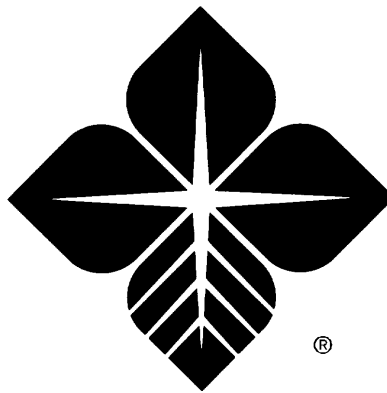


LOUISIANA FLBA, FLCA

2009 Quarterly Report Second Quarter



For the Quarter Ended June 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.



Darrel Jans, Chief Executive Officer

July 31, 2009



R. Ernest Girouard, Chairman, Board of Directors

July 31, 2009



Sandra Robinson, Chief Financial Officer

July 31, 2009

**LOUISIANA FLBA, FLCA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Louisiana FLBA, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter and six months ended June 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:

The Association paid a patronage of \$2,599,560 in the second quarter of 2009. The Board of Directors approved the patronage payment during the first quarter of 2009.

The Association increased allowance for loan losses by \$2,195,367 during the second quarter of 2009. One loan accounted for 62.8% of the increase. Nonaccrual loans increased by approximately \$15.2 million during the second quarter of 2009.

Loan Portfolio:

Total loans outstanding at June 30, 2009, including nonaccrual loans and sales contracts, were \$829,782,712 compared to \$831,803,390 at December 31, 2008, reflecting a decrease of 0.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 2.7 percent at June 30, 2009, compared to 0.93 percent at December 31, 2008. The significant increase in nonaccrual loan volume is expected to continue as the economic downturn continues to stress borrowers' ability to pay.

The Association did not record any charge-offs or recoveries for the quarter ending June 30, 2009, or for the quarter ending June 30, 2008. The Association's allowance for loan losses was 0.4 percent and 0.1 percent of total loans outstanding as of June 30, 2009, and December 31, 2008, respectively.

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.

	June 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 22,711,651	80.1%	\$ 7,731,903	96.8%
90 days past due and still accruing interest	5,238,367	18.5%	32,550	0.4%
Formally restructured	27,585	0.1%	121,717	1.5%
Other property owned, net	367,795	1.3%	104,836	1.3%
Total	<u>\$ 28,345,398</u>	<u>100.0%</u>	<u>\$ 7,991,006</u>	<u>100.0%</u>

The Association is one of 13 associations in the District that participated in a loan to one borrower through the former Capital Markets of the South (CMS). Of the 13 associations that participated in the loan, five were members of CMS (including this Association), and eight were non-CMS members with the FLBA of South Alabama, FLCA, serving as the lead lender. The original funded balance of the loan was \$68,500,000, and the Association retained 6.67 percent of the loan. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant under collateralized position and a credit default. Accordingly, the FLBA of South Alabama, FLCA began pursuing collection efforts, including liquidating part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, by the end of 2007 the Association, along with the four other CMS member associations, repurchased, on a pro-rata basis, the portions of the loan held by all other non-CMS participants, which resulted in the Association holding a total of 20.22 percent. As part of loan repurchase transactions noted above, the CMS member associations 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, allowing the FLBA of South Alabama, FLCA to foreclose on portions of the real estate collateral, with sales proceeds being applied against the outstanding balance of the loan, and 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. All sales of remaining real estate collateral and other properties are expected to be completed by the end of 2009.

During 2007, charge-offs of \$30,245,000 were recognized; the Association's portion of the 2007 charge-offs was \$5,150,272. No further charge-offs or allowance reserves were required to be recognized in 2008 or year to date in 2009. As of June 30, 2009, the Association's portion of the loan's remaining book balance and allowance reserves were \$381,087 and \$0, respectively. For more information on impaired loans and the allowance for loan losses, see Note 2 to the financial statements, "Allowance for Loan Losses," included in this quarterly report.

Results of Operations:

The Association had net income of \$1,820,688 and \$3,923,451 for the three and six months ended June 30, 2009, as compared to net income of \$4,050,769 and \$5,880,625 for the same periods in 2008 reflecting a decrease of 55.0 and 33.3 percent, respectively. Net interest income was \$4,753,016 and \$9,729,277, respectively, for the three and six months ended June 30, 2009, compared to \$4,973,592 and \$10,027,160 for the same periods in 2008. Interest income for the first six months of 2009 decreased by \$4,561,734 or 16.7 percent from the same periods of 2008, primarily due to declines in yields on earning assets and a decrease in average loan volume. Interest expense for the first six months of 2009 decreased by \$4,263,851, or 24.7 percent, from the same periods of 2008 due to a decrease in interest rates offset by a decrease in average debt volume. Average loan volume for the second quarter of 2009 was \$825,815,001, compared to \$834,980,412 in the second quarter of 2008. The average spread on the loan portfolio for the second quarter 2009 was 1.85 percent, compared to 1.87 percent in the second quarter of 2008.

The Association's return on average assets for the six months ended June 30, 2009, was 0.92 and 1.37 percent for the same period in 2008. The Association's return on average equity for the six months ended June 30, 2009, was 5.90 and 9.51 percent for the same period in 2008.

The Association's increase in allowance for loan losses during the second quarter of 2009 reduced net income for the quarter as compared to the second quarter of 2008. If the economic downturn continues, it is probable that the Association's allowance for loan loss balance will continue to increase.

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.

	June 30, 2009	December 31, 2008
Note payable to the Bank	\$ 720,654,492	\$ 727,337,234
Accrued interest on note payable	2,059,268	2,747,124
Total	<u>\$ 722,713,760</u>	<u>\$ 730,084,358</u>

Capital Resources:

The Association's capital position increased by \$1,306,286 at June 30, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 5.41:1 as of June 30, 2009, compared to 5.53:1 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 June 30, 2009, was 13.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 2009, were 13.4 and 13.4 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

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 Louisiana FLBA, 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 fcb@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 Louisiana FLBA, FLCA, 2413 Tower Drive, Monroe, Louisiana 71201 or calling (318)387-7535. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Sandra.robinson@farmcreditbank.com.

LOUISIANA FLBA, FLCA

BALANCE SHEET

	June 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 505,585	\$ 5,522,062
Loans	829,782,712	831,803,390
Less: allowance for loan losses	2,928,073	755,584
Net loans	<u>826,854,639</u>	<u>831,047,806</u>
Accrued interest receivable	11,942,084	11,777,736
Investment in and receivable from the Bank:		
Capital stock	14,640,855	14,640,855
Other	1,059,342	220,228
Other property owned, net	367,795	104,836
Premises and equipment	3,166,328	3,261,023
Other assets	1,019,547	223,652
Total assets	<u><u>\$ 859,556,175</u></u>	<u><u>\$ 866,798,198</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 720,654,492	\$ 727,337,234
Accrued interest payable	2,059,268	2,747,124
Drafts outstanding	42,450	395,052
Other liabilities	2,797,609	3,622,718
Total liabilities	<u>725,553,819</u>	<u>734,102,128</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,086,895	3,073,375
Unallocated retained earnings	130,612,946	129,289,055
Accumulated other comprehensive income	302,515	333,640
Total members' equity	<u>134,002,356</u>	<u>132,696,070</u>
Total liabilities and members' equity	<u><u>\$ 859,556,175</u></u>	<u><u>\$ 866,798,198</u></u>

LOUISIANA FLBA, FLCA

STATEMENT OF INCOME

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 11,041,376	\$ 13,112,014	\$ 22,734,949	\$ 27,296,683
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	6,288,360	8,138,422	13,005,672	17,269,523
Net interest income	4,753,016	4,973,592	9,729,277	10,027,160
<u>PROVISION FOR LOSSES</u>				
Provision for loan losses	2,195,367	43,202	2,630,989	43,202
Provision for acquired property losses	-	-	1,843	-
Net interest income after provision for loan losses	2,557,649	4,930,390	7,096,445	9,983,958
<u>NONINTEREST INCOME</u>				
Patronage income from the Bank	656,953	1,242,225	1,322,139	1,405,619
Loan fees	383,406	539,245	735,030	972,133
Financially related services income	1,441	1,801	2,725	3,124
Gain on sale of premises and equipment, net	40,305	22,733	79,880	32,903
Other noninterest income	212,848	11,455	217,048	19,866
Total noninterest income	1,294,953	1,817,459	2,356,822	2,433,645
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	818,202	1,464,413	3,115,653	4,001,796
Directors' expense	51,854	57,787	97,448	115,893
Purchased services	232,956	268,601	445,155	622,734
Travel	106,955	121,011	193,375	213,675
Occupancy and equipment	88,957	90,550	177,116	177,553
Communications	33,693	31,610	64,432	66,379
Advertising	77,500	92,144	170,873	188,885
Public and member relations	54,530	58,067	145,869	129,615
Supervisory and exam expense	125,672	118,746	222,777	208,366
Insurance Fund	338,656	310,441	679,378	618,306
Loss on other property owned, net	2,149	-	2,149	-
Other noninterest expense	100,790	83,710	215,591	193,777
Total noninterest expenses	2,031,914	2,697,080	5,529,816	6,536,979
Net income	\$ 1,820,688	\$ 4,050,769	\$ 3,923,451	\$ 5,880,624

LOUISIANA FLBA, 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	\$ 2,968,120	\$ 120,947,424	\$ 477,107	\$ 124,392,651
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	-	-
Balance at January 1, 2008	2,968,120	120,947,424	477,107	124,392,651
Comprehensive income				
Net income	-	5,880,624	-	5,880,624
Amortization of costs included in periodic retirement benefit costs	-	-	(34,208)	(34,208)
Comprehensive income		5,880,624	(34,208)	5,846,416
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158		(13,610)		(13,610)
Capital stock/participation certificates issued	295,685	-	-	295,685
Capital stock/participation certificates and allocated retained earnings retired	(244,395)	-	-	(244,395)
Patronage refunds:				
Cash	-	(4,727,599)	-	(4,727,599)
Balance at June 30, 2008	<u>\$ 3,019,410</u>	<u>\$ 122,086,839</u>	<u>\$ 442,899</u>	<u>\$ 125,549,148</u>
Balance at December 31, 2008	\$ 3,073,375	\$ 129,289,055	\$ 333,640	\$ 132,696,070
Comprehensive income				
Net income	-	3,923,451	-	3,923,451
Amortization of costs included in periodic retirement benefit costs	-	-	(31,125)	(31,125)
Total comprehensive income	-	3,923,451	(31,125)	3,892,326
Capital stock/participation certificates issued	265,490	-	-	265,490
Capital stock/participation certificates and allocated retained earnings retired	(251,970)	-	-	(251,970)
Patronage refunds:				
Cash	-	(2,599,560)	-	(2,599,560)
Balance at June 30, 2009	<u>\$ 3,086,895</u>	<u>\$ 130,612,946</u>	<u>\$ 302,515</u>	<u>\$ 134,002,356</u>

LOUISIANA FLBA, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Louisiana FLBA, 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 parishes of of Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermillion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana and Winn in the state of Louisiana. 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 Financial Accounting Standards Board (FASB) Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). This FSP delayed the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements" (SFAS 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.

In April 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. FSP 157-4 indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

FSP 157-4 also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted the FSP in second quarter 2009. The adoption did not have a material impact on the financial condition or results of operations of the Association.

In April 2009, the FASB issued FSP No. 115-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2), which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP 115-2 changes existing impairment guidance under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FSP 115) by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to in FSP 115-2 as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the

entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually.

FSP 115-2 is effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Association adopted the FSP in the second quarter of 2009 and did not recognize an adjustment to beginning retained earnings or accumulated other comprehensive income since no impairment losses were previously recognized. The Association held no investments in debt or equity securities during the first six months of 2009.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS 165), 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. 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 Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is 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 six months ended June 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:

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:

	June 30, 2009	June 30, 2008
Balance at beginning of quarter	\$ 732,706	\$ 418,619
Provision for loan losses	2,195,367	43,202
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 2,928,073</u>	<u>\$ 461,821</u>

The following table presents information concerning impaired loans:

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
Impaired loans with related allowance	\$ 7,423,650	\$ 2,159,531
Impaired loans with no related allowance	20,553,953	1,280,215
Total impaired loans	<u>\$ 27,977,603</u>	<u>\$ 3,439,746</u>
Allowance on impaired loans	\$ 1,763,720	\$ 295,244
Average impaired loans	\$ 21,575,548	\$ 3,438,326
Interest income on impaired loans for the quarter	\$ 175,880	\$ 11,075

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 — EMPLOYEE BENEFIT PLANS:

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

	<u>Other Benefits</u>	
	<u>2009</u>	<u>2008</u>
Service cost	\$ -	\$ 9,714
Interest cost	-	21,000
Expected return on plan assets	-	-
Amortization of prior service costs	(34,042)	(17,253)
Amortizations of net (gain) loss	2,917	149
Net periodic benefit cost	<u>\$ (31,125)</u>	<u>\$ 13,610</u>

The Association has made contributions of \$695,526 to its defined benefit pension plan as of June 30, 2009. The Association presently anticipates contributing an additional \$695,526 to fund its defined pension plan in 2009 for a total \$1,391,052.

NOTE 5 — LEGAL PROCEEDINGS:

In relation to the loan described in the "Risk Exposure" section of Management's Discussion and Analysis, above, the Association along with the four other CMS member associations was party to one lawsuit. The overall character of the lawsuit is for damages incurred by the Association as a result of alleged wrongful acts of the borrower and other third-party defendants. The lead lender, FLBA of South Alabama, FLCA, serving as lead lender, brought this civil lawsuit in 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 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 the judgment. The FLBA of South Alabama is pursuing the assets of all liable parties in satisfaction of the judgment.

In February 2009, the FLBA of South Alabama, FLCA received approval to foreclose the lien of its mortgage on the remaining real estate collateral located in Muhlenberg County, KY and intends to foreclose such lien as soon as possible. However, prior to conducting the foreclosure, the value of coal reserves on the property is being investigated by FLBA of South Alabama in order to properly understand the overall value of the property. The Association has been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery.

NOTE 6 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through July 31, 2009, which is the date the financial statements were issued. Allowance for loan losses has increased by an additional \$6,131,731 from June 30, 2009. Of that increase, 54.5% is attributable to a single participation loan with another association. The collateral is located in Florida.

Nonaccrual volume has increased by approximately \$8.8 million since June 30, 2009. If the economic downturn continues, the Association expects that nonaccrual activity will increase during the remainder of 2009.