

MISSISSIPPI LAND BANK, ACA

2010
Quarterly Report
Second Quarter

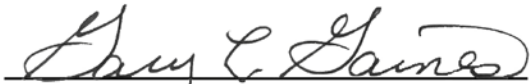


Part of the Farm Credit System

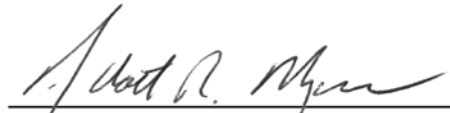
For the Quarter Ended June 30, 2010

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
August 10, 2010



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



J. Matthew Walden
Chief Financial Officer
August 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 quarter and six months ended June 30, 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 Event:

On April 30, 2010, the Association received its share of insurance premium refund from the Farm Credit System Insurance Corporation. The Association's share of the refund was \$439,109.

On June 3, 2010, the Association recorded its share of a recovery of a previously charged off participation loan. The Association's share of the recovery was \$525,293 and was the result of the sale of collateral. The Association currently holds one remaining property related to this participation loan. 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 June 30, 2010, including nonaccrual loans and sales contracts, were \$430,570,674 compared to \$422,705,982 at December 31, 2009, reflecting an increase of 1.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.3 percent at June 30, 2010, compared to 0.7 percent at December 31, 2009.

The Association recorded \$525,293 in recoveries and \$0 in charge-offs for the quarter ending June 30, 2010, and \$0 in recoveries and \$14,717 in charge-offs for the same period in 2009. The Association's allowance for loan losses was 0.6 percent and 0.5 percent of total loans outstanding as of June 30, 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.

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 5,448,924	91.9%	\$ 3,154,087	86.9%
90 days past due and still accruing interest	105,900	1.8%	104,503	2.9%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	370,781	6.3%	370,782	10.2%
Total	<u>\$ 5,925,605</u>	<u>100.0%</u>	<u>\$ 3,629,372</u>	<u>100.0%</u>

Results of Operations:

For the three and six months ended June 30, 2010, the Association had net income of \$1,880,321 and \$3,418,990, respectively. For the same periods in 2009, the Association had net losses of \$1,261,689 and \$ 933,563 respectively. The primary reasons for the increase in net income were less provision for loan losses booked in 2010 versus 2009 of \$2.7MM and total operating expenses down by approximately \$500M versus 2009.

Net interest income was \$2,860,228 and \$5,629,793 for the first and second quarters of 2010, respectively compared to \$2,504,653 and \$4,952,494 for the same periods in 2009. The primary reason for the increases from 2009 to 2010 was higher spreads earned on the Association's loan portfolio.

Interest income for the first six months of 2010 decreased by \$351,944, or 2.9 percent, from the same period of 2009, primarily due to declines in yields on earning assets partially offset by an increase in average loan volume. Interest expense for the first six months of 2010 decreased by \$1,029,243, or 14.2 percent, from the same period of 2009 due to a decrease in interest rates partially offset by an increase in average debt volume. Average loan volume for the second quarter of 2010 was \$426,524,546, compared to \$412,209,805 in the second quarter of 2009. The average spread on the loan portfolio for the second quarter 2010 was 2.26 percent, compared to 1.97 percent in the second quarter of 2009.

The effects of changes in interest rates on net interest income are presented in the following table:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>	<u>June 30, 2009</u>
Yield on loans	5.56%	5.81%	5.87%
Cost of interest-bearing liabilities	3.30%	3.81%	3.90%
Interest rate spread	2.26%	2.00%	1.97%

The Association's return on average assets for the six months ended June 30, 2010, was 1.55 percent compared to -0.54 percent for the same period in 2009. The Association's return on average equity for the six months ended June 30, 2010, was 9.91 percent, compared to -3.59 percent for the same period in 2009.

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>June 30, 2010</u>	<u>December 31, 2009</u>
Note payable to the Bank	\$ 374,744,815	\$ 372,505,676
Accrued interest on note payable	1,010,764	1,068,305
Total	<u>\$ 375,755,579</u>	<u>\$ 373,573,981</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 June 30, 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. As of June 30, 2010, the Association is in compliance with the financing agreement. 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 \$3,435,473 at June 30, 2010, compared to December 31, 2009. The Association's debt as a ratio of members' equity was 5.43:1 as of June 30, 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 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at June 30, 2010, was 14.1 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 2010, were 13.5 and 13.5 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 was effective January 1, 2010. This statement must be applied to transfers occurring on or after the effective date. Additionally, 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 in accordance with the applicable consolidation guidance. If the evaluation 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 not be required to be consolidated. 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 Texas 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 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, or can be requested by e-mailing Jessica.Stanford@farmcreditbank.com.

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
Cash	\$ 33,204	\$ 1,097,183
Loans	430,570,674	422,705,982
Less: allowance for loan losses	2,626,218	2,242,753
Net loans	427,944,456	420,463,229
Accrued interest receivable	7,372,788	9,429,830
Investment in and receivable from the Bank:		
Capital stock	7,298,520	7,298,520
Other	149,524	5,864
Other property owned, net	370,781	370,782
Premises and equipment	3,449,302	3,595,669
Other assets	823,940	196,217
Total assets	\$ 447,442,515	\$ 442,457,294
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 374,744,815	\$ 372,505,676
Accrued interest payable	1,010,764	1,068,305
Drafts outstanding	671,792	442,143
Other liabilities	1,424,707	2,286,206
Total liabilities	377,852,078	376,302,330
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,431,380	2,355,990
Unallocated retained earnings	67,003,406	63,622,115
Accumulated other comprehensive income (loss)	155,651	176,859
Total members' equity	69,590,437	66,154,964
Total liabilities and members' equity	\$ 447,442,515	\$ 442,457,294

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<u>INTEREST INCOME</u>				
Loans	\$ 5,909,564	\$ 6,030,436	\$ 11,830,536	\$ 12,182,480
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	3,049,336	3,525,783	6,200,743	7,229,986
Net interest income	2,860,228	2,504,653	5,629,793	4,952,494
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	(145,121)	2,036,430	(216,631)	2,499,781
Provision for acquired property losses	-	6,400	-	11,900
Net interest income after provision for loan losses	3,005,349	461,823	5,846,424	2,440,813
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	59,670	63,001	120,854	129,627
Loan fees	150,755	184,035	327,065	414,754
Financially related services income	1,231	1,264	2,186	2,284
Gain (loss) on other property owned, net	-	-	147,192	57,158
Gain (loss) on sale of premises and equipment, net	(866)	-	19,679	-
Other noninterest income	447,875	20,245	465,696	43,311
Total noninterest income	658,665	268,545	1,082,672	647,134
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,201,218	1,198,849	2,341,878	2,459,488
Purchased services	122,162	201,258	296,452	435,148
Occupancy and equipment	93,125	86,468	146,380	171,054
Advertising	77,514	70,782	138,662	113,519
Travel	73,054	97,349	128,630	164,846
Other insurance expense	71,020	24,275	71,020	56,409
Supervisory and exam expense	38,463	33,982	76,926	67,964
Directors' expense	38,254	42,104	51,906	73,807
Public and member relations	37,771	25,153	82,565	74,401
Communications	19,240	20,999	37,699	43,319
Training	8,270	20,438	22,293	27,259
FCSIC insurance expense	1,044	170,317	90,748	340,090
Other noninterest expense	21,798	21,082	62,646	37,525
Total noninterest expenses	1,802,933	2,013,056	3,547,805	4,064,829
Net income	\$ 1,861,081	\$ (1,282,688)	\$ 3,381,291	\$ (976,882)

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</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
Comprehensive income				
Net income	-	(976,882)	-	(976,882)
Amortization of costs included in periodic retirement benefit costs	-	-	(21,208)	(21,208)
Total comprehensive income	<u>2,304,985</u>	<u>60,637,159</u>	<u>187,999</u>	<u>63,130,143</u>
Capital stock/participation certificates issued	171,290	-	-	171,290
Capital stock/participation certificates retired	(144,430)	-	-	(144,430)
Balance at June 30, 2009	<u>\$ 2,331,845</u>	<u>\$ 60,637,159</u>	<u>\$ 187,999</u>	<u>\$ 63,157,003</u>
Balance at December 31, 2009	\$ 2,355,990	\$ 63,622,115	\$ 176,859	\$ 66,154,964
Comprehensive income				
Net income	-	3,381,291	-	3,381,291
Change in postretirement benefit plans	-	-	(21,208)	(21,208)
Total comprehensive income	<u>2,355,990</u>	<u>67,003,406</u>	<u>155,651</u>	<u>69,515,047</u>
Capital stock/participation certificates issued	189,865	-	-	189,865
Capital stock/participation certificates retired	(114,475)	-	-	(114,475)
Balance at June 30, 2010	<u>\$ 2,431,380</u>	<u>\$ 67,003,406</u>	<u>\$ 155,651</u>	<u>\$ 69,590,437</u>

The accompanying notes are an integral part of these combined 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 Association 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 was effective January 1, 2010. This statement must be applied to transfers occurring on or after the effective date. Additionally, 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 in accordance with the applicable consolidation guidance. If the evaluation 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 not be required to be consolidated. 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 was effective January 1, 2010. The Association reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010, was immaterial to its financial condition and results of operations.

The accompanying consolidated 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 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 quarter and the six months ended June 30, 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:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Balance at beginning of quarter	\$ 2,246,046	\$ 169,831
Provision for loan losses	(216,631)	2,036,430
Charge-offs	-	(14,717)
Recoveries	525,293	-
Balance at end of quarter	<u>\$ 2,554,708</u>	<u>\$ 2,191,544</u>

The following table presents information concerning impaired loans:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Impaired loans with related allowance	\$ 4,844,544	\$ 2,837,448
Impaired loans with no related allowance	710,280	3,309,974
Total impaired loans	<u>\$ 5,554,824</u>	<u>\$ 6,147,422</u>
Allowance on impaired loans	\$ 2,462,922	\$ 2,051,418
Average impaired loans	\$ 5,628,813	\$ 1,714,583
Interest income on impaired loans for the quarter	\$ 2,092	\$ 38,376

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 June 3, 2010 and 2009, the Association had CMS-related loan volume outstanding of \$18,247,189 and \$16,825,256, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$2,439,664 as of June 30, 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 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 5 — INCOME TAXES:

matters. As a result, 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, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's 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 June 30, 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 \$34,489 for the six months ended June 30, 2010, compared to \$51,673 for the same period in 2009. For the DB Plan, the Association recognized pension costs of \$612,730 for the six months ended June 30, 2010, compared to \$744,321 for the same period in 2009.

Other Postretirement Benefits: The following table summarizes the components of net periodic benefit costs for the six months ended June 30, 2010 and 2009:

	Other Benefits	
	2010	2009
Service cost	\$ 12,071	\$ 1,005
Interest cost	31,798	13,377
Amortization of prior service costs	(21,209)	31,004
Amortizations of net (gain) loss	-	(21,209)
Net periodic benefit cost	<u>\$ 22,660</u>	<u>\$ 24,177</u>

The Association presently anticipates contributing an additional \$22,661 to fund its defined pension plan in 2010 for a total of \$45,321.

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 Association has evaluated subsequent events through August 10, 2010, which is the date the financial statements were issued.

On August 9, 2010, the Association classified a participation loan as nonaccrual and thus moved approximately \$1.1MM of loan volume to nonaccrual status.

As of August 10, 2010, there are no other subsequent events to report.