Association was not subject to remedies associated with the covenants in the financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2010. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

### **Capital Resources:**

The Association's capital position increased by \$1,546,454 at March 31, 2010, compared to December 31, 2009. The Association's debt as a ratio to members' equity was 5.55:1 as of March 31, 2010, compared to 5.69:1 as of December 31, 2009.

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, 2010, was 13.6 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, 2010, were 13.1 and 13.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

### **Significant Recent Accounting Pronouncements:**

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed its loan participation agreements to ensure that participations would meet the requirements for sales treatment, and there are no special-purpose entities that would require consolidation. The impact of adoption on January 1, 2010, was immaterial to the Association's financial condition and results of operations.

### **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, 2009, Annual Report of Mississippi Land Bank, ACA 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](mailto:fcf@farmcreditbank.com). The District makes its annual and quarterly stockholder reports available on its Web site at [www.farmcreditbank.com](http://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 Mississippi Land Bank, ACA, P.O. Box 667, Senatobia, MS 38668-0667 or by calling (662) 562-9671. Copies of the Association's quarterly stockholder reports can also be found at the Association's website, [www.mslandbank.com](http://www.mslandbank.com), or can be requested by e-mailing [Jessica.Stanford@farmcreditbank.com](mailto:Jessica.Stanford@farmcreditbank.com).

**MISSISSIPPI LAND BANK, ACA**

**CONSOLIDATED BALANCE SHEET**

	<b>March 31, 2010 (unaudited)</b>	<b>December 31, 2009</b>
<b><u>ASSETS</u></b>		
Cash	\$ 201,872	\$ 1,097,183
Loans	427,555,817	422,705,982
Less: allowance for loan losses	2,246,046	2,242,753
Net loans	425,309,771	420,463,229
Accrued interest receivable	5,533,924	9,429,830
Investment in and receivable from the Bank:		
Capital stock	7,298,520	7,298,520
Other	152,373	5,864
Other property owned, net	370,781	370,782
Premises and equipment	3,504,219	3,595,669
Other assets	1,104,890	196,217
Total assets	<b>\$ 443,476,350</b>	<b>\$ 442,457,294</b>
<b><u>LIABILITIES</u></b>		
Note payable to the Bank	\$ 371,063,802	\$ 372,505,676
Accrued interest payable	1,036,691	1,068,305
Drafts outstanding	2,404,083	442,143
Other liabilities	1,270,356	2,286,206
Total liabilities	<b>375,774,932</b>	<b>376,302,330</b>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,382,235	2,355,990
Unallocated retained earnings	65,142,324	63,622,115
Accumulated other comprehensive income (loss)	176,859	176,859
Total members' equity	67,701,418	66,154,964
Total liabilities and members' equity	<b>\$ 443,476,350</b>	<b>\$ 442,457,294</b>

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

**STATEMENT OF INCOME**  
(unaudited)

	<b>Quarter Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 5,920,972	\$ 6,152,042
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Bank	3,151,407	3,704,201
Net interest income	2,769,565	2,447,841
<b><u>PROVISION FOR LOSSES</u></b>		
Provision (negative provision) for loan losses	(71,510)	463,351
Provision for acquired property losses	-	5,500
Net interest income after provision for loan losses	2,841,075	1,978,990
<b><u>NONINTEREST INCOME</u></b>		
Income from the Bank:		
Patronage income	61,184	66,626
Loan fees	176,310	230,719
Financially related services income	955	1,020
Gain (loss) on other property owned, net	150,975	57,158
Gain (loss) on sale of premises and equipment, net	1,559	-
Other noninterest income	36,263	23,066
Total noninterest income	427,246	378,589
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	1,140,659	1,260,639
Purchased services	174,290	233,890
Insurance Fund premiums	89,703	169,773
Occupancy and equipment	80,996	84,586
Travel	55,576	67,497
Public and member relations	44,794	49,248
Advertising	61,148	42,737
Supervisory and exam expense	38,463	33,982
Directors' expense	13,652	31,703
Communications	18,459	22,320
Training	14,022	6,821
Other insurance expense	-	32,134
Other noninterest expense	16,350	16,443
Total noninterest expenses	1,748,112	2,051,773
Net income	\$ 1,520,209	\$ 305,806

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

**MISSISSIPPI LAND BANK, ACA**

**CONSOLIDATED 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, 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>
Balance at December 31, 2009	\$ 2,355,990	\$ 63,622,115	\$ 176,859	\$ 66,154,964
Net income	-	1,520,209	-	1,520,209
Amortization of costs included in net periodic pension costs	-	-	-	-
Capital stock/participation certificates issued	88,785	-	-	88,785
Capital stock/participation certificates retired	(62,540)	-	-	(62,540)
Balance at March 31, 2010	<u>\$ 2,382,235</u>	<u>\$ 65,142,324</u>	<u>\$ 176,859</u>	<u>\$ 67,701,418</u>

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

**MISSISSIPPI LAND BANK, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Mississippi Land Bank, ACA (Agricultural 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 (System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2010, the Bank and related Associations adopted Financial Accounting Standards Board (FASB) guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association’s financial condition and results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on “Accounting for Transfers of Financial Assets,” which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets.

This guidance is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed its loan participation agreements to ensure that participations would meet the requirements for sales treatment, and there are no special-purpose entities that would require consolidation. The impact of adoption on January 1, 2010, was immaterial to the Association’s financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity’s economic performance.

This guidance is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Association does not have any variable interest or controlling interest in a variable entity, thus there is no impact of adoption of the guidance.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with 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 consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the three months ended March

31, 2010, are not necessarily indicative of the results to be expected for the year ended December 31, 2010. 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:

	<b>March 31, 2010</b>	December 31, 2009	March 31, 2009
Balance at beginning of quarter	\$ 2,242,753	\$ 382,665	\$ 382,665
Provision (reversal of provision) for loan losses	(71,510)	2,503,745	463,352
Charge-offs	-	(751,336)	(676,186)
Recoveries	74,803	107,679	-
Balance at end of quarter	<u>\$ 2,246,046</u>	<u>\$ 2,242,753</u>	<u>\$ 169,831</u>

The following table presents information concerning impaired loans:

	<b>March 31, 2010</b>	December 31, 2009	March 31, 2009
Impaired loans with related allowance	\$ 4,927,093	\$ 4,945,682	\$ 8,425
Impaired loans with no related allowance	664,230	690,875	1,472,268
Total impaired loans	<u>\$ 5,591,323</u>	<u>\$ 5,636,557</u>	<u>\$ 1,480,693</u>
Allowance on impaired loans	\$ 1,615,237	\$ 2,083,394	\$ 10,185
Average impaired loans	\$ 5,592,600	\$ 4,267,010	\$ 2,314,501
Interest income on impaired loans for the quarter	\$ 2,206	\$ 3,088	\$ 16,645

## NOTE 3 — 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, Alabama Farm Credit, ACA, Alabama Ag Credit, ACA, Southern Ag Credit, ACA, and Louisiana Land Bank, ACA. 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, 2010 and 2009, the Association had CMS-related loan volume outstanding of \$18,646,318 and \$22,266,998, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$2,672,353 as of March 31, 2010.

## NOTE 4 — 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 patronage, 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 5 — INCOME TAXES:**

Mississippi Land Bank, ACA and its subsidiary, Mississippi, PCA (Associations), are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. No provision for income taxes was recorded as of March 31, 2010.

Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will, therefore, impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2010, the Association carries a deferred tax asset of \$36,855 with a full valuation allowance recorded against the asset.

The Association was not a taxable entity in 2009; therefore, no current or deferred taxes were recorded in 2009. For more information, see "Significant Events" in the Management's Discussion and Analysis section of this report as well as Note 15, "Subsequent Events," in the Association's 2009 annual report.

The subsidiary, Mississippi Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

#### **NOTE 6 — 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 2 to the 2009 Annual Report to Stockholders for a more complete description.

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

	<b>March 31, 2010</b>		
	<b>Fair Value Measurement Using</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets:			
Loans *	\$ -	\$ -	\$ 3,507,929
Other property owned	-	-	370,781
	<b>December 31, 2009</b>		
	<b>Fair Value Measurement Using</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets:			
Loans *	\$ -	\$ -	\$ 3,553,163
Other property owned	-	-	370,782

\* 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 2 to the financial statements, "Summary of Significant Accounting Policies," in the 2009 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.

## 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 result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated cost 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 7 — 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, 2010, 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 \$15,571 for the three months ended March 31, 2010, compared to \$35,679 for the same period in 2009. For the DB Plan, the Association recognized pension costs of \$306,365 for the three months ended March 31, 2010, compared to \$248,107 for the same period in 2009.

**Other Postretirement Benefits:** The following table summarizes the components of net periodic benefit costs for the three months ended March 31, 2010 and 2009:

	Other Benefits	
	2010	2009
Service cost	\$ -	\$ 502
Interest cost	-	6,688
Amortization of prior service costs	-	15,502
Amortizations of net (gain) loss	-	(10,604)
Net periodic benefit cost	<u>\$ -</u>	<u>\$ 12,088</u>

The Association anticipates accruing an amount of \$45,321 for the plan for 2010.

## NOTE 8 — Commitments and Contingent Liabilities:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

## NOTE 9 — Subsequent Events:

The Farm Credit Act of 1971, as amended (the Act), requires the Farm Credit System Association Captive Insurance Company (FCSIC) to allocate excess Insurance Fund balances to the Allocated Insurance Reserves Accounts (AIRAs) at the end of any year in which the adjusted amount in the Insurance Fund exceeds the secure base amount. The Act also gives FCSIC discretion concerning payments from the AIRAs. On April 29, 2010, the FCSIC paid \$105,484 to the Association from its AIRA from 2003.

Also on April 29, 2010, The FCSIC distributed excess reserves from 2009 in the amount of \$333,626 to the Association. Both amounts were recorded in April's activity in other income and will be reflected in the second quarter stockholder report.

As of May 10, 2010, there were no other subsequent events to report.