

PANHANDLE-PLAINS LAND BANK, FLCA

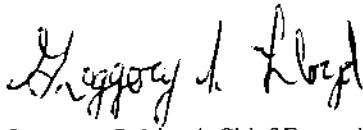
2011 Quarterly Report First Quarter



For the Quarter Ended March 31, 2011

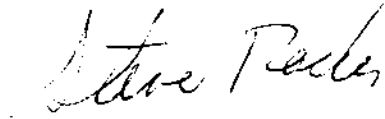
REPORT OF MANAGEMENT

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.



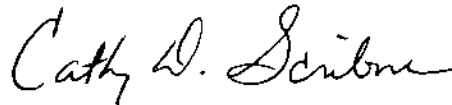
Greggory S. Lloyd, Chief Executive Officer

April 29, 2011



Steve Rader, Chairman, Board of Directors

April 29, 2011



Cathy D. Scribner, Chief Financial Officer

April 29, 2011

**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, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 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 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 2011 of a \$3,200,000 cash patronage to stockholders based on the Association's strong capital position and overall 2010 financial performance.

Loan Portfolio:

Total loans outstanding at March 31, 2011, including nonaccrual loans and sales contracts, were \$373,060,346 compared to \$368,505,413 at December 31, 2010, reflecting an increase of 1.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 4.9 percent at March 31, 2011, compared to 3.3 percent at December 31, 2010.

The association recorded \$51,304 in recoveries and \$151,428 in charge-offs for the quarter ending March 31, 2011, and \$0 in recoveries and \$0 in charge-offs for the same period in 2010. The association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of March 31, 2011, and December 31, 2010, respectively.

The association's loan growth increased slightly during the first quarter of 2011. The loan growth is primarily due to a strong demand for real estate. The association's territory allows the association's portfolio to have good diversity. The primary crops grown are a mixture of corn, cotton, grain sorghum, wheat and grass hay. The association also has a strong livestock production.

Signs of improvement in the economy continue to be evident as commodity prices for many producers improve. Crop and pasture conditions through most of the territory could be negatively impacted due to a recent drought. Although nonaccrual assets increased by 2.5% during the first three months of 2011, the credit quality of the portfolio has strengthened slightly over the past three months ending with a satisfactory 92.48% credit quality.

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, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 18,103,751	94.7%	\$ 11,981,666	92.2%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	1,010,392	5.3%	1,010,392	7.8%
Total	<u>\$ 19,114,143</u>	<u>100.0%</u>	<u>\$ 12,992,058</u>	<u>100.0%</u>

Results of Operations:

The association had net income of \$1,283,859 for the three months ended March 31, 2011, as compared to net income of \$1,615,122 for the same period in 2010 reflecting a decrease of 20.5 percent. Net interest income was \$2,459,158 for the three months ended March 31, 2011, compared to \$2,482,463 for the same period in 2010. Interest income for the first three months of 2011 decreased by \$228,711, or 4.7 percent, from the same period of 2010, primarily due to an increase in nonearning assets and a decrease in average loan volume. Interest expense for the first three months of 2011 decreased by \$205,406, or 8.6 percent, from the same period of 2010 due to a decrease in cost of funds to the association and a decrease in average debt volume. Average loan volume for the first quarter of 2011 was \$368,348,911, compared to \$372,131,650 in the first quarter of 2010. The average spread on the loan portfolio for the first quarter of 2011 was 2.17 percent, compared to 2.20 percent in the first quarter of 2010.

The association's return on average assets for the three months ended March 31, 2011, was 1.37 percent compared to 1.71 percent for the same period in 2010. The association's return on average equity for the three months ended March 31, 2011, was 6.97 percent, compared to 9.76 percent for the same period in 2010.

Net income was affected during the first quarter of 2011 by the following components:

Net interest income is the principal source of earnings for the association and is impacted by volume, yields on loans and cost of debt. During the first three months of 2011, volume increased slightly and the association benefited from reduced cost of funding from the Bank as funding rates remained low. The association was able to offer borrowers funding at a reduced rate for new loans or refinancing of existing debts.

Authoritative accounting guidance requiring the capitalization of origination fees and costs to be amortized over the life of the loans as an adjustment to yield in net interest income was implemented for the year 2010 in December 2010. Therefore, the first quarter 2010 quarterly report does not reflect this implementation which results in a decrease of 67.8% in non-interest income for the first quarter of 2011. Non-interest expenses reflect an increase in 2011 of 13.6% for the first three months of 2011. An offsetting adjustment to costs to be amortized over the life of the loan was also reflected in the first three months of 2011. This adjustment is also not reflected in the first three months of 2010 quarterly report. These offsetting adjustments required by accounting guidelines create only a slight change to net income. The increase of non-interest expenses is due primarily to increases in salary, annual incentives, and associated benefits.

Changes in net income are also influenced by provision for losses recognized each quarter. No provision for losses expenses were incurred during the first three months of 2010 compared to \$85,727 for the same three month period in 2011. The amount of provision for loan loss expense is directly affected by the level of high risk assets in the association's portfolio and the overall credit quality for the association's loan portfolio.

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.

	March 31, 2011	December 31, 2010
Note payable to the bank	\$ 304,962,090	\$ 300,722,549
Accrued interest on note payable	753,608	770,090
Total	\$ 305,715,698	\$ 301,492,639

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. At March 31, 2011, the Association's liquidity ratio, as calculated according to the general financing agreement was 20.72 percent, which exceeds the minimum requirement. Management is not aware of any conditions likely to restrict future funding needs.

Capital Resources:

The association's capital position decreased by \$1,957,751 at March 31, 2011, compared to December 31, 2010 due to the payment of a \$3.2M patronage declared and paid in the first quarter of 2011. The association's debt as a percentage of members' equity was 4.24:1 as of March 31, 2011, compared to 4.06:1 as of December 31, 2010.

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 March 31, 2011, was 17.7 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, 2011, were 17.3 and 17.3 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

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," 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 nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the association's financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the association's financial condition and results of operations but resulted in additional disclosures.

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, 2010 Annual Report of Panhandle-Plains Land Bank, FLCA 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 fcdb@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. 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 www.panhandle-plainslandbank.com.

PANHANDLE-PLAINS LAND BANK, FLCA

BALANCE SHEET

	March 31, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
Cash	\$ 181,821	\$ 1,501,132
Investments	-	-
Loans	373,060,346	368,505,413
Less: allowance for loan losses	2,200,066	2,214,464
Net loans	<u>370,860,280</u>	<u>366,290,949</u>
Accrued interest receivable	4,941,456	5,150,801
Investment in and receivable from the bank:		
Capital stock	6,273,620	6,273,620
Other	-	-
Other property owned, net	1,010,392	1,010,392
Premises and equipment	732,687	735,788
Other assets	444,730	151,758
Total assets	<u>\$ 384,444,986</u>	<u>\$ 381,114,440</u>
<u>LIABILITIES</u>		
Note payable to the bank	\$ 304,962,090	\$ 300,722,549
Accrued interest payable	753,608	770,090
Drafts outstanding	1,180,106	3,197,277
Dividends payable	-	-
Patronage distributions payable	-	-
Other liabilities	4,233,834	1,151,424
Total liabilities	<u>311,129,638</u>	<u>305,841,340</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,739,425	1,763,750
Additional paid-in capital	-	-
Allocated retained earnings	-	-
Unallocated retained earnings	71,490,785	73,418,696
Accumulated other comprehensive income (loss)	85,138	90,654
Total members' equity	<u>73,315,348</u>	<u>75,273,100</u>
Total liabilities and members' equity	<u>\$ 384,444,986</u>	<u>\$ 381,114,440</u>

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF INCOME

(unaudited)

	Quarter Ended March 31,	
	2011	2010
<u>INTEREST INCOME</u>		
Loans	\$ 4,636,041	\$ 4,864,753
Investments	-	-
Other	-	-
Total interest income	<u>4,636,041</u>	<u>4,864,753</u>
<u>INTEREST EXPENSE</u>		
Note payable to the bank	<u>2,176,883</u>	<u>2,382,289</u>
Total interest expense	<u>2,176,883</u>	<u>2,382,289</u>
Net interest income	<u>2,459,158</u>	<u>2,482,464</u>
<u>PROVISION FOR LOAN LOSSES</u>		
	<u>85,727</u>	<u>-</u>
Net interest income after provision for loan losses	<u>2,373,431</u>	<u>2,482,464</u>
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	44,641	47,971
Loan fees	55,942	128,624
Refunds from Farm Credit System		
Insurance Corporation	-	-
Financially related services income	4,090	3,840
Gain (loss) on other property owned, net	-	-
Gain (loss) on sale of premises and equipment, net	3,200	-
Other noninterest income	13,639	18,142
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	<u>-</u>	<u>-</u>
Total noninterest income	<u>121,512</u>	<u>198,577</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	830,756	687,468
Directors' expense	50,597	64,141
Purchased services	105,714	87,940
Travel	20,242	12,919
Occupancy and equipment	27,207	23,172
Communications	6,267	4,022
Advertising	32,835	24,517
Public and member relations	24,011	24,042
Supervisory and exam expense	38,145	36,479
Insurance Fund premiums	45,737	76,505
Merger-implementation and restructuring costs	-	-
Other noninterest expense	29,573	24,714
Total noninterest expenses	<u>1,211,084</u>	<u>1,065,919</u>
Net income	<u>\$ 1,283,859</u>	<u>\$ 1,615,122</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	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
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 investments	-	-	-	-	-	-
Change in postretirement benefit plans	-	-	-	-	(5,721)	(5,721)
Total comprehensive income	-	-	-	1,615,122	(5,721)	1,609,401
Capital stock/participation certificates and allocated retained earnings 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>\$ -</u>	<u>\$ 65,356,912</u>	<u>\$ 200,948</u>	<u>\$ 67,317,855</u>
Balance at December 31, 2010	\$ 1,763,750	\$ -	\$ -	\$ 73,418,696	\$ 90,654	\$ 75,273,100
Comprehensive income						
Net income	-	-	-	1,283,859	-	1,283,859
Change in unrealized gains (losses) on available-for-sale investment securities	-	-	-	-	-	-
Noncredit portion of other-than- temporarily impaired investments	-	-	-	-	-	-
Change in postretirement benefit plans	-	-	-	-	(5,516)	(5,516)
Total comprehensive income	-	-	-	1,283,859	(5,516)	1,278,343
Capital stock/participation certificates and allocated retained earnings issued	76,780	-	-	-	-	76,780
Capital stock/participation certificates and allocated retained earnings retired	(101,105)	-	-	-	-	(101,105)
Stock equalization	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-
Equity issued or re-characterized upon merger	-	-	-	-	-	-
Equity retired or re-characterized upon merger	-	-	-	-	-	-
Patronage refunds:						
Cash	-	-	-	(3,211,769)	-	(3,211,769)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-	-
Balance at March 31, 2011	<u>\$ 1,739,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,490,786</u>	<u>\$ 85,138</u>	<u>\$ 73,315,349</u>

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

PANHANDLE-PLAINS LAND BANK, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Panhandle-Plains Land Bank, FLCA (Federal Land 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. 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.

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, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited first quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," 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 nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the association's financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the association's financial condition and results of operations but resulted in additional disclosures.

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 ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	March 31,	December 31,
	2011	2010
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 311,069,353	\$ 306,585,443
Production and intermediate term	9,699,311	10,775,510
Agribusiness:		
Loans to cooperatives	3,523,635	3,026,240
Processing and marketing	16,379,429	16,314,122
Farm-related business	6,155,046	5,825,438
Communication	5,232,894	5,166,731
Energy	17,486,905	17,142,437
Water and waste disposal	-	-
Rural residential real estate	3,513,773	3,669,492
International	-	-
Lease receivables	-	-
Total	<u>\$ 373,060,346</u>	<u>\$ 368,505,413</u>

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold during the quarter ended March 31, 2011:

	Other Farm Credit Institutions		Non--Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-	-
Agribusiness	1,813,717	-	-	-	1,813,717	-
Communication	97,059	-	-	-	97,059	-
Energy	-	-	-	-	-	-
Water and waste disposal	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Loans to other financial institutions	-	-	-	-	-	-
Total	<u>1,910,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,910,776</u>	<u>\$ -</u>

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, 2011	December 31, 2010
Balance at beginning of quarter	\$ 2,214,464	\$ 3,505,493
Provision for loan losses	85,727	(437,577)
Charge-offs	(151,428)	(853,452)
Recoveries	51,303	-
Balance at end of quarter	<u>\$ 2,200,066</u>	<u>\$ 2,214,464</u>

The following table presents information concerning impaired loans:

	March 31, 2011	March 31, 2010
Impaired loans with related allowance	\$ 790,789	\$ 5,905,576
Impaired loans with no related allowance	17,312,962	1,163,986
Total impaired loans	<u>\$ 18,103,751</u>	<u>\$ 7,069,562</u>
Allowance on impaired loans	\$ 500,000	\$ 2,474,425
Average impaired loans	\$ 10,985,175	\$ 7,075,519
Interest income on impaired loans for the quarter	\$ 34,020	\$ 8,487

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 — FAIR VALUE MEASUREMENTS:

FASB 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 2010 Annual Report to Stockholders for a more complete description.

There were no transfers to or from Level 1, Level 2, or Level 3 for the quarter ended March 31, 2011, or the year ended December 31, 2010.

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, 2011</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 *	\$ -	\$ -	\$ 17,604,804	\$ 17,604,804	\$ (100,124)
Other property owned	-	-	1,122,658	1,122,658	-
<u>December 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 *	\$ -	\$ -	\$ 13,953,632	\$ 13,953,632	\$ (852,967)
Other property owned	-	-	1,122,658	1,122,658	-

*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 2010 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 associations' assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

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 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months ended March 31, :

	Other Benefits	
	2011	2010
Service cost	\$ 9,016	\$ 7,676
Interest cost	12,756	11,249
Expected return on plan assets	-	-
Amortization of prior service costs	(5,516)	(5,721)
Amortizations of net (gain) loss	-	-
Net periodic benefit cost	<u>\$ 16,257</u>	<u>\$ 13,204</u>

The association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute \$432,756 to its defined pension plan in 2011. As of March 31, 2011, \$108,189 of contributions have been made. The association presently anticipates contributing an additional \$324,576 to fund its defined pension plan in 2011 for a total of \$432,756.

NOTE 6 — 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 7 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through April 29, 2011 which is the date the financial statements were available to be issued.