

FLBA OF NORTH ALABAMA, FLCA

2009 Quarterly Report Third Quarter



For the Quarter Ended September 30, 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

November 6, 2009



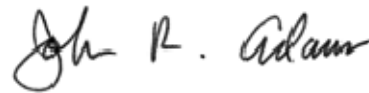
Loyd Rutherford, Chairman, Board of Directors

November 6, 2009



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

November 6, 2009



John Adams, Chairman, Audit Committee

November 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 nine months ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

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

Significant Events:

On September 30, 2009, the Association’s stockholders approved the establishment of a Production Credit Association (PCA) and an Agricultural Credit Association (ACA) holding company. The PCA will operate as a wholly-owned subsidiary of the ACA and will allow the Association an opportunity to provide short and intermediate term lending. Equity ownership in the existing Federal Land Bank Association of North Alabama, FLCA will be transferred to the ACA. The new ACA holding company will operate under the name Alabama Farm Credit, ACA, and the PCA will operate under the name Alabama Farm Credit, PCA. This change in corporate structure is pending final approval by FCA, and if approved will become effective on or after January 1, 2010.

Loan Portfolio:

Total loans outstanding at September 30, 2009, consisted of 2,713 loans, including nonaccrual loans, totaling \$411,812,806 compared to \$416,516,223 at December 31, 2008. The total loan volume, stated as recorded investment, reflecting a decrease of \$4.7 million (1.1 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:

	September 30, 2009	December 31, 2008
Acceptable	85.5%	95.0%
Special mention	11.5%	3.8%
Substandard	3.0%	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. To date, this integrator is showing signs of progress and is expected to emerge from this bankruptcy as a viable entity. If this occurs as expected, the Association anticipates the producer loans will be upgraded at a future date. 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 material adverse effects to growers with Association loans as a result of this financial strain on the integrator. At September 30, 2009, Association loans to growers of this integrator consisted of 321 loans representing \$76,812,219 in volume; of which \$30,568,348 have government guarantees. Also at September 30, 2009, the Association held five ethanol participation loans with a total exposure of \$7,250,339. Of the five ethanol participations, two have specific allowances for a combined total allowance of \$2,054,683. 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 48.9 percent of the total portfolio. Although the industry remains in a downward cycle due to decreased demands and increased input costs, poultry remains mostly stable overall. Stocking densities, downtime between grow-out cycles and demand for poultry products have improved to more closely to normal ranges since first quarter of 2009. Production in last quarter of 2009 should remain stable to increasing due

to stabilizing corn and soybean meal costs. With the decrease in broiler production compared to the prior year, increased prices have been supported and are expected to continue favorably.

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 September 30, 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 comparable to those in 2008. However, the unseasonably wet fall season resulted in some deterioration of the quality of the crops harvested. Livestock producers have not fared as well due to less demand, resulting in lower commodity prices. The third quarter of 2009 has continued to show volatile cattle prices in the Association's lending territory. The majority of Association livestock producers have considerable off-farm income which should lessen the impact of price volatility. The decline in the general economy has not shown any significant adverse effects to the Association's non-agricultural income dependent borrowers and their repayment abilities at this time. Delinquency percentages of total volume continue to be in-line with prior years' percentages.

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 the last quarter of 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 or charge-offs for the quarter ending September 30, 2009, and no recoveries or charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.6 percent and 0.1 percent of total loans outstanding as of September 30, 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 December 2008. The Committee anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

Risk Exposure:

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

	September 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 6,011,213	98.4%	\$ 1,430,227	93.5%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	99,077	1.6%	99,076	6.5%
Total	\$ 6,110,290	100.0%	\$ 1,529,303	100.0%

At September 30, 2009 and December 31, 2008 loans that were considered impaired were \$6,011,213 and \$1,430,227, representing 1.5 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 by \$4,580,987 or 299.6 percent primarily due to two large ethanol participation loans being transferred to nonaccrual status in 2009. Nonaccrual loans as a percentage of total loans outstanding were 1.5 percent at September 30, 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 loan 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, including the Association. All sales of remaining real estate collateral and other properties are expected to be completed by the end of 2009 or the end of the first quarter for 2010.

During 2007, charge-offs of \$30,245,000 were recognized related to this Loan. FLBA of North Alabama's portion of the 2007 charge-offs was \$4,814,212. No further charge-offs or allowance reserves were required to be recognized in 2008 or year to date in 2009. As of September 30, 2009, the Association's portion of the loan's remaining book balance was \$352,333.73 and required no specific allowance. 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 \$1,500,215 and \$2,221,422 for the three and nine months ended September 30, 2009, as compared to net income of \$1,768,134 and \$5,444,186 for the same periods in 2008 reflecting a decrease of 15.2 and 59.2 percent, respectively. This decrease in net income is primarily the result of recording large provisions for loan losses on two ethanol participation loans that occurred during the first nine months of 2009 which did not occur during same reporting period of 2008. Net interest income was \$2,983,109 and \$8,924,835, respectively, for the three and nine months ended September 30, 2009, compared to \$2,918,702 and \$8,607,669 for the same periods in 2008. Interest income for the first nine months of 2009 decreased by \$1,375,768 or 6.6 percent from the same periods of 2008, primarily due to declines in yields on earning assets offset by an increase in the 12 month average loan volume as a result of the Association's loan growth within its various loan segments. Interest expense for the first nine months of 2009 decreased by \$1,692,934, or 13.7 percent, from the same periods of 2008 due to a decrease in average debt interest rates offset by an increase in average debt volume due to the Association's loan growth within its various loan segments. Average loan volume for the third quarter of 2009 was \$413,305,676, compared to \$408,158,287 in the third 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 third quarter 2009 increased .11 percent, compared to the third quarter of 2008. This increase is a result of the current volatile economy and credit markets response to that environment.

Noninterest income for the quarter ended September 30, 2009 decreased by \$88,494, or 27.8 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. Noninterest income for the nine months ended September 30, 2009 decreased by \$527,963, or 38.4 percent, compared to the same period in 2008. This decrease was due primarily to the decrease in loan fees generated and the decrease in patronage income received from Bank as a result of the Association's lendable net worth rate earned on its stock investment in the Bank being less compared to the same period in 2008.

Noninterest expenses for the quarter ended September 30, 2009 increased \$101,912 or 7.0 percent, as compared to the same period in 2008. The increase is due primarily to an increase in salaries and employee benefits as a result of normal annual increases in compensation rates and an increase in the Defined Benefit contribution compared to the contribution made in the same period of 2008. Purchased services increased primarily due to cost incurred in relation to the establishment of a Production Credit Association (PCA) and an Agricultural Credit Association (ACA) holding company effective January 1, 2010.

Noninterest expenses for the nine months ended September 30, 2009 increased \$355,730 or 7.9 percent, as compared to the same period in 2008. The increase is due primarily to an increase in salaries and employee benefits cost and Farm Credit System Insurance Corporation (FCSIC) expense. 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 a 44.4 percent increase in the Defined Benefit contribution, or \$223,054, compared to the contribution made in the first nine 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.

The Association's annualized return on average assets for the nine months ended September 30, 2009, was 0.69 and 1.76 percent for the same period in 2008. The Association's annualized return on average equity for the nine months ended September 30, 2009, was 4.47 and 11.55 percent for the same period in 2008. This decrease is the direct result of the Association having less net income in the first nine months of 2009 compared to the same period in 2008. The decrease in net income is primarily due to an increase in provision for loan losses for the first nine months of 2009 relating primarily to two large ethanol participation loans mentioned previously, 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 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.

	September 30, 2009	December 31, 2008
Note payable to the Bank	\$ 355,112,314	\$ 360,225,253
Accrued interest on note payable	1,108,668	1,395,788
Total	\$ 356,220,982	\$ 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 \$2,151,952 at September 30, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 5.32:1 as of September 30, 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 September 30, 2009, was 16.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2009, were 16.0 and 16.0 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 now involved in two lawsuits as of the date of this report. One of these suits was brought by FLBA of South Alabama in its capacity as the named lead lender to foreclose the lien of its mortgage in Muhlenberg County, KY. In February 2009, FLBA of South Alabama received approval to foreclose the lien of its mortgage on the remaining real estate collateral located in Muhlenberg County, Kentucky and intends to foreclose such lien as soon as possible. However, prior to conducting the foreclosure, FLBA of South Alabama is investigating the value of coal reserves on the property in order to properly understand the overall value of the property. A limited test drilling plan has been completed and FLBA of South Alabama expects the results of a formal assessment of value, prepared by an outside consultant, to be provided shortly. The remaining action is a suit also brought by FLBA of South Alabama in its capacity as the named lead lender in the US Federal District Court in Texas, seeking recovery of a payment in the amount of \$100,000 made by the borrower to borrower's attorneys for criminal defense services.

The previous action brought by FLBA of South Alabama against the parties responsible for defrauding it has been resolved at the trial court level. As was previously reported, on March 19, 2009, the court rendered judgment in favor of FLBA of South Alabama against all parties, jointly and severally, on all counts for \$41,549,236 in actual damages. On April 23, 2009 the Court trebled the judgment to \$124,647,710. Two defendants are pursuing an appeal of this judgment. The FLBA of South Alabama and remaining participating associations (including FLBA of North Alabama, FLCA) intend to pursue the assets of all liable parties in satisfaction of the judgment.

FLBA of South Alabama and remaining participating associations (including FLBA of North Alabama, FLCA) have been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery.

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. 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 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 or can be obtain on its web site at www.alabamalandbank.com 40 days after quarter end. The Association's annual stockholder report is available on its Web site at 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

	September 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 20,081	\$ 14,780
Loans	411,812,806	416,516,223
Less: allowance for loan losses	2,501,486	509,245
Net loans	<u>409,311,320</u>	<u>416,006,978</u>
Accrued interest receivable	7,187,320	6,220,087
Investment in and receivable from the Bank:		
Capital stock	6,969,525	6,969,525
Other	94,498	501,737
Other property owned, net	99,077	99,076
Premises and equipment	2,116,107	1,981,748
Other assets	423,100	194,400
Total assets	<u><u>\$ 426,221,028</u></u>	<u><u>\$ 431,988,331</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 355,112,314	\$ 360,225,253
Accrued interest payable	1,108,668	1,395,788
Drafts outstanding	789,230	363,257
Patronage Payable	5,328	2,749,844
Other liabilities	1,789,979	1,990,632
Total liabilities	<u><u>358,805,519</u></u>	<u><u>366,724,774</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,432,235	2,460,820
Unallocated retained earnings	64,750,291	62,528,869
Accumulated other comprehensive income (loss)	232,983	273,868
Total members' equity	<u><u>67,415,509</u></u>	<u><u>65,263,557</u></u>
Total liabilities and members' equity	<u><u>\$ 426,221,028</u></u>	<u><u>\$ 431,988,331</u></u>

FLBA OF NORTH ALABAMA, FLCA

STATEMENT OF INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 6,367,466	\$ 6,972,971	\$ 19,584,033	\$ 20,959,801
Total interest income	6,367,466	6,972,971	19,584,033	20,959,801
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	3,384,357	4,054,269	10,659,198	12,352,132
Total interest expense	3,384,357	4,054,269	10,659,198	12,352,132
Net interest income	2,983,109	2,918,702	8,924,835	8,607,669
<u>PROVISION FOR LOSSES</u>				
Provision for loan losses	161,322	19,402	2,683,145	26,908
Net interest income after provision for loan losses	2,821,787	2,899,300	6,241,690	8,580,761
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	63,748	73,058	200,070	228,458
Loan fees	157,281	224,996	590,331	1,058,491
Financially related services income	8,313	11,453	23,553	28,610
Gain on other property owned, net	-	-	-	5,249
Gain on sale of premises and equipment, net	-	7,713	6,098	9,495
Other noninterest income	59	675	28,476	46,188
Total noninterest income	229,401	317,895	848,528	1,376,491
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	909,475	872,299	2,830,398	2,541,992
Directors' expense	37,549	64,474	161,613	168,972
Purchased services	162,947	118,128	569,509	580,111
Travel	111,639	95,285	254,663	231,204
Occupancy and equipment	49,062	44,047	153,217	134,495
Communications	18,233	14,792	53,757	50,782
Advertising	29,584	43,365	97,986	126,038
Public and member relations	27,590	26,122	85,362	83,472
Supervisory and exam expense	33,481	31,293	96,065	93,242
Insurance Fund premiums	135,948	110,812	406,094	342,108
Business Insurance Premiums	1,803	-	57,776	54,455
Other noninterest expense	33,662	28,444	102,356	106,195
Total noninterest expenses	1,550,973	1,449,061	4,868,796	4,513,066
Net income	\$ 1,500,215	\$ 1,768,134	\$ 2,221,422	\$ 5,444,186

FLBA OF NORTH ALABAMA, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2007	\$ 2,375,470	\$ 57,374,400	\$ 379,594	\$ 60,129,464
Comprehensive income				
Net income	-	5,444,186	-	5,444,186
Amortization of costs included in periodic retirement benefit costs	-	-	(41,934)	(41,934)
Total comprehensive income	-	5,444,186	(41,934)	5,402,252
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	338,825	-	-	338,825
Capital stock/participation certificates and allocated retained earnings retired	(253,920)	-	-	(253,920)
Balance at September 30, 2008	<u>\$ 2,460,375</u>	<u>\$ 62,818,586</u>	<u>\$ 337,660</u>	<u>\$ 65,611,261</u>
Balance at December 31, 2008	\$ 2,460,820	\$ 62,528,869	\$ 273,868	\$ 65,263,557
Comprehensive income				
Net income	-	2,221,422	-	2,221,422
Amortization of costs included in periodic retirement benefit costs	-	-	(40,885)	(40,885)
Total comprehensive income	-	2,221,422	(40,885)	2,180,537
Capital stock/participation certificates issued	153,895	-	-	153,895
Capital stock/participation certificates and allocated retained earnings retired	(182,480)	-	-	(182,480)
Balance at September 30, 2009	<u>\$ 2,432,235</u>	<u>\$ 64,750,291</u>	<u>\$ 232,983</u>	<u>\$ 67,415,509</u>

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.

Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of 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.

In May 2009, the FASB issued guidance, "Subsequent Events", which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

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 nine months ended September 30, 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	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Production agriculture:				
Real estate mortgage	\$ 403,141,015	97.9%	\$ 403,160,098	97.7%
Rural residential real estate	5,531,987	1.3%	5,826,563	1.4%
Production and intermediate term	1,692,189	0.4%	2,054,801	0.5%
Energy	1,447,614	0.4%	1,575,066	0.4%
Total	<u>\$ 411,812,806</u>	<u>100.0%</u>	<u>\$ 412,616,528</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:

	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 6,011,213	98.4%	\$ 2,241,603	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	99,077	1.6%	-	0.0%
Total	<u>\$ 6,110,290</u>	<u>100.0%</u>	<u>\$ 2,241,603</u>	<u>100.0%</u>

	September 30, 2009	September 30, 2008
Impaired loans with related allowance	\$ 2,923,163	\$ 2,040,875
Impaired loans with no related allowance	3,088,050	200,728
Total impaired loans	<u>\$ 6,011,213</u>	<u>\$ 2,241,603</u>
Allowance on impaired loans	\$ 2,096,683	\$ 279,022
Average impaired loans	\$ 5,804,301	\$ 2,237,957
Interest income on impaired loans for the quarter	\$ 7,359	\$ 1,735

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	September 30, 2009	September 30, 2008
Balance at beginning of quarter	\$ 2,340,164	\$ 409,006
Provision for loan losses	161,322	19,402
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 2,501,486</u>	<u>\$ 428,408</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 portfolio; 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 — 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 September 30, 2009 and 2008, the Association had CMS related loan volume outstanding in the amount of \$19,516,231 and \$22,891,697 respectively. In addition, the Association had unfunded commitments on CMS loans of \$5,481,092 as of September 30, 2009.

NOTE 5 — FAIR VALUE MEASUREMENTS:

SFAS No. 157 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 12 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2009 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Gains (losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans *	\$ -	\$ -	\$ 6,056,751	\$ 6,056,751	\$ -
Other property owned	-	-	99,077	99,077	-

* 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 1 to the 2008 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 2008 Annual Report.

Loans

For certain loans evaluated for impairment under SFAS No. 114 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. Cost to sell represent transaction costs and are not included as a component of the assets fair value.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2009	2008
Service cost	\$ 15,291	\$ 13,753
Interest cost	48,368	44,261
Expected return on plan assets	-	-
Amortization of prior service costs	(41,901)	(42,435)
Amortizations of net (gain) loss	1,016	501
Net periodic benefit cost	<u>\$ 22,774</u>	<u>\$ 16,080</u>

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 September 30, 2009, \$10,497 of contributions has been made. The Association presently anticipates contributing an additional \$4,903 to fund its other postretirement benefit plan in 2009 for a total \$15,400. The Association's liability for this unfunded accumulated benefit obligation at September 30, 2009, was \$1,084,758 and is included in "Other liabilities" on the balance sheet.

NOTE 7 — Subsequent Events:

The Association has evaluated subsequent events through November 6, 2009, which is the date the financial statements were available to be issued