

PANHANDLE-PLAINS LAND BANK, FLCA

**2010
Quarterly Report
First Quarter**



For the Quarter Ended March 31, 2010

REPORT OF MANAGEMENT

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



Robert R. Williams, Jr., Chief Executive Officer

April 30, 2010



Walter L. Henson, Chairman, Board of Directors

April 30, 2010



Cathy D. Scribner, Chief Financial Officer

April 30, 2010

PANHANDLE-PLAINS LAND BANK, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Panhandle-Plains Land Bank, FLCA (Federal Land 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.

Throughout the second and third quarter of 2009, the national economy, as well as the global economy, was in the midst of a significant recession. The economy improved slightly during the fourth quarter and the Association ended 2009 in an adequate financial position with earnings meeting its operational needs, maintaining its capital target of 15% and enabling the Association to pay a cash patronage during the first quarter of 2010. Looking forward we are optimistic that steady commodity prices for beef cattle and grains, combined with steady land value prices, and very low levels of payment delinquencies on our retail loan volume will enable the association to continue this upward trend. While earnings for the first quarter of 2010 exceeded our expectations, the Association is aware that the current financial crisis in the national economy may not be over. Nevertheless, the Association continues to remain profitable and has a strong capital position. The Association meets the required FCA regulatory permanent capital ratios for the three month period ending March 31, 2010. See Loan Portfolio, Results of Operations, and Note 2 Allowance for Loan Losses for further explanation.

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

Significant Events:

The Association Board of Directors approved payment during March of 2010 of a \$2,150,000 cash patronage to stockholders based on the Association's strong capital position and overall 2009 financial performance.

Loan Portfolio:

Total loans outstanding at March 31, 2010, including nonaccrual loans, were \$369,740,829 compared to \$373,347,938 at December 31, 2009, reflecting a decrease of 1.0 percent. This reduction is primarily attributable to loan pay downs that occur annually during the first few months of the year, along with a decrease in loan demand. This volume reduction was expected in conjunction with the recessionary pressures and the implementation of more restrictive lending standards and does not materially impact the Association's business plans for the year. Nonaccrual loans as a percentage of total loans outstanding were 1.7 percent at March 31, 2010, compared to 1.4 percent at December 31, 2009.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending March 31, 2010, and \$63,327 in recoveries and \$0 in charge-offs for the same period in 2009. The Association's allowance for loan losses was 0.9 percent and 0.9 percent of total loans outstanding as of March 31, 2010, and December 31, 2009, respectively.

High risk assets increased substantially during 2009 and earnings were significantly reduced. Even though the credit quality of the loan portfolio trended downward in 2009, the Association's financial position remained strong. The increase in nonaccrual volume in 2009 primarily came from participation loans with customers involved in the operation of ethanol plants. Two participation loans were sold and two other participation loans were upgraded during the fourth quarter of 2009. These sales and upgrades significantly reduced the Association's nonaccrual volume from approximately \$12M to \$6.5M prior to year end 2009. The Association is optimistic that there will be no more purchased participation/capital markets loans that will reflect problems. Nonaccrual volume has slightly improved as of March 31, 2010. Nonaccrual volume decreased \$54,092 from \$6,493,722 as of December 31, 2009 to \$6,439,630 as of March 31, 2010. While nonaccrual volume improved, loans 90 days past due and still accruing interest increased from \$0 in December 31, 2009 to \$629,932 as of March 31, 2010. Loans in this category have a documented plan that details how and when the amount owed will be paid and management believes the plan will result in the payment of all principal and interest owed in the near future. Management continues to review the loan portfolio in order to identify and report problem loans and address risk exposure by providing allowance reserves as appropriate. The Association will continue to monitor its underwriting standards so as to be actively involved in extending new credit while effectively managing the risk in its portfolio. The Association had no acquired property as of March 31, 2010. The major commodity concentration within the Association's loan volume was livestock, wheat and cotton.

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>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 6,439,630	91.1%	\$ 6,493,722	100.0%
90 days past due and still accruing interest	629,932	8.9%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	<u>\$ 7,069,562</u>	<u>100.0%</u>	<u>\$ 6,493,722</u>	<u>100.0%</u>

Results of Operations:

The Association had net income of \$1,615,121 for the three months ended March 31, 2010, as compared to net income of \$775,784 for the same period in 2009 reflecting an increase of 108.2 percent.

Net income for the first quarter ending March 2009 was greatly impacted by provisions for loan losses totaling \$622,153 compared to \$0 provision for loan losses for the first quarter ending March 2010. These provisions for losses are a result of the aforementioned problems with participation/capital market loans that were primarily focused in the ethanol, timber and real estate industry.

Net interest income was \$2,482,463 for the three months ended March 31, 2010, compared to \$2,313,781 for the same period in 2009. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt.

Interest income for the first three months of 2010 increased by \$28,473 or 0.6 percent from the same period of 2009, primarily due to an increase in interest rates. Interest expense for the first three months of 2010 decreased by \$197,155, or 7.6 percent, from the same period of 2009 primarily due to a decrease in cost of funds to the Association. Average loan volume for the first quarter of 2010 was \$372,131,650, compared to \$370,717,253 in the first quarter of 2009. The average spread on the loan portfolio for the first quarter 2010 was 2.20 percent, compared to 2.04 percent in the first quarter of 2009.

The Association's return on average assets for the three months ended March 31, 2010, was 1.71 compared to 0.82 percent for the same period in 2009. The Association's return on average equity for the three months ended March 31, 2010, was 9.76, compared to 4.85 percent for the same period in 2009.

The Association's noninterest income decreased from \$287,969 in the first three months of March 2009 to \$198,577 for the same period of 2010. This reduction of \$89,392 is primarily a result of the association generating less loan fee income from new loan originations and participation fee income.

The Association's noninterest expense decreased from \$1,203,814 for March 31, 2009 to \$1,065,918 for the same three month period of 2010. This reduction of \$137,895 was primarily due to a reduction in necessary funding for the Association's defined benefit plan and a reduction in the FCSLIC insurance premium. Pension Plan expenses for 2010 were reduced from 2009 as improvements in the stock market required less funding of the pension plan. In addition, the Farm Credit System Insurance Corporation also reduced the premium on accrual loan volume from .20 percent to .10 percent for 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 interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The following schedule summarizes the Association's borrowings.

	March 31, 2010	December 31, 2009
Note payable to the Bank	\$ 307,767,716	\$ 314,476,126
Accrued interest on note payable	789,199	834,707
Total	<u>\$ 308,556,915</u>	<u>\$ 315,310,833</u>

The decrease in note payable to the Bank and related accrued interest payable since December 2009 is the result of a slight reduction in the Association's loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the Bank and is governed by a financing agreement.

The Association manages cash balances to maximize debt reduction, and to increase accrual loan volume. As borrower payments are received, they are applied to the Association's note payable with the FCBT.

The Association will continue to fund its operations through direct borrowings from the Bank, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the current year.

Capital Resources:

The Association's capital position decreased by \$533,804 at March 31, 2010, compared to December 31, 2009. This decrease is primarily due to \$2,150,000 patronage to stockholders paid in the first quarter of 2010. The Association's debt as a percentage of members' equity was 4.64:1 as of March 31, 2010, compared to 4.68:1 as of December 31, 2009.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2010, was 15.6 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2010, were 15.1 and 15.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

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

This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This 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 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 Panhandle-Plains Land Bank, FLCA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Panhandle-Plains Land Bank, FLCA, P.O. Box 7785, Amarillo, TX 79114-7785 or calling 806.353.6688. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing cathy.scribner@farmcreditbank.com. The association makes its annual and quarterly stockholder reports available on its website at www.panhandle-plainslandbank.com.

PANHANDLE-PLAINS LAND BANK, FLCA

BALANCE SHEET

	March 31, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
Cash	\$ 376,936	\$ 1,019,078
Investments	-	-
Loans	369,740,829	373,347,938
Less: allowance for loan losses	3,505,978	3,505,493
Net loans	366,234,851	369,842,445
Accrued interest receivable	5,391,006	5,897,473
Investment in and receivable from the Bank:		
Capital stock	6,374,505	6,374,505
Other	-	-
Other property owned, net	-	-
Premises and equipment	658,616	667,599
Other assets	403,528	1,629,980
Total assets	\$ 379,439,442	\$ 385,431,080
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 307,767,716	\$ 314,476,126
Accrued interest payable	789,199	834,707
Drafts outstanding	511,563	810,641
Dividends Payable	-	-
Patronage distributions payable	-	-
Other liabilities	3,053,109	1,457,947
Total liabilities	312,121,587	317,579,421
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,759,995	1,753,200
Allocated retained earnings	-	-
Unallocated retained earnings	65,356,912	65,891,790
Accumulated other comprehensive income (loss)	200,948	206,669
Total members' equity	67,317,855	67,851,659
Total liabilities and members' equity	\$ 379,439,442	\$ 385,431,080

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF INCOME

(unaudited)

	Quarter Ended	
	March 31,	
	2010	2009
<u>INTEREST INCOME</u>		
Loans	\$ 4,864,753	\$ 4,893,225
Investments	-	-
Other	-	-
Total interest income	<u>4,864,753</u>	<u>4,893,225</u>
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	<u>2,382,289</u>	<u>2,579,444</u>
Total interest expense	<u>2,382,289</u>	<u>2,579,444</u>
Net interest income	<u>2,482,464</u>	<u>2,313,781</u>
<u>PROVISION FOR LOSSES</u>		
Provision (negative provision) for loan losses	-	622,153
Provision for acquired property losses	-	-
Net interest income after provision for loan losses	<u>2,482,464</u>	<u>1,691,628</u>
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	47,971	50,270
Loan fees	128,624	211,634
Financially related services income	3,840	4,198
Gain (loss) on other property owned, net	-	-
Gain (loss) on sale of premises and equipment, net	-	-
Other noninterest income	18,142	21,867
Impairment losses on investments		
Total other-than-temporary impairment losses	-	-
Less: portion of loss recognized in other comprehensive income	-	-
Net impairment loss recognized in earnings	-	-
Total noninterest income	<u>198,577</u>	<u>287,969</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	687,468	795,690
Directors' expense	64,141	27,861
Purchased services	87,940	67,787
Travel	12,919	11,863
Occupancy and equipment	23,172	26,611
Communications	4,022	5,157
Advertising	24,517	30,700
Public and member relations	24,042	15,225
Supervisory and exam expense	36,479	33,256
Insurance Fund premiums	76,505	151,512
Merger-implementation and restructuring costs	-	-
Total noninterest expense	<u>24,714</u>	<u>38,151</u>
Total noninterest expenses	<u>1,065,919</u>	<u>1,203,813</u>
Net income	<u>\$ 1,615,122</u>	<u>\$ 775,784</u>

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

PANHANDLE-PLAINS LAND BANK, FLCA

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	\$ 1,754,805	\$ -	\$ 62,886,962	\$ 212,265	\$ 64,854,032
Comprehensive income					
Net income	-	-	775,784	-	775,784
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	-	-
Total comprehensive income	-	-	775,784	-	775,784
Capital stock/participation certificates issued	44,535	-	-	-	44,535
Capital stock/participation certificates and allocated retained earnings retired	(48,625)	-	-	-	(48,625)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	(865,000)	-	(865,000)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at March 31, 2009	<u>\$ 1,750,715</u>	<u>\$ -</u>	<u>\$ 62,797,746</u>	<u>\$ 212,265</u>	<u>\$ 64,760,726</u>
Balance at December 31, 2009	\$ 1,753,200	\$ -	\$ 65,891,790	\$ 206,669	\$ 67,851,659
Comprehensive income					
Net income	-	-	1,615,122	-	1,615,122
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Noncredit portion of other-than- temporarily impaired	-	-	-	-	-
Change in postretirement benefit plans	-	-	-	(5,721)	(5,721)
Total comprehensive income	-	-	1,615,122	(5,721)	1,609,401
Capital stock/participation certificates issued	55,515	-	-	-	55,515
Capital stock/participation certificates and allocated retained earnings retired	(48,720)	-	-	-	(48,720)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	(2,150,000)	-	(2,150,000)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at March 31, 2010	<u>\$ 1,759,995</u>	<u>\$ -</u>	<u>\$ 65,356,912</u>	<u>\$ 200,948</u>	<u>\$ 67,317,855</u>

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

(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Panhandle-Plains Land Bank, FLCA (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 Armstrong, Briscoe, Carson, Floyd, Gray, Hale, southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Randall and Roberts counties of the State of Texas. A description of the organization and operations of the Panhandle-Plains Land Bank, FLCA (Federal land Credit Association), referred to as the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2009 are contained in the 2009 Annual Report to stockholders. These unaudited first quarter 2010 financial statements should be read in conjunction with the 2009 Annual Report to Stockholders. 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 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 the Association’s financial condition and results of operations. [Note: Replace the last sentence with the following if applicable: 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 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 financial statements.

The preparation of these 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:

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:

	March 31, 2010	March 31, 2009
Balance at beginning of quarter	\$ 3,505,493	\$ 361,206
Provision for loan losses	-	622,153
Charge-offs	485	-
Recoveries	-	63,327
Balance at end of quarter	<u>\$ 3,505,978</u>	<u>\$ 1,046,686</u>

The following table presents information concerning impaired loans:

	March 31, 2010	March 31, 2009
Impaired loans with related allowance	\$ 5,905,576	\$ 190,380
Impaired loans with no related allowance	1,163,986	3,766,843
Total impaired loans	<u>\$ 7,069,562</u>	<u>\$ 3,957,223</u>
Allowance on impaired loans	\$ 2,474,425	\$ 118,834
Average impaired loans	\$ 7,075,519	\$ 4,223,741
Interest income on impaired loans for the quarter	\$ 8,487	\$ 1,109

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

NOTE 4 — 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 10 to the 2009 Annual Report to Stockholders for a more complete description.

*Disclose separately for each major category of investments.

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>Total Gains (losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ 3,733,255	\$ 3,733,255	\$ (637,149)
Other property owned	-	-	-	-	-
<u>December 31, 2009</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ 5,937,801	\$ 5,937,801	\$ (540,097)
Other property owned	-	-	-	-	-

* 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 10 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. [NOTE: Amend the following paragraphs to reflect the appropriate Levels used by your institution.]

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a results, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

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

NOTE 5 — EMPLOYEE BENEFIT PLANS:

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

	<u>Other Benefits</u>	
	<u>2010</u>	<u>2009</u>
Service cost	\$ 7,676	\$ 7,784
Interest cost	11,249	11,065
Expected return on plan assets	(5,721)	(5,721)
Amortization of prior service costs	-	-
Amortizations of net (gain) loss	-	-
Net periodic benefit cost	<u>\$ 13,204</u>	<u>\$ 13,128</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2009, that it expected to contribute \$410,977 to its defined pension plan in 2010. As of March 31, 2010, \$102,744 of contributions have been made. The Association presently anticipates contributing an additional \$308,233 to fund its defined pension plan in 2010 for a total \$410,977

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 April 30, 2010 which is the date the financial statements were issued and has determined there are no subsequent events to report.