

2010 Quarterly Report



For the 1st Quarter Ended March 31, 2010

REPORT OF MANAGEMENT

The undersigned certify that they 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.



Charles P. Gant
Chief Executive Officer/President
May 5, 2010



Barnett L. Baker
Chairman, Board of Directors
May 5, 2010



Sharla Chambers
Chief Financial Officer
May 5, 2010

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

The following commentary reviews the financial performance of Texas Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and 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.

LOAN PORTFOLIO:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses, primarily in the 16-county Central Texas area located in the I-35 Corridor between the metropolitan areas of Dallas/Fort Worth and Austin. The Association's loan volume consists of long-term rural real estate mortgage loans, production and intermediate-term loans, farm-related business loans and rural home loans.

The primary commodity source for the Association's loan portfolio is livestock, excluding dairy and poultry. Cattle prices have been stable to strengthening and are being aided with improving pasture conditions, lower inventory numbers and a reduction in feed costs through lower grain prices. While export sales are still weak, ongoing demand for meat protein and supply management in meat production have continued to provide support for meat prices.

Producers in the loan portfolio are also affected by fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices, and continue to be a major consideration in planning processes. While fuel oil and natural gas prices have decreased from previous highs, market volatility could continue to put upward pressure on these prices. In addition, cotton and grain prices have also come under pressure due to weaker export markets and USDA crop reports, as prices in the commodity markets in general have experienced a trend of decline during the overall softening in the financial markets and global economies. Cotton prices, however, have been strengthening and could remain fairly stable this year.

The Association has significant monthly payment loan volume and loans to borrowers that are not dependent solely upon farm income for repayments. Thus, the Association does not experience large fluctuations due to seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

RISK EXPOSURE:

Total loans outstanding at March 31, 2010, including nonaccrual loans and sales contracts, were \$436,452,467 compared to \$433,149,428 at December 31, 2009, reflecting an increase of 0.8 percent that was attributable to growth in both the Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent at March 31, 2010, compared to 0.6 percent at December 31, 2009. The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending March 31, 2010, and \$36,659 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 0.3 percent of total loans outstanding as of March 31, 2010, and December 31, 2009, respectively.

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

	March 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Nonaccrual	\$ 1,723,360	85.9%	\$ 2,588,468	100.0%
90 days past due and still accruing interest	283,111	14.1%	-	0.0%
Total	\$ 2,006,471	100.0%	\$ 2,588,468	100.0%

As of March 31, 2010, the Association's portfolio included nonaccrual loans in the amount of \$1,723,360, which represented a 33.42 percent decrease from December 31, 2009. The decrease in nonaccrual volume is primarily the result of a participation loan in the ethanol industry, whose performance and conditions had improved to a level that warranted the transfer of the loan back to accrual status per the direction of the lead lender with approval from the Farm Credit Administration. The remaining nonaccrual volume is largely comprised of one remaining participation loan in the ethanol industry that is currently in bankruptcy.

The overall quality of the loan portfolio remained strong through the first quarter of 2010, with loans classified under Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 97.84 percent of total loans and accrued interest at March 31, 2010.

RESULTS OF OPERATIONS:

Net Income

The Association had net income of \$2,125,975 for the three months ended March 31, 2010, as compared to net income of \$2,112,990 for the same period in 2009, reflecting an increase of 0.6 percent. The increase in net income consisted of a \$157,923 increase in net interest income and a \$107,964 decrease in noninterest expenses, offset by a \$244,243 decrease in noninterest income as compared to the same period in 2009.

Net Interest Income

Net interest income was \$3,204,228 for the three months ended March 31, 2010, compared to \$3,046,305 for the same period in 2009. Average loan volume for the first quarter of 2010 was \$434,334,730, compared to \$410,771,077 in the first quarter of 2009, and the average spread on the loan portfolio for the first quarter 2010 was 2.33 percent, compared to 2.29 percent in the first quarter of 2009. In spite of an increase in average loan volume and spread in the portfolio, a generally low interest rate environment compressed interest income for the first three months of 2010, allowing an increase of \$6,681, or 0.1 percent, from the same period of 2009. Those same conditions caused interest expense for the first three months of 2010 to decrease by \$151,242, or 4.5 percent, from the same period of 2009.

Noninterest Income and Expense

Noninterest income for the three months ended March 31, 2010, decreased by \$244,243 from the same period in 2009, primarily as a result of a decline in loan fees collected on loans serviced and originated by the Association in the first quarter of 2010 as compared to the same period in 2009. Noninterest expenses for the three months ended March 31, 2010, decreased by \$107,964 from the same period in 2009. The decrease was primarily attributable to a decrease in salary and benefits expenses as a result of decreased pension plan costs, and decreased Farm Credit System Insurance Corporation (FCSIC) expenses, offset by slight increases in advertising and purchased services from Farm Credit Bank of Texas (Bank).

Financial Ratios

The Association's return on average assets for the three months ended March 31, 2010, was 1.93 percent, compared to 2.02 percent for the same period in 2009. The Association's return on average equity for the three months ended March 31, 2010, was 10.01 percent, compared to 10.57 percent for the same period in 2009. These decreases are largely related to a decrease in earnings on own funds caused by lower interest rates.

LIQUIDITY AND FUNDING SOURCES:

The Association secures the majority of its lendable funds from 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>
Note payable to the Bank	\$ 355,402,651	\$ 353,779,641
Accrued interest on note payable	1,065,446	1,091,317
Total	<u>\$ 356,468,097</u>	<u>\$ 354,870,958</u>

The Association experienced a \$1,597,139 increase in notes and accrued interest payable to the Bank through the quarter ended March 31, 2010, due to increased loan volume experienced by the Association since December 31, 2009.

CAPITAL RESOURCES:

The Association's capital position increased by \$2,135,230 at March 31, 2010, compared to December 31, 2009. The Association's debt as a percentage of members' equity was 414.94:1 as of March 31, 2010, compared to 424.50:1 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 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2010, was 16.8 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 16.9 and 16.9 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

SIGNIFICANT EVENTS:

During the first quarter of 2010, the Association's board of directors began discussions with Legacy Ag Credit, ACA, headquartered in Sulphur Springs, Texas, regarding an acquisition of that entity. Due diligence activities associated with this potential strategic combination are currently in progress.

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 Statement 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 stockholders' investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2009 Annual Report of Texas 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 website at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request, 45 days after the close of the quarter. These reports can be obtained by writing to Texas Land Bank, ACA, P.O. Box 20997, Waco, Texas 76702 or calling (254) 772-6905. Copies of the Association's quarterly stockholder and annual stockholder reports can also be obtained by e-mailing sharla.chambers@texaslandbank.com or on the Association's website at www.texaslandbank.com.

TEXAS LAND BANK, ACA
CONSOLIDATED BALANCE SHEET

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash	\$ 310,056	\$ 688,395
Loans	436,452,467	433,149,428
Less: allowance for loan losses	1,189,346	1,139,346
Net loans	435,263,121	432,010,082
Accrued interest receivable	4,014,502	3,852,847
Investment in and receivable from the Bank:		
Capital stock	6,896,470	6,896,470
Premises and equipment	1,381,794	1,406,157
Other assets	636,196	795,292
Total assets	<u>\$ 448,502,139</u>	<u>\$ 445,649,243</u>
LIABILITIES		
Note payable to the Bank	\$ 355,402,651	\$ 353,779,641
Accrued interest payable	1,065,450	1,091,317
Drafts outstanding	689,073	991,500
Patronage distributions payable	3,000,000	3,000,000
Other liabilities	1,247,751	1,824,801
Total liabilities	<u>361,404,925</u>	<u>360,687,259</u>
MEMBERS' EQUITY		
Capital stock and participation certificates	2,632,270	2,623,015
Allocated retained earnings	14,254,258	14,254,258
Unallocated retained earnings	69,918,947	67,792,972
Accumulated other comprehensive income (loss)	291,739	291,739
Total members' equity	<u>87,097,214</u>	<u>84,961,984</u>
Total liabilities and members' equity	<u>\$ 448,502,139</u>	<u>\$ 445,649,243</u>

TEXAS LAND BANK, ACA
CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended	
	March 31,	
	2010	2009
INTEREST INCOME		
Loans	\$ 6,406,587	\$ 6,399,906
Total interest income	<u>6,406,587</u>	<u>6,399,906</u>
INTEREST EXPENSE		
Note payable to the Bank	3,202,359	3,353,600
Advance conditional payments	-	1
Total interest expense	<u>3,202,359</u>	<u>3,353,601</u>
Net interest income	<u>3,204,228</u>	<u>3,046,305</u>
PROVISION FOR LOSSES		
Provision (negative provision) for loan losses	<u>50,000</u>	<u>41,341</u>
Net interest income after provision for loan losses	<u>3,154,228</u>	<u>3,004,964</u>
NONINTEREST INCOME		
Income from the bank:		
Patronage income	61,859	66,795
Loan fees	205,270	412,261
Financially related services income	4,288	4,687
Gain (loss) on other property owned, net	639	-
Gain (loss) on sale of premises and equipment, net	-	8,759
Other noninterest income	<u>54</u>	<u>23,851</u>
Total noninterest income	<u>272,110</u>	<u>516,353</u>
NONINTEREST EXPENSES		
Salaries and employee benefits	744,325	803,143
Directors' expense	74,545	60,249
Purchased services	118,810	96,225
Travel	28,724	19,262
Occupancy and equipment	72,060	93,058
Communications	20,506	18,618
Advertising	62,576	48,225
Public and member relations	28,640	24,309
Supervisory and exam expense	39,109	36,317
Insurance Fund premiums	84,724	159,835
Other noninterest expense	<u>26,344</u>	<u>49,086</u>
Total noninterest expenses	<u>1,300,363</u>	<u>1,408,327</u>
Income before income taxes	<u>2,125,975</u>	<u>2,112,990</u>
Net income	<u>\$ 2,125,975</u>	<u>\$ 2,112,990</u>

TEXAS LAND BANK, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2008	\$ 2,620,855	\$ 12,765,444	\$ 64,072,029	\$ 256,170	\$ 79,714,498
Comprehensive income					
Net income	-	-	2,112,990	-	2,112,990
Amortization of costs included in periodic retirement benefit costs	-	-	-	(12,380)	(12,380)
Total comprehensive income	-	-	2,112,990	(12,380)	2,100,610
Capital stock/participation certificates issued	69,720	-	-	-	69,720
Capital stock/participation certificates and allocated retained earnings retired	(86,825)	-	-	-	(86,825)
Balance at March 31, 2009	\$ 2,603,750	\$ 12,765,444	\$ 66,185,019	\$ 243,790	\$ 81,798,003
Balance at December 31, 2009	\$ 2,623,015	\$ 14,254,258	\$ 67,792,972	\$ 291,739	\$ 84,961,984
Comprehensive income					
Net income	-	-	2,125,975	-	2,125,975
Change in postretirement benefit plans	-	-	-	-	-
Total comprehensive income	-	-	2,125,975	-	2,125,975
Capital stock/participation certificates issued	80,470	-	-	-	80,470
Capital stock/participation certificates and allocated retained earnings retired	(71,215)	-	-	-	(71,215)
Balance at March 31, 2010	\$ 2,632,270	\$ 14,254,258	\$ 69,918,947	\$ 291,739	\$ 87,097,214

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Texas 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 in the counties of Bell, Bosque, Burnet, Coryell, Dallas, Ellis, Falls, Freestone, Hamilton, Hill, Lampasas, Limestone, McLennan, Milam, Navarro and Williamson in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 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 Statement 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 quarter and 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:

Impaired loans are loans for which it is probable that not all principle and interest will be collected according to the contractual terms. The following table presents information concerning impaired loans:

	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
Impaired loans with related allowance	\$ 1,270,827	\$ 1,031,298
Impaired loans with no related allowance	735,644	2,894,914
Total impaired loans	<u>\$ 2,006,471</u>	<u>\$ 3,926,212</u>
Allowance on impaired loans	\$ 656,683	\$ 114,000
Average impaired loans	\$ 1,869,348	\$ 4,153,467
Interest income on impaired loans for the quarter	\$ 2,603	\$ 18,290

The Association portfolio included \$2,006,471 in loans classified as impaired as of March 31, 2010. This represented a decrease of \$1,919,741 from the same period in 2009. Nonaccrual loans made up \$1,723,360 of total impaired loans, and approximately 63.34 percent of the total impaired loan volume was comprised of participation loan volume to a borrower in the ethanol industry. Based on guidance from Farm Credit Administration (FCA) and the lead lender in addition to analysis performed by the Association, a related specific allowance has been recorded on this impaired nonaccrual loan. While the ethanol industry has been economically challenged in recent years due to volatility in commodity markets, particularly oil and corn, those markets appear to have stabilized and the industry has begun to experience profitability.

The allowance for loan losses is maintained based on estimates that consider the general financial strength of the overall general and agricultural economies, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Using these factors, the Association maintains an allowance for loan loss level that is considered adequate by management to provide for estimated losses inherent in the loan portfolio. An analysis of the allowance for loan losses follows:

	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
Balance at beginning of quarter	\$ 1,139,346	\$ 368,663
Provision for loan losses	50,000	41,341
Recoveries	-	36,659
Balance at end of quarter	<u>\$ 1,189,346</u>	<u>\$ 446,663</u>

The allowance for loan loss was \$742,683 higher for the three months ended March 31, 2010, as compared to the same period in 2009. This increase was attributable to a \$200,000 increase in the general allowance as well as a participation loan in the ethanol industry in which it was deemed there was a weak collateral position and negative economic conditions impacting the industry and the borrower.

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Texas Land Bank, ACA and its subsidiary 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. During 2010, the Association intends to participate in a patronage program. 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, and 2009 net income for tax purposes did not warrant the recognition of tax expense due to the patronage program implemented.

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

Upon adoption of FIN 48 on January 1, 2007, the Association did not recognize a tax liability for any unrecognized tax benefits. Since that time there have not been any changes in tax positions.

NOTE 5 — FAIR VALUE MEASUREMENTS:

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 11 to the 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:

<u>March 31, 2010</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans *	\$ -	\$ -	\$ 614,144	\$ 614,144
<u>December 31, 2009</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans *	\$ -	\$ -	\$ 711,830	\$ 711,830

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

Valuation Techniques

As more fully discussed in Note 11 to the 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. 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.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31,:

	Other Benefits	
	2010	2009
Service cost	\$ 7,272	\$ 7,121
Interest cost	14,044	15,234
Amortization of prior service costs	(12,793)	(12,793)
Amortizations of net (gain) loss	-	413
Net periodic benefit cost	<u>\$ 8,523</u>	<u>\$ 9,975</u>

In addition, the Association has funded the full amount of defined benefit pension plan contributions in 2010 in the amount of \$562,023, and it does not anticipate contributing any additional amounts during 2010. The amount will be recognized as an expense for the Association on a pro rata basis throughout the year.

NOTE 7 — 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 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 5, 2010, which is the date the financial statements were available to be issued. As of May 5, 2010, there were no significant events requiring disclosure in the first quarter 2010 stockholder report.