

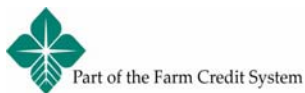
# FLBA OF NORTH ALABAMA, FLCA

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## 2009 Quarterly Report First Quarter

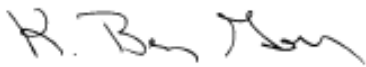


**For the Quarter Ended March 31, 2009**



## 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.



K. Ben Gore, Chief Executive Officer/ President

*May 6, 2009*



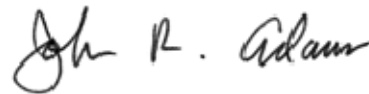
Loyd Rutherford, Chairman, Board of Directors

*May 6, 2009*



Karri H. Sumrall, Chief Financial Officer/Sr. Vice President

*May 6, 2009*



John Adams, Chairman, Audit Committee

*May 6, 2009*

**FLBA OF NORTH ALABAMA, FLCA  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the FLBA of North Alabama, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

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

**Significant Events**

In December 2008, the board of directors declared a \$2,745,000 patronage distribution based on 2008 net patronage source earnings. This distribution was paid in March 2009.

**Loan Portfolio:**

The Association’s loan portfolio at March 31, 2009 consisted of 2,743 loans, including nonaccrual loans, totaling \$413,021,725 compared to \$416,516,223 at December 31, 2008. The total loan volume, stated as recorded investment, decreased \$3.5 million (0.8 percent) since December 31, 2008, primarily due to the decrease in demand for loans in the Association’s territory and tightened Association underwriting standards during these uncertain economic conditions.

The following table reflects the Association’s loan portfolio credit quality:

	March 31, 2009	December 31, 2008
Acceptable	83.7%	95.0%
Special mention	14.1%	3.8%
Substandard	2.2%	1.2%
Total	100.0%	100.0%

The Association’s credit quality began to deteriorate slightly in late 2008 due to the impact of a poultry integrator in the Association’s territory filing Chapter 11 bankruptcy; this bankruptcy has had a residual effect on Association grower borrowers due primarily to counterparty risk associated with the integrator. Also in late 2008, the Association started to see problems within the ethanol industry as a whole and responded accordingly.

At this time, the Association has not seen any adverse effects to growers with Association loans as a result of this financial strain on the integrator. At March 31, 2009, Association loans to growers of this integrator consisted of 336 loans representing \$80,269,961 in volume; of which \$33,740,394 have government guarantees. Also at March 31, 2009, the Association held six ethanol participation loans with a total exposure of \$7,801,659. The Association will continue to monitor developments within these specific sectors of its loan portfolio and properly adjust loan values and any allowance for loan losses to appropriate levels as deemed needed.

The Association’s largest commodity concentration in its loan portfolio is poultry, which is approximately 48.8 percent of the total portfolio. Poultry remains mostly stable; however, the Association has begun to experience some deterioration in its portfolio as evidenced by a small increase in delinquencies and a decline in credit quality. The industry remains in a downward cycle due to decreased demands and increased input costs. Prices for natural and propane gas continued to put downward pressure on the grower’s net income during the winter months of 2009. Some growers are continuing to feel downward pressure from the integrators lowering stocking densities and longer downtime between grow-out cycles. However, the Association is seeing signs of this improving to a more normal time with the demand for poultry products improving.

Although not as highly publicized currently as in 2006, Avian Influenza or bird flu continues to be of utmost concern to the Association. Poultry growers practice strict bio security measures which are monitored by the State Department of Agriculture and Industries, as well as poultry integrators, to prevent the spread of any disease among the birds. On-going testing for disease is done and all poultry is grown in a controlled environment much unlike the conditions overseas where birds and individuals come into close contact with each other. With the present controls in place, the likelihood of bird flu spreading to humans and poultry flocks in North Alabama appears fairly remote.

Overall land values have remained fairly stable or have seen a slight decline in some areas of the Association territory based on the current economic climate. The agricultural economy, in general for the area, has seen a slight decline. This can be seen in the Association's slight decrease in credit quality volume at March 31, 2009.

Commodity prices remain volatile for production agricultural borrowers and remain high compared to the five year average for corn and soybean growers. These higher prices are partially offset by higher input cost and lower government payments. Crop yields overall are currently projected to be lower those in 2008. Livestock producers have not fared as well due to less demand, resulting in lower commodity prices. However, the majority of Association livestock producers have considerable off-farm income which should lessen the impact of current conditions.

The probability of higher input costs, questions about future commodity supplies and prices, uncertainty of the export markets and unfolding world events increase the level of financial risk in the farming sector and, correspondingly, the level of credit risk to those financial institutions providing credit to that sector. Given the conditions outlined herein, the quality of the loan portfolio is expected to slightly deteriorate throughout 2009, as a result of the overall weak general economy and sluggish agricultural economy. The duration of the conditions described is a concern that has the potential to be more problematic for financial results over the longer term for both the lender and the operator. Continued diligence in the areas of credit controls and monitoring is essential.

The Association recorded no recoveries and \$676,186 in charge-offs for the quarter ending March 31, 2009, and no recoveries and no charge-offs for the same period in 2008. This charge-off was due to an ethanol participation loan deteriorating and ultimately filing Chapter 11 bankruptcy. The Association's allowance for loan losses was 0.2 percent and 0.1 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

Through the date of this report, the Federal Open Market Committee has released that they will maintain the target range for the federal funds rate of 0.0 percent to .25 percent, the same since the end of 2008.

**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.

	<b>March 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Nonaccrual	\$ 911,259	45.1%	\$ 1,430,227	93.5%
90 days past due and still accruing interest	1,009,429	50.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	99,076	4.9%	99,076	6.5%
<b>Total</b>	<b>\$ 2,019,764</b>	<b>100.0%</b>	<b>\$ 1,529,303</b>	<b>100.0%</b>

At March 31, 2009 and December 31, 2008 loans that were considered impaired were \$1,920,688 and \$1,430,227, representing 0.5 percent and 0.3 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. High-risk assets increased slightly by \$490,461 or 32.1 percent primarily due to an increase in loans ninety days past due and still accruing interest. High risk assets increased compared to December 31, 2008, primarily due to forbearance granted to borrowers operating under a written and approved collection plan. These forbearances were granted under FCA regulations and Association policy. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at March 31, 2009, compared to 0.3 percent at December 31, 2008. As disclosed in the Association's 2008 Annual Report, it is management's opinion that these loans are adequately collateralized, have government guarantees, or sufficient allowance reserved for potential losses that may be incurred. Management continuously monitors high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on the debt. Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

In its capacity as the named lead lender and as a member of the Capital Markets of South (CMS), the FLBA of South Alabama, FLCA originated a loan to one borrower and sub-participated the loan (the "Loan") to thirteen other Farm Credit associations. Of the thirteen associations that participated in the Loan originated by the FLBA of South Alabama, four were members of CMS, and nine participants were non-CMS members. At the time the Loan was originated, FLBA of North Alabama was a member of CMS. The original funded balance of the loan was \$68,500,000, and the Association participated in 5.56 percent of the Loan. In 2007, the

Loan was deemed to be nonaccrual due to its significant under-collateralized position and a credit default. The FLBA of South Alabama then began pursuing collection efforts, including liquidating part of the loan's collateral, which was applied to the outstanding balance of all participants. In addition, in 2007, FLBA of South Alabama began repurchasing the portions of the Loan held by the non-CMS participant associations. The four other CMS associations, including FLBA of North Alabama, in turn, purchased from the FLBA of South Alabama a pro rata share of the Loan interests formally held by the non-CMS participants and repurchased by FLBA of South Alabama, FLCA. As part of loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

In 2008, collection efforts continued, resulting in legal judgments against the borrowers which allowed the FLBA of South Alabama to foreclose on portions of the real estate collateral, with sales proceeds being applied against the outstanding balance for all remaining participants. The FLBA of South Alabama is still in process of foreclosing on the remaining portions of the real estate collateral. In addition, the borrowers have surrendered various other real and personal properties, all of which is to be liquidated and applied against the loan balance of all remaining participants. All sales of remaining real estate collateral and other properties are expected to be completed in the first half of 2009.

During 2007, charge-offs of \$30,245,000 were recognized, and specific reserves of \$1,460,000 remain on the books related to this Loan. FLBA of North Alabama's portion of charge-offs and specific reserves were \$4,814,212 and \$279,022, respectively. No further charge-offs or allowance reserves were required to be recognized in 2008 and the first quarter of 2009. As of March 31, 2009, the Association's portion of the loan's remaining book balance and allowance reserves were \$406,867 and \$279,022, respectively. For more information on impaired loans and the allowance for loan losses, see Note 2 to the financial statements included in this quarterly report.

#### **Results of Operations:**

The Association had net income of \$791,263 for three months ended March 31, 2009, as compared to net income of \$1,909,882 for the same period in 2008 reflecting an decrease of 58.6 percent. This decrease in net income is the direct result of recording a large provision for loan losses and ultimate charge off on an ethanol participation loan that occurred during the first three months of 2009 which did not occur during same reporting period of 2008. Net interest income was \$2,984,831 for the three months ended March 31, 2009, compared to \$2,836,779 for the same period in 2008. Interest income for the first three months of 2009 decreased by \$391,315 or 5.5 percent from the same periods of 2008, primarily due to declines in yields on earning assets offset by an increase in average loan volume as a result of the Association's loan growth within its various loan segments. Interest expense for the first three months of 2009 decreased by \$539,367, or 12.6 percent, from the same periods of 2008 due to a decrease in average debt interest rates offset by a increase in average debt volume due to the Association's loan growth within its various loan segments. Average loan volume for the first quarter of 2009 was \$415,127,889, compared to \$388,306,821 in the first quarter of 2008.

The Association offers both fixed and indexed priced loans. These different type loans have different spreads and therefore provide differing net interest margins to the Association. The average spread on the loan portfolio for the first quarter 2009 increased .09 percent compared to spreads achieved by the Association in the first quarter of 2008. This increase is a result of the current volatile economy and credit markets response to that environment.

Noninterest income for the three months ended 2009 decreased by \$247,390, or 41.4 percent, compared to the same period in 2008. This decrease was due to the Association generating less fee income from loan closings and conversions when compared to the same period in 2008. Also, patronage income from the Bank decreased due the Association's lendable net worth rate earned on its stock investment in the Bank being less during the first three months of 2009 compared to the first same period in 2008.

Noninterest expenses for the three months ended March 31, 2009 increased \$147,995 or 9.7 percent, as compared to the same period in 2008. The increase is due primarily to an increase in salaries and employee benefits costs, Farm Credit System Insurance Corporation (FCSIC) expense, offset by a decrease in purchased services. The increase in salaries and employee benefits is due primarily to having retiree benefits paid out in 2009 that were not incurred during 2008, normal annual increases in compensation rates and an increase in the Defined Benefit contribution of \$77,351 compared to the contribution made in the first three months of 2008. The increase in FCSIC insurance is due to a change in the premium base from 15 basis points in 2008 to 20 basis points in 2009. Purchased services decreased primarily due to fewer legal and consulting fees incurred in connection with protecting the Association's interests in credit-related matters with borrowers with large credit. As noted above in the "Risk Exposure" section of the Management's Discussion and Analysis, these large fees should be concluding within the next few months as remaining legal activities regarding this loan should be minimal.

The Association's annualized return on average assets for the three months ended March 31, 2009, was 0.74 and 1.90 percent for the same period in 2008. The Association's annualized return on average equity for the three months ended March 31, 2009, was 4.86 and 12.58 percent for the same period in 2008. This decrease is the direct result of the Association having less net income in the first three months of 2009 compared to the same period in 2008 due to an increase in provisions for loan losses for the first three months of 2009 compared to the same period in 2008, as noted on the previous page.

**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.

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Note payable to the Bank	\$ 358,425,580	\$ 360,225,253
Accrued interest on note payable	1,222,163	1,395,788
Total	\$ 359,647,743	\$ 361,621,041

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 Association will continue to fund its operations through direct borrowings from the Bank, retained earnings, member stock and funds held. 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 increased by \$757,825 at March 31, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 5.51:1 as of March 31, 2009, compared to 5.62:1 as of December 31, 2008.

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, 2009, was 16.2 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2009, were 15.5 and 15.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

**Legal Proceedings:**

In relation to the Loan described in the "Risk Exposure" section of Management's Discussion and Analysis, above, the Association is involved in one lawsuit as of the date of this report. This lawsuit was initiated by the FLBA of South Alabama in its capacity as the named lead lender. The overall character of the lawsuit is for damages incurred as a result of alleged wrongful acts of the borrower and other third-party defendants. FLBA of South Alabama brought the civil lawsuit to the US Federal District Court in Texas, the borrower's domicile state, and the trial was held in early February 2009. On March 19, 2009, the court rendered judgment in favor of the FLBA of South Alabama (and all remaining participants, including the Association) against all parties, jointly and severally, on all counts for \$41,549,236 in actual damages. Because the FLBA of South Alabama was granted a judgment for violation of the RICO statute, it is expected that the court will treble the judgment to \$124,647,710. One defendant has appealed the judgment. The FLBA of South Alabama and remaining participating associations intend to pursue the assets of all liable parties in satisfaction of the judgment.

Two other court actions had previously existed on this loan. The first was in Texas state court and was brought in order to obtain access to collateral for this loan. This suit was successful and has now been dismissed. The second court action was in Kentucky state court where the suit on the debt was pending, as the loan's primary real estate collateral is located in Kentucky. In mid-September 2008, the Kentucky Court granted summary judgment in favor of FLBA of South Alabama and remaining participating associations for the debt plus interest, costs and fees. This step allowed the association to have a foreclosure sale of its real estate collateral located in Bell/Harlan Counties, which sale was conducted on October 10, 2008, resulting in a purchase by a third party of such collateral for \$7,001,000. That sale was consummated by the middle of November 2008 and all the associations received \$6,971,336, of which FLBA of North Alabama's portion was \$1,332,300. In February 2009, FLBA of South Alabama received

approval to foreclose the lien of its mortgage on real estate collateral held in Muhlenberg County and intends to foreclose such lien in the second quarter of 2009. The FLBA of South Alabama and remaining participating associations have been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery. All counterclaims asserted by the borrower and others against FLBA of South Alabama and remaining participating associations have been dismissed in all legal proceedings.

#### **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, 2008 Annual Report of FLBA of North Alabama, 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](mailto:fcf@farmcreditbank.com). The District makes its annual and quarterly stockholder reports available on its web site at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to FLBA of North Alabama, FLCA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [karri.sumrall@farmcreditbank.com](mailto:karri.sumrall@farmcreditbank.com) or can be obtain on its web site at [www.alabamalandbank.com](http://www.alabamalandbank.com) 40 days after quarter end. The Association's annual stockholder report is available on its Web site at [www.alabamalandbank.com](http://www.alabamalandbank.com) 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

**FLBA OF NORTH ALABAMA, FLCA**

**BALANCE SHEET**

	<b>March 31, 2009 (unaudited)</b>	<b>December 31, 2008</b>
<b><u>ASSETS</u></b>		
Cash	\$ 7,170	\$ 14,780
Loans	413,021,725	416,516,223
Less: allowance for loan losses	700,283	509,245
Net loans	<u>412,321,442</u>	<u>416,006,978</u>
Accrued interest receivable	7,094,889	6,220,087
Investment in and receivable from the Bank:		
Capital stock	6,969,525	6,969,525
Other	583,337	501,737
Other property owned, net	99,076	99,076
Premises and equipment	1,976,872	1,981,748
Other assets	920,898	194,400
Total assets	<u><u>\$ 429,973,209</u></u>	<u><u>\$ 431,988,331</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Bank	\$ 358,425,580	\$ 360,225,253
Accrued interest payable	1,222,163	1,395,788
Drafts outstanding	416,138	363,257
Patronage Payable	5,813	2,749,844
Other liabilities	3,882,133	1,990,632
Total liabilities	<u><u>363,951,827</u></u>	<u><u>366,724,774</u></u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,441,010	2,460,820
Unallocated retained earnings	63,320,132	62,528,869
Accumulated other comprehensive income (loss)	260,240	273,868
Total members' equity	<u><u>66,021,382</u></u>	<u><u>65,263,557</u></u>
Total liabilities and members' equity	<u><u>\$ 429,973,209</u></u>	<u><u>\$ 431,988,331</u></u>

The accompanying notes are an integral part of these financial statements

**FLBA OF NORTH ALABAMA, FLCA**

**STATEMENT OF INCOME**

(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	2008
<b><u>INTEREST INCOME</u></b>		
Loans	<b>\$ 6,716,851</b>	\$ 7,108,166
Total interest income	<b>6,716,851</b>	7,108,166
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Bank	<b>3,732,020</b>	4,271,387
Total interest expense	<b>3,732,020</b>	4,271,387
Net interest income	<b>2,984,831</b>	2,836,779
<b><u>PROVISION FOR LOSSES</u></b>		
Provision (negative provision) for loan losses	<b>867,224</b>	(4,062)
Net interest income after provision for loan losses	<b>2,117,607</b>	2,840,841
<b><u>NONINTEREST INCOME</u></b>		
Income from the bank:		
Patronage income	<b>69,690</b>	81,093
Loan fees	<b>230,277</b>	457,859
Financially related services income	<b>8,642</b>	8,186
Gain (loss) on other property owned, net	-	5,249
Gain (loss) on sale of premises and equipment, net	<b>1,730</b>	359
Other noninterest income	<b>40,545</b>	45,528
Total noninterest income	<b>350,884</b>	598,274
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	<b>1,016,289</b>	844,775
Directors' expense	<b>67,504</b>	53,686
Purchased services	<b>170,750</b>	242,478
Travel	<b>60,962</b>	52,243
Occupancy and equipment	<b>46,837</b>	48,728
Communications	<b>17,064</b>	17,465
Advertising	<b>30,896</b>	30,759
Public and member relations	<b>35,525</b>	35,105
Supervisory and exam expense	<b>31,293</b>	30,974
Insurance Fund premiums	<b>135,620</b>	113,317
Business insurance premiums	<b>32,375</b>	35,504
Other noninterest expense	<b>32,113</b>	24,199
Total noninterest expenses	<b>1,677,228</b>	1,529,233
Net income	<b>\$ 791,263</b>	\$ 1,909,882

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

**FLBA OF NORTH ALABAMA, FLCA**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

(unaudited)

	<b>Capital Stock/ Participation Certificates</b>	<b>Retained Earnings Unallocated</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total Members' Equity</b>
Balance at January 1, 2008	2,375,470	57,374,400	379,594	60,129,464
Comprehensive income				
Net income	-	1,909,882	-	1,909,882
Amortization of costs included in periodic retirement benefit costs	-	-	(13,978)	(13,978)
Total comprehensive income	-	1,909,882	(13,978)	1,895,904
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158	-	(5,360)	-	(5,360)
Capital stock/participation certificates issued	105,730	-	-	105,730
Capital stock/participation certificates and allocated retained earnings retired	(94,370)	-	-	(94,370)
<b>Balance at March 31, 2008</b>	<b>\$ 2,386,830</b>	<b>\$ 59,278,922</b>	<b>\$ 365,616</b>	<b>\$ 62,031,368</b>
Balance at December 31, 2008	\$ 2,460,820	\$ 62,528,869	\$ 273,868	\$ 65,263,557
Comprehensive income				
Net income	-	791,263	-	791,263
Amortization of costs included in periodic retirement benefit costs	-	-	(13,628)	(13,628)
Total comprehensive income	-	791,263	(13,628)	777,635
Capital stock/participation certificates issued	43,315	-	-	43,315
Capital stock/participation certificates and allocated retained earnings retired	(63,125)	-	-	(63,125)
<b>Balance at March 31, 2009</b>	<b>\$ 2,441,010</b>	<b>\$ 63,320,132</b>	<b>\$ 260,240</b>	<b>\$ 66,021,382</b>

The accompanying notes are an integral part of these financial statements

**FLBA OF NORTH ALABAMA, FLCA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The FLBA of North Alabama, 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 counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston in the state of Alabama. 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 and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act).

Effective January 1, 2009, the Association adopted FSP No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

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, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. 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:**

Long-term real estate mortgage loans generally have maturities ranging up to 40 years. Loans are carried at their principal amount outstanding net of funds held. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and with a government guarantee) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments are recognized as current interest income. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

A summary of loans follows:

Loan Type	March 31, 2009		March 31, 2008	
	Amount	%	Amount	%
Production agriculture:				
Real estate mortgage	\$ 404,319,701	97.9%	\$ 380,364,383	97.7%
Rural residential real estate	5,589,655	1.4%	5,518,984	1.4%
Production and intermediate term	1,611,609	0.4%	1,994,366	0.5%
Energy	1,500,761	0.4%	1,630,586	0.4%
Total	<u>\$ 413,021,725</u>	<u>100.0%</u>	<u>\$ 389,508,319</u>	<u>100.0%</u>

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

	March 31, 2009		March 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 911,259	47.4%	\$ 2,196,641	82.1%
90 days past due and still accruing interest	1,009,429	52.6%	478,388	17.9%
Formally restructured	-	0.0%	-	0.0%
Total	<u>\$1,920,688</u>	<u>100.0%</u>	<u>\$2,675,029</u>	<u>100.0%</u>

	March 31, 2009	March 31, 2008
Impaired loans with related allowance	\$ 406,867	\$ 2,040,876
Impaired loans with no related allowance	1,513,821	634,153
Total impaired loans	<u>\$ 1,920,688</u>	<u>\$ 2,675,029</u>
Allowance on impaired loans	\$ 279,022	\$ 279,022
Average impaired loans	\$ 2,438,116	\$ 2,666,864
Interest income on impaired loans for the quarter	\$ 14,071	\$ 14,496

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, 2009	March 31, 2008
Balance at beginning of quarter	\$ 509,245	\$ 401,500
Provision for loan losses	867,224	(4,062)
Charge-offs	(676,186)	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 700,283</u>	<u>\$ 397,438</u>

### 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 and patronage payments, 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.

In December 2008, the board of directors declared a \$2,745,000 patronage distribution based on 2008 net patronage source earnings. This distribution was paid in March 2009.

#### NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, the Federal Land Bank Association of South Alabama, FLCA, the Land Bank of North Mississippi, FLCA, Southern Ag Credit, ACA (formerly Land Bank South, FLCA), and the Louisiana Federal Land Bank Association, FLCA. During the second quarter of 2007, the CMS members decided to discontinue and dissolve the joint venture. The associations will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally shares equally in the costs of operating the venture. FLBA of North Alabama's pro-rata share of income from CMS operations is recorded in the statement of income in their respective line items. The Association's pro-rata share of expenses from CMS operations is recorded in the statement of income in the line item "Purchased services."

As of March 31, 2009 and 2008, the Association had CMS related loan volume outstanding in the amount of \$20,052,156 and \$22,857,014, respectively. In addition, the Association had unfunded commitments on CMS loans of \$7,604,690 as of March 31, 2009.

#### NOTE 5 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2009	2008
Service cost	\$ 5,097	\$ 4,585
Interest cost	16,123	14,753
Expected return on plan assets	-	-
Amortization of prior service costs	(13,967)	(14,145)
Amortizations of net (gain) loss	339	167
Net periodic benefit cost	<u>\$ 7,592</u>	<u>\$ 5,360</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As result, the Association decreased retained earnings \$5,360 and increased the postretirement benefit liability by \$5,360.

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$19,611 to its other postretirement benefit plan in 2009. As of March 31, 2009, \$3,205 of contributions has been made. The Association presently anticipates contributing an additional \$14,708 to fund its other postretirement benefit plan in 2009 for a total \$17,913. The Association's liability for this unfunded accumulated benefit obligation at March 31, 2009, was \$1,051,067 and is included in "Other liabilities" on the balance sheet.