

MISSISSIPPI LAND BANK, ACA

**2010
Quarterly Report
Third Quarter**

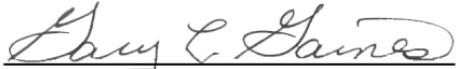


Part of the Farm Credit System

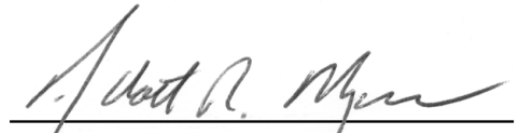
For the Quarter Ended September 30, 2010

REPORT OF MANAGEMENT

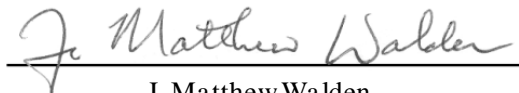
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



Gary L. Gaines
President and Chief Executive Officer
November 10, 2010



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



J. Matthew Walden
Chief Financial Officer
November 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 nine months ended September 30, 2010. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2009, Annual Report to Stockholders.

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.

In September, the Association moved one participation loan to acquired property. As a result of the transaction, the Association recorded a charge off of \$626,481, a reversal of provision for loan losses of \$752,463, and a provision for acquired property losses of \$158,647.

Loan Portfolio:

Total loans outstanding at September 30, 2010, including nonaccrual loans and sales contracts, were \$444,504,439 compared to \$422,705,982 at December 31, 2009, reflecting an increase of 5.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.3 percent at September 30, 2010, compared to 0.7 percent at December 31, 2009.

The Association recorded \$0 in recoveries and \$626,481 in charge-offs for the quarter ending September 30, 2010, and \$0 in recoveries and \$0 in charge-offs for the same period in 2009. The Association's allowance for loan losses was 0.3 percent and 0.5 percent of total loans outstanding as of September 30, 2010, and December 31, 2009, respectively.

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, 2010		December 31, 2009	
	Amount	%	Amount	%
Nonaccrual	\$ 5,937,806	86.1%	\$ 3,154,087	86.9%
90 days past due and still accruing interest	12,424	0.2%	104,503	2.9%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	943,672	13.7%	370,782	10.2%
Total	\$ 6,893,902	100.0%	\$ 3,629,372	100.0%

Results of Operations:

For the three and nine months ended September 30, 2010, the Association had net income of \$2,061,715 and \$5,443,006 as compared to net income of \$931,674 and a net loss of \$45,207 for the same periods in 2009 reflecting an increase of 121.3 percent and 12,140.2 percent respectively. The primary reasons for the increase over 2009 are allowance reversals of \$675,980, recoveries of \$600,097, and insurance refunds of \$439,109 in 2010 and \$2,503,744 of allowance provision taken in the first nine months of 2009.

Net interest income was \$3,016,892 and \$8,646,685 for the three and nine months ended September 30, 2010, compared to \$2,537,832 and \$7,490,327 for the same period in 2009. The effects of changes in interest rates on net interest income are presented in the following table:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>	<u>September 30, 2009</u>
Yield on loans	5.52%	5.81%	5.89%
Cost of interest-bearing liabilities	3.23%	3.81%	3.93%
Interest rate spread	2.28%	2.00%	1.96%

Interest income for the first nine months of 2010 decreased by \$460,069 or 2.5 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 nine months of 2010 decreased by \$1,616,427, or 15.1 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 third quarter of 2010 was \$438,090,056, compared to \$418,654,483 in the third quarter of 2009.

The Association's return on average assets (ROA) for the nine months ended September 30, 2010, was 1.62 percent compared to (0.01) percent for the same period in 2009. The Association's return on average equity (ROE) for the nine months ended September 30, 2010, was 10.32 percent, compared to (0.09) percent for the same period in 2009. The primary reasons for the material rise in ROA and ROE are provisions for loan losses made in 2009 and a 28 basis point increase in spread during 2010.

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>September 30, 2010</u>	<u>December 31, 2009</u>
Note payable to the Bank	\$ 390,126,195	\$ 372,505,676
Accrued interest on note payable	902,930	1,068,305
Total	<u>\$ 391,029,125</u>	<u>\$ 373,573,981</u>

Capital Resources:

The Association's capital position increased by \$5,544,198 at September 30, 2010, compared to December 31, 2009. The Association's debt as a percentage of members' equity was 5.49:1 as of September 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 September 30, 2010, was 14.2 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, 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 fcb@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

	September 30, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
Cash	\$ 33,380	\$ 1,097,183
Loans	444,504,439	422,705,982
Less: allowance for loan losses	1,323,757	2,242,753
Net loans	443,180,682	420,463,229
Accrued interest receivable	9,793,616	9,429,830
Investment in and receivable from the Bank:		
Capital stock	7,298,520	7,298,520
Other	101,853	5,864
Deferred taxes, net	-	-
Other property owned, net	943,672	370,782
Premises and equipment	3,445,527	3,595,668
Other assets	538,137	196,218
Total assets	\$ 465,335,387	\$ 442,457,294
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 390,126,195	\$ 372,505,676
Accrued interest payable	902,930	1,068,305
Drafts outstanding	1,096,587	442,143
Other liabilities	1,510,513	2,286,205
Total liabilities	393,636,225	376,302,329
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,488,995	2,355,990
Unallocated retained earnings	69,065,121	63,622,115
Accumulated other comprehensive income (loss)	145,046	176,859
Total members' equity	71,699,162	66,154,964
Total liabilities and members' equity	\$ 465,335,387	\$ 442,457,293

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<u>INTEREST INCOME</u>				
Loans	\$ 5,890,601	\$ 5,998,735	\$ 17,721,137	\$ 18,181,206
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	2,873,709	3,460,903	9,074,452	10,690,879
Net interest income	3,016,892	2,537,832	8,646,685	7,490,327
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	(675,980)	3,963	(892,611)	2,503,744
Provision for acquired property losses	158,647	(6,400)	158,647	5,500
Net interest income after provision for loan losses	3,534,225	2,540,269	9,380,649	4,981,083
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	54,097	60,899	174,951	190,525
Loan fees	208,462	133,509	535,527	559,784
Financially related services income	1,306	-	3,492	2,284
Gain (loss) on other property owned, net	(1,556)	181	145,636	57,158
Gain (loss) on sale of premises and equipment, net	-	-	693	-
Other noninterest income	-	81,060	484,683	112,027
Total noninterest income	262,309	275,649	1,344,982	921,778
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,175,291	1,177,763	3,517,169	3,647,852
Directors' expense	10,274	9,505	62,181	83,312
Purchased services	157,573	171,172	454,025	595,719
Travel	77,455	81,690	206,085	246,536
Occupancy and equipment	78,079	71,169	224,459	216,890
Communications	20,527	18,415	58,226	61,734
Advertising	55,786	70,415	194,448	183,935
Public and member relations	16,674	22,791	99,239	97,192
Supervisory and exam expense	38,463	33,982	115,389	101,946
Insurance Fund premiums	45,944	176,413	136,691	516,503
Other noninterest expense	58,753	50,929	214,713	196,449
Total noninterest expenses	1,734,819	1,884,244	5,282,625	5,948,068
Net income	\$ 2,061,715	\$ 931,674	\$ 5,443,006	\$ (45,207)

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2008	\$ 2,304,985	\$ 61,614,041	\$ 209,207	\$ 64,128,233
Net income	-	(45,207)	-	(45,207)
Change in postretirement benefit plans	-	-	(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>
Balance at December 31, 2009	\$ 2,355,990	\$ 63,622,115	\$ 176,859	\$ 66,154,964
Net income	-	5,443,006	-	5,443,006
Change in postretirement benefit plans	-	-	(31,813)	(31,813)
Total comprehensive income	-	5,443,006	(31,813)	5,411,193
Capital stock/participation certificates issued	295,530	-	-	295,530
Capital stock/participation certificates retired	(162,525)	-	-	(162,525)
Balance at September 30, 2010	<u>\$ 2,488,995</u>	<u>\$ 69,065,121</u>	<u>\$ 145,046</u>	<u>\$ 71,699,162</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.

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.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2009 are contained in the 2009 Annual Report to Stockholders. These unaudited third quarter 2010 financial statements should be read in conjunction with the 2009 Annual Report to Stockholders.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” (Standard) which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including, among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this Standard should have no impact on the Association’s financial condition or results of operations, but will result in additional disclosures.

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 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 quarter and the nine months ended September 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:

	September 30, 2010	September 30, 2009
Balance at beginning of quarter	\$ 2,626,218	\$ 140,126
Provision (negative provision) for loan losses	(675,980)	(2,437)
Charge-offs	(626,481)	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 1,323,757</u>	<u>\$ 137,689</u>

The following table presents information concerning impaired loans:

	September 30, 2010	September 30, 2009
Impaired loans with related allowance	\$ 2,185,889	\$ 2,760,026
Impaired loans with no related allowance	<u>3,764,341</u>	<u>2,880,623</u>
Total impaired loans	<u>\$ 5,950,230</u>	<u>\$ 5,640,649</u>
Allowance on impaired loans	\$ 1,082,178	\$ 2,066,136
Average impaired loans	\$ 5,977,194	\$ 5,646,966
Interest income on impaired loans for the quarter	\$ 6,343	\$ 32,317

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 September 30, 2010 and 2009, the Association had CMS-related loan volume outstanding of \$15,739,466 and \$21,454,680, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$208,571 as of September 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:

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 September 30, 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 nine months ended September 30, 2010, the Association carries a deferred tax asset of \$80,630 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 recurring basis are summarized below:

September 30, 2010

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans *	\$ -	\$ -	\$ 4,868,052
Other property owned	-	-	943,672

December 31, 2009

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
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 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 Association's assets and liabilities. For a more complete description, see Notes to the 2009 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 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:

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

	Other Benefits	
	2010	2009
Service cost	\$ 18,108	\$ 20,065
Interest cost	47,697	46,505
Amortization of prior service costs	(31,814)	(31,813)
Amortizations of net (gain) loss	-	-
Net periodic benefit cost	\$ 33,991	\$ 34,757

The Association presently anticipates contributing an additional \$11,330 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 November 10, 2010, which is the date the financial statements were issued.