

2008
Annual Report



Farm Credit MidSouth, ACA

2008 ANNUAL REPORT

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AgriBank, FCB's financial condition and results of operations materially affect members' investment in Farm Credit Midsouth, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 3000 Prosperity Drive, Jonesboro, Arkansas 72404, (870) 932-2288 or through our website at www.farmcreditmidsouth.com. You may also contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@AGRIBANK.COM. The reports are also available through AgriBank, FCB's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available 40 days after the end of each calendar quarter.

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Midsouth, ACA

(Dollars in thousands)

	2008	2007	2006	2005	2004
Statement of Condition Data					
Loans	\$559,177	\$502,049	\$423,406	\$410,044	\$398,643
Allowance for loan losses	1,053	944	870	1,283	1,302
Net loans	558,124	501,105	422,536	408,761	397,341
Investment in AgriBank, FCB	13,270	13,270	13,270	13,270	13,270
Other property owned	10	18	79	--	5
Other assets	21,546	22,762	20,243	18,716	14,267
Total assets	\$592,950	\$537,155	\$456,128	\$440,747	\$424,883
Obligations with maturities of one year or less	\$482,699	\$433,708	\$356,814	\$346,259	\$334,379
Total liabilities	482,699	433,708	356,814	346,259	334,379
Protected members' equity	6	6	9	10	11
Capital stock and participation certificates	1,834	1,760	1,677	1,674	1,714
Unallocated surplus	108,411	101,681	97,628	92,804	88,779
Total members' equity	110,251	103,447	99,314	94,488	90,504
Total liabilities and members' equity	\$592,950	\$537,155	\$456,128	\$440,747	\$424,883
Statement of Income Data					
Net interest income	\$16,428	\$14,679	\$13,431	\$12,699	\$11,258
Reversal of provision for loan losses	(27)	--	(441)	(47)	(5,577)
Patronage and dividend income	1,405	1,564	1,371	1,331	1,139
Other expense, net	7,066	7,470	6,360	6,221	6,762
Provision for income taxes	38	35	509	39	680
Net income	\$10,756	\$8,738	\$8,374	\$7,817	\$10,532
Key Financial Ratios					
Return on average assets	1.8%	1.7%	1.8%	1.7%	2.5%
Return on average members' equity	10.0%	8.5%	8.6%	8.4%	12.7%
Net interest income as a percentage of average earning assets	2.8%	3.0%	3.1%	3.0%	2.8%
Members' equity as a percentage of assets	18.6%	19.3%	21.8%	21.4%	21.3%
Net chargeoffs as a percentage of average loans	--	--	--	--	--
Allowance for loan losses as a percentage of loans	0.2%	0.2%	0.2%	0.3%	0.3%
Permanent capital ratio	14.7%	15.8%	17.5%	17.6%	16.8%
Total surplus ratio	14.4%	15.5%	17.2%	17.3%	16.4%
Core surplus ratio	14.4%	15.2%	16.7%	16.5%	15.4%
Other					
Patronage distribution payable to members	\$4,000	\$4,647	\$3,541	\$3,792	\$ --

The patronage distribution to members accrued for the year ended December 31, 2008 was distributed in cash during the first quarter of 2009. The patronage distributions accrued for the years ended December 31, 2007, December 31, 2006, and December 31, 2005 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock or allocated surplus during the five years presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Midsouth, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Midsouth, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations.

These loans are normally at their lowest levels during the winter months because of operating repayments following harvest. They then increase throughout the year as farmers borrow for operating and capital needs.

Forward-Looking Information

Certain sections of this Annual Report contain forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates", "believes", "could", "estimates", "may", "should", "will", or other variations on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties; many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad,
- fluctuations in the agricultural and general economies,
- periodically occurring weather-related conditions and plant and animal disease that impact agricultural productivity and income and consumer demand,
- changes in United States government support of the agricultural industry, and
- bio-terrorism and other terrorism.

Loan Portfolio

Loan volume totaled \$559.2 million at December 31, 2008. The changes in loan volume for the last two years were as follows (in thousands):

Change in	2008 vs. 2007		2007 vs. 2006	
loan volume				
Accrual				
Mortgage	\$25,777	9.8%	\$8,829	3.5%
Commercial	30,705	12.9%	69,857	41.6%
Nonaccrual	646	91.8%	(43)	(5.8%)
Total loans	\$57,128	11.4%	\$78,643	18.6%

The mortgage portfolio experienced 9.8% growth over 2007 year end results primarily from the financing of new real estate purchases. The commercial portfolio experienced a growth rate of 12.9% over 2007 year end primarily due to equipment purchases and increased operating costs.

Portfolio Distribution

We are chartered to operate in certain counties in Arkansas and Missouri. Approximately 95.5% of our total loan portfolio was in the state of Arkansas. Approximately 51.4% of our total portfolio resides in the counties of Craighead, Crittenden, Mississippi, and Poinsett at December 31, 2008. Our portfolio is concentrated in the production of row crops, primarily cotton, rice and soybeans. The commercial loan portfolio shows some seasonality.

Agricultural and Economic Conditions

The Food, Conservation, and Energy Act of 2008 (FCEA/farm bill) was enacted into law in June 2008. FCEA includes significant federal financial support for wheat, feed grains, cotton, rice, oilseeds, and dairy, largely continuing the same total level of financial support to agriculture, while changing the distribution and methods of allocating such support. FCEA also contains new, expanded assistance to certain specialty crops, and added price support and trade protection for domestically produced sugar. FCEA continues the direct payment, loan rate, and countercyclical payments (CCP) programs from previous farm support legislation, but the levels of support provided by each program have changed. Also, FCEA provides a new income support program called Average Crop Revenue Election (ACRE).

Strong agricultural economic conditions in 2008 were the result of record high prices for agricultural commodities and the continued positive impact of government programs. The USDA reported \$86.8 billion in net farm income in 2007 representing a significant increase over the reported \$59.0 billion in net farm income in 2006, and 42% higher than the 10-year average net income of \$61.1 billion. Increases in income were due to higher agricultural commodity prices, partially offset by increases in agricultural production costs, including fuel, land, fertilizer and pesticides. Net farm income is forecast to be \$86.9 billion (down from \$96.6 billion previously forecasted) in 2008 but virtually unchanged from 2007. Net cash income, a more critical statistic for lenders, is forecast to be \$90.7 billion in 2008, a \$3.3 billion (4%) increase over 2007 net cash income. Sales of 2007 crops in 2008 account for the larger increase in net cash income compared to the increase in net farm income.

The Farm Credit System (the System) continues to fulfill its mission and be a reliable source of debt capital for the farmers, ranchers and other rural businesses that we serve. However, during the second half of 2008, the culmination of negative economic developments in the global financial markets created a high level of volatility and uncertainty among global financial institutions in general. This volatility has constrained the System's ability to issue debt in the preferred maturities and structures that have traditionally been used to fund our loan portfolios. However, the System has been able to issue debt with a broad enough range of maturities and structures to allow the AgriBank District to continue to offer our complete array of loan products. Responses by the Federal Government, including explicit actions to protect the housing Government Sponsored Entities (GSEs) and to capitalize and guarantee the liabilities of many commercial banks, have had an unintended consequence of increasing our spread over Treasury rates relative to these institutions and reducing our ability to issue debt at preferred maturities and structures. During December 2008 and into January 2009, the spreads to Treasuries have narrowed significantly from levels seen in the fourth quarter of 2008, but still remain "wide" of housing GSE and government guaranteed bank debt. Due to the System's sound financial condition, we expect the System to continue to be able to issue debt securities as necessary to meet our funding needs. However, spreads relative to Treasuries and swap rates are expected to remain at higher levels than our historical experience.

Our Association territory experienced an average to slightly above average crop as growing conditions remained favorable throughout the growing season. An increase in commodity prices helped cover crop expense increases for 2008 and provided opportunities for booking next year's crop.

Commodity prices will influence crop mix in 2009 as operations move toward more profitable crops based on their own unique situation.

Analysis of Risk

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of December 31	2008	2007	2006
Loans:			
Nonaccrual	\$1,350	\$704	\$747
Accruing restructured	--	--	--
Past due 90 days or more still accruing	--	--	--
Total risk loans	1,350	704	747
Other property owned	10	18	79
Total risk assets	\$1,360	\$722	\$826
Risk loans as a percentage of total loans	0.2%	0.1%	0.2%
Total delinquencies as a percentage of total loans	0.2%	0.4%	0.4%

The volume of nonaccrual loans increased, but remained at an acceptable level at December 31, 2008, and represented 0.2% of our total portfolio. The increase in nonaccrual loans is primarily from the transfer of two accounts involved in wheat and rice markets to nonaccrual status during 2008. At December 31, 2008, 39.4% of our nonaccrual loans were current.

The credit quality of our portfolio improved during 2008. Adversely classified assets decreased from 0.5% of the portfolio at December 31, 2007, to 0.3% of the portfolio at December 31, 2008. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2008, \$2.5 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as:

- loan loss history,
- portfolio quality, and
- current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

As of December 31	2008	2007	2006
Allowance as a percentage of:			
Loans	0.2%	0.2%	0.2%
Nonaccrual loans	78.0%	134.1%	116.5%
Total risk loans	78.0%	134.1%	116.5%
Net chargeoffs as a percentage of average loans			
	--	--	--
Adverse assets to risk funds	1.8%	2.8%	2.5%

In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2008. The changes in the ratios reflect the changes in risk assets.

Young, Beginning and Small Farmers and Ranchers

We have specific programs in place to serve the credit and related services needs of young, beginning and small (YBS) farmers and ranchers (farmers) in our local services area (LSA).

Definitions

Farm Credit Administration (FCA) Regulations define young, beginning, and small farmers; ranchers or producers or harvesters of aquatic products as those meeting any of the following criteria:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

Demographics

Our LSA area includes ten counties in eastern Arkansas and three counties in southern Missouri. We have used the 2002 USDA Ag-Census as our source of demographic data for the counties in our LSA. There are several differences in the methods by which the demographic and YBS Farmer data is presented. Young farmers are defined by the FCA as 35 years old or less. The USDA Ag-Census demographic stratification breaks at 34 years, which was used to compare to FCA's definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA Ag-Census; however, the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case with the Young information, the Beginning information in the USDA Ag-Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA Ag-Census delineation of farm entities with sales of less than \$250 thousand. Farm Credit Midsouth, ACA is over chartered with Progressive Farm Credit Services, ACA in Carter, Ripley and Wayne counties in Missouri. Therefore, we used 50% of the USDA Ag-Census numbers for comparison. Other data differences:

- The farmers experience is as of the date of the USDA Ag-Census, while our data is compiled as to the date the loan was made.
- Small farmers is by each individual farm entity from the USDA Ag-Census data, while our data is compiled as of the date of the loan and the total value of sales of closely related entities rather than individual entities.
- The USDA Ag-Census data reflects all farms whether they use debt or not (the census reflects only 49% of farms have debt).

While the statistical results of the USDA Ag-Census do not match the FCA definitions exactly and there are timing issues, they do provide a consistent source of measurement with which to assess association targets and goals.

The following data compares Farm Credit Midsouth, ACA's YBS membership as of December 31, 2008 to the 2002 USDA Ag-Census data in our Loan Servicing Area:

Category	Number	Percent
2002 USDA Ag-Census Data:		
Number of Farmers 34 and Younger	404	7.8%
Number of Farmers on Current Farm Less than 10 Years	1,535	29.7%
Number of Farmers with Less Than \$250,000 Farm Sales	4,360	84.4%
Total Number of Farmers	5,160	
Farm Credit Midsouth, ACA data		
Number of Members as of 12/31/08 that would have been 34 years or younger in 2002	278	15.0%
Number of Members as of 12/31/08 that had been farming 10 years or less when their loan was originally made	467	25.1%
Number of Members as of 12/31/08 that had less than \$250,000 in gross sales of agricultural products when their loan was originally made	639	34.4%
Total Number of Members in the LSA	1,859	

Mission Statement

The purpose of the YBS Farmers program is to educate and to develop, promote and market constructive credit and related services to young, beginning and small farmers and ranchers to sustain the future of agriculture and establish Farm Credit Midsouth, ACA as their lender of choice.

We are accomplishing this mission by:

- providing special loan programs and underwriting standards to meet the needs of YBS Farmers;
- offering either directly, or through external relationships, a number of financial services which will benefit the YBS Farmers in risk management;
- making full use of the Farm Service Agency guaranteed loan programs;
- establishing quantitative portfolio goals; and
- continuing to participate in numerous outreach programs which benefit YBS Farmers.

Quantitative Goals

Our Board of Directors desires to maintain a portfolio mix of young, beginning and small farmers and ranchers. This mix will help ensure our continued viability in future years and promote agriculture in our LSA. The Board of Directors has decided to concentrate on new YBS business and have set five year goals to achieve the desired portfolio mix.

The following are the 2008 goals and the 2008 results:

Category	% of Total Number of New Loans		% of Total Volume of New Loans	
	Goal	2008 Results	Goal	2008 Results
Young farmers	15%	24.7%	10%	18.1%
Beginning farmers	15%	25.9%	12%	17.2%
Small farmers	20%	20.3%	10%	8.1%

Qualitative Goals

Goal: Coordinate with governmental agencies and private parties to enhance credit services to YBS Farmers with use of guarantees or other risk reduction tools.

Status: We had 40 government guaranteed loans to YBS Farmers as of December 31, 2008 and made 18 new government guaranteed loans to YBS Farmers in 2008.

Goal: Related services will be made available to YBS Farmers in our LSA.

Status: The number of YBS Farmers served in 2008 follows:

Services Offered	Number of YBS Farmers served in 2008		
	Young	Beginning	Small
Crop insurance	40	41	70
Life insurance	23	18	40
Fee appraisals	1	2	-

Goal: Provide educational and informational outreach programs for YBS or potential YBS Farmers.

Status: The following educational and informational outreach programs were supported that were available to YBS or potential YBS Farmers in 2008:

- Arkansas State University Agriculture Conference
- Women in Agriculture Conference
- Farm Management Meetings
- Arkansas FFA Convention
- Judd Hill Field Day
- Arkansas Farm Family of the Year
- Farm Safety programs

Goal: To provide financial and in-kind support to programs that fosters the development of young farmers.

Status: Twelve one thousand dollar college scholarships were awarded to students majoring in agriculture or business. Donations totaling \$9.1 thousand were given to various youth organizations, including local FFA chapters and 4H programs.

Safety and Soundness of the Program

Our YBS program has established specific lending standards and limits to ensure safety and soundness of this program. The internal audit and review plan requires audit of the YBS program at least once every three years.

Additional Loan Information

Additional loan information is included in Notes 3, 12 and 13.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2008	2007	2006
Net income	\$10,756	\$8,738	\$8,374
Return on average assets	1.8%	1.7%	1.8%
Return on average members' equity	10.0%	8.5%	8.6%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets discussed in the Loan Portfolio Section, and
- changes in members' equity discussed in the Capital Adequacy Section.

The following table summarizes the changes in components of net income (in thousands):

	2008 vs. 2007	2007 vs. 2006
Increase (decrease) in net income		
Net interest income	\$1,749	\$1,248
Provision for loan losses	27	(441)
Patronage income	(159)	193
Financially related services and miscellaneous income, net	463	(632)
Operating expenses	(59)	(478)
Provision for income taxes	(3)	474
Total change in net income	\$2,018	\$364

Net Interest Income

Net interest income was \$16.4 million for the year ended December 31, 2008. The following table quantifies changes in net interest income (in thousands):

	2008 vs. 2007	2007 vs. 2006
Changes in net interest income due to:		
Changes in volume	\$2,412	\$1,659
Changes in rates	(704)	(441)
Changes in nonaccrual income and other	41	30
Net change	\$1,749	\$1,248

Net interest income included income on nonaccrual loans that totaled \$31 thousand in 2008, \$11 thousand in 2007, and \$14 thousand in 2006. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior chargeoffs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 2.8% in 2008, 3.0% in 2007, and 3.1% in 2006.

Reversal of Provision for Loan Losses

The variance in the reversal of provision for loan losses is related to our estimate of losses in our portfolio.

Patronage Income

We receive two different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank, and
- equalization income based on our preferred stock investment in AgriBank.

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of \$1.3 million in 2008, \$1.4 million in 2007, and \$1.2 million in 2006. Changes in our note payable to AgriBank and, to a lesser extent, changes in the patronage rate caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 27 basis points in 2008, 34 basis points in 2007, and 32 basis points in 2006.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. AgriBank's Board of Directors sets the equalization rate. The targeted rate equals the average cost of funds for all affiliated associations as a group. Equalization income totaled \$72 thousand for 2008, \$180 thousand for 2007, and \$217 thousand for 2006.

Financially Related Services and Miscellaneous Income, Net

Financially related services and miscellaneous income, net is primarily comprised of insurance related income. The increase in financially related services and miscellaneous income, net is primarily due to an increase in multi-peril crop and crop hail insurance income. Although multi-peril crop and crop hail insurance income also increased from 2006 to 2007, that variance is primarily due to an \$833 thousand gain recognized in 2006 on the sale of the Farm Credit System Financial Assistance Corporation stock.

We originated rural home loans for resale in the secondary market. We sold loans through the secondary market totaling \$2.3 million in 2008, \$2.4 million in 2007, and \$2.9 million in 2006. The fee income from this activity totaled \$25 thousand in 2008, \$32 thousand in 2007, and \$50 thousand in 2006.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (in thousands):

For the year ended December 31	2008	2007	2006
Salaries and benefits	\$4,976	\$5,179	\$4,892
Purchased and vendor services	667	661	629
Communications	99	105	110
Occupancy and equipment	634	537	537
Advertising and promotion	200	216	189
Examination	195	193	198
Farm Credit System insurance	886	725	647
Other	589	571	507
Total	\$8,246	\$8,187	\$7,709
Operating rate	1.4%	1.7%	1.8%

The operating expense increase was primarily related to increased occupancy and equipment expense and Farm Credit System insurance expense partially offset by a decrease in salaries and benefits.

Provision for Income Taxes

We recorded tax expense of \$38 thousand for the year ended December 31, 2008, compared to \$35 thousand for 2007, and \$509 thousand for 2006. The increase in tax expense in 2008 is related to an increase in taxable income. The decrease in tax expense in 2007 reflects a decrease in taxable income from 2007 to 2006. Patronage distributions to members reduced our tax liability in 2008, 2007, and 2006. See Note 9 for additional discussion.

Funding and Liquidity

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2008, our average balance was \$493.9 million with an average interest rate of 3.8%. Our average balance during 2007 was \$407.3 million with an average interest rate of 5.2% and during 2006 our average balance was \$360.5 million with an average interest rate of 5.0%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2008, we had \$224.1 million available under our line of credit. We generally apply excess cash to this line of credit.

We offer variable, fixed, capped, indexed, and adjustable interest rate loans and lease programs to our borrowers. We determine interest margins charged on each lending program based on:

- cost of funds,
- market conditions, and
- the need to generate sufficient earnings.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Capital Adequacy

Total members' equity increased \$6.8 million during 2008 due to net income for the period and an increase in capital stock and participation certificates outstanding, partially offset by patronage distribution accruals.

Members' equity position information is as follows (in thousands):

As of December 31	2008	2007	2006
Members' equity	\$110,251	\$103,447	\$99,314
Surplus as a percentage of members' equity	98.3%	98.3%	98.3%
Permanent capital ratio	14.7%	15.8%	17.5%
Total surplus ratio	14.4%	15.5%	17.2%
Core surplus ratio	14.4%	15.2%	16.7%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2008, our permanent capital, total surplus, and core surplus ratios significantly exceeded the regulatory minimum requirements. See Note 8 for further discussions of these regulatory ratios.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2008, our optimum permanent capital target was 14%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio Section for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

We are involved in a number of initiatives designed to improve our credit delivery, related services, and marketplace presence.

Capital Agricultural Property Services, Inc.

We have an alliance with Capital Agricultural Property Services, Inc. who provides land management, land sales assistance, land acquisition assistance and consulting services. We receive income through rental of office space and from referrals for loans.

Trade Credit

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through programs such as dealer point-of-purchase financing.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank Investment Bond to optimize members' use of funds.

Relationship with AgriBank

Borrowings

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act of 1971, as amended. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship. Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a cost of servicing component,
- a bank spread component, and
- a risk premium component, if applicable.

In the periods presented, we were not subject to the risk premium component. The marginal cost of debt approach simulates match funding the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from interest rate risk.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2008, we were required to maintain a common stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. Effective in 2009, our required investment will include an additional 1% on growth that exceeds a targeted rate. At December 31, 2008, our entire investment in AgriBank consisted of stock representing distributed AgriBank surplus. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive patronage income based on the annual average daily balance of our note payable to AgriBank and equalization income based on the quarterly average daily balance of our excess stock investment in AgriBank. AgriBank's Board of Directors sets the patronage rates.

Purchased Services

We purchase various services from AgriBank including:

- certain information systems,
- certain financial services,
- certain accounting and reporting services, and
- selected retail product processing and support.

The total cost of services we purchased from AgriBank was \$466 thousand in 2008, \$485 thousand in 2007, and \$503 thousand in 2006.

Affect on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members' investment. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 3000 Prosperity Drive, Jonesboro, Arkansas 72404, (870) 932-2288 or through our website at www.farmcreditmidsouth.com. You may also contact AgriBank at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

We have a relationship with CoBank, ACB which involves purchasing or selling participation interests in loans. As part of this relationship, we maintain a \$1 thousand equity investment in CoBank, ACB. CoBank, ACB provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

We participate in the Insight Technology Unit with other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. The Insight Technology Unit is governed by representatives of each participating association. The expenses are shared prorata based on the number of loans and leases of each participant.

REPORT OF MANAGEMENT

Farm Credit Midsouth, ACA



We prepare the consolidated financial statements of Farm Credit Midsouth, ACA and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of Farm Credit Midsouth, ACA. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

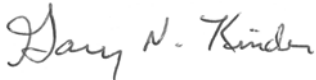
To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of Farm Credit Midsouth, ACA.

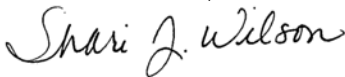
The undersigned certify we have reviewed Farm Credit Midsouth, ACA's annual report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Gary Sitzer
Chairperson of the Board
Farm Credit Midsouth, ACA



Gary Kinder
President and Chief Executive Officer
Farm Credit Midsouth, ACA



Shari Wilson
Chief Financial Officer
Farm Credit Midsouth, ACA

February 27, 2009

REPORT OF AUDIT COMMITTEE

Farm Credit Midsouth, ACA



The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Farm Credit Midsouth, ACA. The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2008, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2008.



Lowry E. Robinson
Chairperson of the Audit Committee
Farm Credit Midsouth, ACA

Lowry E. Robinson, Chairperson
Matt Knight
Jane Pirani
Keith Thomas

February 27, 2009

PricewaterhouseCoopers LLP
225 South Sixth Street
Suite 1400
Minneapolis MN 55402
Telephone (612) 596 6000
www.pwc.com

Report of Independent Auditors

To the Board of Directors and Members of
Farm Credit Midsouth, ACA

In our opinion, the accompanying consolidated statement of condition and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit Midsouth, ACA (the Association) and its subsidiaries at December 31, 2008, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 27, 2009

CONSOLIDATED STATEMENT OF CONDITION

Farm Credit Midsouth, ACA

(Dollars in thousands)

As of December 31	2008	2007	2006
ASSETS			
Loans	\$559,177	\$502,049	\$423,406
Allowance for loan losses	1,053	944	870
Net loans	558,124	501,105	422,536
Investment in AgriBank, FCB	13,270	13,270	13,270
Accrued interest receivable	14,481	15,786	13,302
Premises and equipment, net	3,806	3,831	3,940
Other property owned	10	18	79
Assets held for lease, net	972	909	713
Other assets	2,287	2,236	2,288
Total assets	\$592,950	\$537,155	\$456,128
LIABILITIES			
Note payable to AgriBank, FCB	\$470,726	\$420,675	\$345,625
Accrued interest payable	4,590	5,632	4,768
Patronage distribution payable	4,000	4,647	3,541
Net deferred income tax liability	264	261	239
Other liabilities	3,119	2,493	2,641
Total liabilities	482,699	433,708	356,814
MEMBERS' EQUITY			
Protected members' equity	6	6	9
Capital stock and participation certificates	1,834	1,760	1,677
Unallocated surplus	108,411	101,681	97,628
Total members' equity	110,251	103,447	99,314
Total liabilities and members' equity	\$592,950	\$537,155	\$456,128

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

CONSOLIDATED STATEMENT OF INCOME

Farm Credit Midsouth, ACA

(Dollars in thousands)

Year ended December 31	2008	2007	2006
Interest income	\$35,334	\$35,861	\$31,297
Interest expense	18,906	21,182	17,866
Net interest income	16,428	14,679	13,431
Reversal of provision for loan losses	(27)	--	(441)
Net interest income after provision for loan losses	16,455	14,679	13,872
Other income			
Patronage income	1,405	1,564	1,371
Financially related services and miscellaneous income, net	1,180	717	1,349
Total other income	2,585	2,281	2,720
Operating expense			
Salaries and employee benefits	4,976	5,179	4,892
Other operating expense	3,270	3,008	2,817
Total operating expense	8,246	8,187	7,709
Income before income taxes	10,794	8,773	8,883
Provision for income taxes	38	35	509
Net income	\$10,756	\$8,738	\$8,374

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

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA

(Dollars in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2005	\$10	\$1,674	\$92,804	\$94,488
Net income			8,374	8,374
Unallocated surplus designated for patronage distributions			(3,550)	(3,550)
Capital stock/participation certificates issued		146		146
Capital stock/participation certificates retired	(1)	(143)		(144)
Balance at December 31, 2006	9	1,677	97,628	99,314
Net income			8,738	8,738
Unallocated surplus designated for patronage distributions			(4,685)	(4,685)
Capital stock/participation certificates issued		202		202
Capital stock/participation certificates retired	(3)	(119)		(122)
Balance at December 31, 2007	6	1,760	101,681	103,447
Net income			10,756	10,756
Unallocated surplus designated for patronage distributions			(4,026)	(4,026)
Capital stock/participation certificates issued		207		207
Capital stock/participation certificates retired	--	(133)		(133)
Balance at December 31, 2008	\$6	\$1,834	\$108,411	\$110,251

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Farm Credit Midsouth, ACA

(Dollars in thousands)

Year ended December 31	2008	2007	2006
Cash flows from operating activities			
Net income	\$10,756	\$8,738	\$8,374
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	248	207	242
Depreciation on assets held for lease	231	174	126
Reversal of provision for loan losses	(27)	--	(441)
Decrease (increase) in accrued interest receivable	1,245	(2,510)	(1,962)
(Increase) decrease in other assets	(51)	52	451
(Decrease) increase in accrued interest payable	(1,042)	864	785
Increase (decrease) in other liabilities	629	(126)	1,004
Gain on sale of other property owned	--	(1)	--
Gain on sale of premises and equipment	(5)	(4)	--
Gain on sale of Farm Credit System Financial Assistance Corporation Stock	--	--	(833)
Total adjustments	1,228	(1,344)	(628)
Net cash provided by operating activities	11,984	7,394	7,746
Cash flows from investing activities			
Increase in loans, net	(56,812)	(78,437)	(13,380)
Purchases of assets held for lease, net	(294)	(370)	(278)
Sales of other property owned	8	62	8
Sale of Farm Credit System Financial Assistance Corporation Stock	--	--	833
Purchases of premises and equipment, net	(218)	(94)	(111)
Net cash used in investing activities	(57,316)	(78,839)	(12,928)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	50,051	75,050	9,017
Patronage distributions	(4,673)	(3,579)	(3,801)
Capital stock and participation certificates retired, net	(46)	(26)	(34)
Net cash provided by financing activities	45,332	71,445	5,182
Net change in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	\$ --	\$ --	\$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$177	\$176	\$126
Stock applied against loan principal	57	70	90
Interest transferred to loans	60	26	5
Loans transferred to other property owned	--	--	87
Patronage distributions payable to members	4,000	4,647	3,541
Supplemental information			
Interest paid	\$19,948	\$20,318	\$17,081
Taxes (refunded) paid	(299)	440	60

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Midsouth, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

Farm Credit System Lending Institutions: The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2008, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and ninety associations. AgriBank and its affiliated associations are collectively referred to as the District. At December 31, 2008, the District consisted of seventeen Agricultural Credit Associations that each have wholly-owned Federal Land Credit Association and Production Credit Association subsidiaries. Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are also authorized to provide lease financing options for agricultural purposes. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly, or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers. Associations are also authorized to purchase and hold certain types of investments.

Farm Credit System Regulator: The Farm Credit Administration is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the Farm Credit Administration and certain association actions are subject to the prior approval of the Farm Credit Administration and/or AgriBank.

Farm Credit Insurance Fund: The Farm Credit Act of 1971, as amended, established the Farm Credit System Insurance Corporation to administer the Farm Credit Insurance Fund. The Farm Credit Insurance Fund is used:

- to insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to insure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Farm Credit System Insurance Corporation, the Farm Credit Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Farm Credit System Insurance Corporation. Each Farm Credit System bank has been required to pay premiums into the Farm Credit Insurance Fund until the assets in the Farm Credit Insurance Fund equal 2% of Systemwide debt obligations. This percentage of aggregate obligations can be changed as the Farm Credit System Insurance Corporation, in its sole discretion, determines to be actuarially sound. Prior to July 1, 2008, the premiums were based on each bank's annual average loan principal outstanding. Insurance rates were 15 basis points on accrual loans and 25 basis points on nonaccrual loans through June 30, 2008. Effective July 1, the basis for assessing premiums was changed from loans to debt outstanding. Adjustments to debt outstanding are made for

nonaccrual loans and impaired investments which are assessed a surcharge and guaranteed loans which are deductions to the premium base. The premium rate on this base, originally 15 basis points, increased to 18 basis points effective October 1, 2008. AgriBank, in turn, assesses the associations premiums each year based on these same factors. Previously, AgriBank assessed the associations annual premiums based on the average principal outstanding of accrual and nonaccrual loans of the associations.

Association

Farm Credit Midsouth, ACA and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Clay, Craighead, Crittenden, Cross, Desha (that part lying northeast of the White River), Greene, Lee, Mississippi, Phillips, Poinsett and St. Francis in the state of Arkansas and Carter, Ripley and Wayne in the state of Missouri.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short-term and intermediate-term loans and provides lease financing options for agricultural production or operating purposes.

We offer various risk management services, including credit life, term life, credit disability, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer farm records, fee appraisals, income tax planning and preparation services, and retirement and succession planning.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements present the consolidated financial results of Farm Credit Midsouth, ACA (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

The following are our significant accounting policies:

Loans: Mortgage loan terms range from 5 to 40 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Loan fees are recorded as an offset to the related origination costs. The net amount of these fees and expenses is not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior chargeoffs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior chargeoffs 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.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- portfolio quality, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually under Statement of Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan*, to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When collection is unlikely, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

We apply Statement of Financial Accounting Standard No. 5, *Accounting for Contingencies*, to loans that are not individually assessed as impaired. An allowance is recorded for probable and estimable credit losses as of the financial statement date.

Changes in the allowance for loan losses consist of provision activity, recorded as "Reversal of loan losses" on the Consolidated Statement of Income, and chargeoffs and recoveries.

Investment in AgriBank: Accounting for our investment in AgriBank is on a cost plus allocated equities basis. The investment in AgriBank is in the form of Class P common stock and Class D cumulative preferred stock.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

Other Property Owned: We record other property owned, which consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, at the lower of the carrying amount or the fair value less estimated selling costs. Income and expense from operations and carrying value adjustments are included in "Financially related services and miscellaneous income, net" on the Consolidated Statement of Income.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings on the interest method. The carrying amount of finance leases is included in "Loans" on the Consolidated Statement of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in "Assets held for lease, net" on the Consolidated Statement of Condition and represents the asset cost net of accumulated depreciation.

Employee Benefit Plans: Our employees may be eligible to participate in the defined benefit retirement plan of the Seventh Farm Credit District. The plan is comprised of two benefit formulas. Effective October 1, 2001, all new benefits-eligible employees participate in the cash balance formula. Employees hired prior to October 1, 2001, were on the final average pay formula. These employees were given a one-time option to convert to the cash balance formula or to remain on a final average pay formula. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. Employees hired after December 31, 2006, only participate in the defined contribution plan.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax/post-tax or both with an employer match on a percentage of the employee's contributions. For employees hired after December 31, 2006, the defined contribution plan is the only retirement plan available, and we provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

We also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. We have adopted Financial Accounting Standards Board Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*. Under the interpretation, the expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act of 1971, as amended.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. We pay the accrued patronage during the first quarter after each subsequent year.

Statement of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: Effective January 1, 2008, we adopted SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures

about fair value measurements. It also clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. It describes three levels of inputs that may be used to measure fair value.

Where quoted prices are available in an active market, investment securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. The fair value disclosures have been expanded in accordance with SFAS No. 157, as disclosed in Note 13.

NOTE 3: LOANS

Loans consisted of the following (in thousands):

As of December 31, 2008	Amount	Percentage
Long-term agricultural mortgage	\$272,199	47.9%
Production	126,647	22.3%
Intermediate term	129,812	22.9%
Farm-related business	10,767	1.9%
Processing and marketing	9,893	1.7%
Rural home	218	--
Finance leases	1,706	0.3%
Participations purchased	16,936	3.0%
Other	20	--
Subtotal	568,198	100.0%
Participations sold	(9,021)	
Total loans	\$559,177	

As of December 31, 2007	Amount	Percentage
Long-term agricultural mortgage	\$247,178	48.4%
Production	125,936	24.6%
Intermediate term	106,391	20.8%
Farm-related business	4,602	0.9%
Processing and marketing	14,652	2.9%
Rural home	229	--
Finance leases	1,865	0.4%
Participations purchased	10,252	2.0%
Subtotal	511,105	100.0%
Participations sold	(9,056)	
Total loans	\$502,049	

As of December 31, 2006	Amount	Percentage
Long-term agricultural mortgage	\$245,364	57.6%
Production	77,645	18.2%
Intermediate term	81,005	19.0%
Farm-related business	6,074	1.5%
Processing and marketing	8,991	2.1%
Rural home	94	--
Finance leases	1,716	0.4%
Participations purchased	5,169	1.2%
Subtotal	426,058	100.0%
Participations sold	(2,652)	
Total loans	\$423,406	

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration Regulations or General Financing Agreement limitations. The following table presents information regarding participations purchased and/or sold (in thousands):

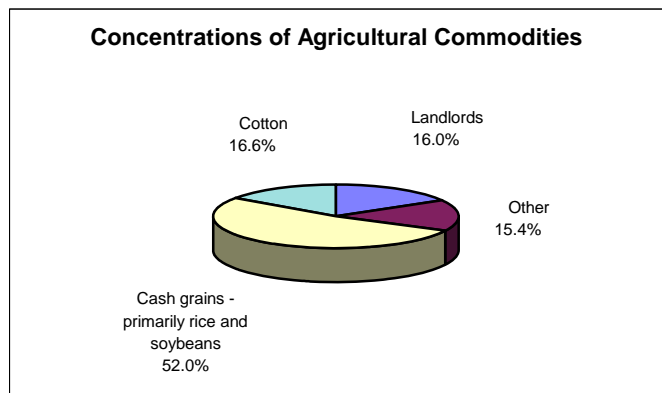
As of December 31, 2008	Participations	
	Purchased	Sold
Participations purchased from / sold to:		
Other Farm Credit System institutions	\$16,936	\$1,927
AgriBank, FCB	--	7,094
Total participations purchased/sold	\$16,936	\$9,021

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory.

At December 31, 2008, volume plus commitments to our ten largest borrowers totaled an amount equal to 117.7% of members' equity.

Our agricultural commodity concentrations at December 31, 2008, were as follows:



The portfolio concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Arkansas and Missouri. Approximately 95.5% of our total loan portfolio was in the state of Arkansas. Approximately 51.4% of our total portfolio resides in the counties of Craighead, Crittenden, Mississippi, and Poinsett counties at December 31, 2008.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan (accruing volume includes accrued interest receivable) information (in thousands):

As of December 31	2008	2007	2006
Nonaccrual loans:			
Current as to principal and interest	\$532	\$43	\$553
Past due	818	661	194
Total nonaccrual loans	1,350	704	747
Accruing restructured loans	--	--	--
Loans past due 90 days or more still accruing	--	--	--
Total risk loans	\$1,350	\$704	\$747
Volume with specific reserves	\$43	\$ --	\$58
Volume without specific reserves	1,307	704	689
Total risk loans	\$1,350	\$704	\$747
Total specific reserves	\$7	\$ --	\$12
<hr/>			
For the year ended December 31	2007	2007	2006
Income on accrual risk loans	\$7	\$5	\$2
Income on nonaccrual loans	31	11	14
Total income on risk loans	\$38	\$16	\$16
Average recorded investment	\$1,339	\$604	\$557

The increase in nonaccrual loans is primarily from the transfer of two accounts involved in wheat and rice markets to nonaccrual status during 2008.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2008.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

A summary of the changes in the allowance for loan losses follows (in thousands):

For the year ended December 31	2008	2007	2006
Balance at beginning of year	\$944	\$870	\$1,283
Reversal of provision for loan losses	(27)	--	(441)
Loan recoveries	151	88	34
Loan chargeoffs	(15)	(14)	(6)
Balance at end of year	\$1,053	\$944	\$870

NOTE 5: INVESTMENT IN AGRIBANK

At December 31, 2008, we were required by AgriBank to maintain an investment equal to 2.5% of the quarter-end balance of our note payable to AgriBank. Effective in 2009, our required investment will include an additional 1% on growth that exceeds a targeted rate.

The following summarizes investment balances (in thousands):

	2008	2007	2006
As of December 31:			
Common stock	\$12,923	\$10,978	\$9,231
Preferred stock	347	2,292	4,039
Total investment	\$13,270	\$13,270	\$13,270

NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

As of December 31	2008	2007	2006
Land, buildings and improvements	\$4,798	\$4,798	\$4,795
Furniture and equipment	1,042	842	769
Subtotal	5,840	5,640	5,564
Less: accumulated depreciation	(2,034)	(1,809)	(1,624)
Total	\$3,806	\$3,831	\$3,940

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and our assets serve as collateral. The total line of credit was \$700 million and the outstanding principal under the line of credit was \$470.7 million as of December 31, 2008. The interest rate is adjusted monthly and was 3.2% at December 31, 2008. During 2008, our average balance was \$493.9 million with an average interest rate of 3.8%. Our average balance during 2007 was \$407.3 million with an average interest rate of 5.2% and during 2006 our average balance was \$360.5 million with an average interest rate of 5.0%. Our note payable's maturity date is April 30, 2009, at which time the note will be renegotiated.

The General Financing Agreement provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. We cannot exceed these limitations without approval from AgriBank. At December 31, 2008, and throughout the

year, we were within the specified limitations and in compliance with all debt covenants

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act of 1971, as amended, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act of 1987 and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of participation certificates at 2% or one thousand dollars per lease level is required for all lease only customers. In addition, the purchase of one participation certificate is required of all customers who purchase financial services and are not a stockholder. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan/lease is made, but usually does not make a cash investment. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act of 1971, as amended, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If an association was unable to retire protected borrower equity at par value or stated value, the Farm Credit Insurance Fund would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with Farm Credit Administration Regulations is discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2008, our ratio was 14.7%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2008, our ratio was 14.4%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2008, our ratio was 14.4%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all preferred stock which is the amount of our investment in AgriBank that is in excess of the required amount. At December 31, 2008, we included 2.6%, at December 31, 2007, we included 17.3%, and at December 31, 2006, we included 30.4% of our investment in AgriBank as capital. These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2008. All shares and participation certificates were \$5.00 par value.

As of December 31, 2008	Shares Outstanding
Class A common stock (protected)	1,261
Class B common stock (at-risk)	3,153
Class C common stock (at-risk)	356,156
Series 2 participation certificates (at-risk)	7,457

Under our bylaws, we are also authorized to issue Class D common stock, Class E common stock, and Class F preferred stock. This stock is at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared during the last three years.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2008, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of preferred stock, and
- second, pro rata to holders of all classes of common stock and participation certificates.

In the event of impairment, losses will be absorbed first by concurrent impairment of all classes of stock and participation certificates, then by holders of preferred stock. However, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of \$4.0 million at December 31, 2008, \$4.6 million at December 31, 2007, and \$3.5 million at December 31, 2006. The patronage distributions were made in cash during the first quarter of each subsequent year. The Board of Directors authorizes a distribution of earnings in excess of board-specified levels provided we meet all statutory and regulatory requirements.

The Farm Credit Administration Regulations prohibits patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2009.

NOTE 9: INCOME TAXES**Provision for Income Taxes**

Our provision for income taxes follows (in thousands):

For the year ended December 31	2008	2007	2006
Current:			
Federal	\$26	\$16	\$430
State	9	(3)	83
Total current	35	13	513
Deferred:			
Federal	2	(24)	40
State	1	46	(44)
Total deferred	3	22	(4)
Provision for income taxes	\$38	\$35	\$509
Effective tax rate	0.4%	0.4%	5.7%

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	2008	2007	2006
Federal tax at statutory rate	\$3,671	\$2,983	\$3,020
State tax, net	6	6	59
Patronage distributions	(1,360)	(1,580)	(1,204)
Net effect of non-taxable entity	(2,261)	(1,360)	(1,360)
Other	(18)	(14)	(6)
Provision for income taxes	\$38	\$35	\$509

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	2008	2007	2006
Allowance for loan losses	\$425	\$382	\$353
Postretirement benefits accrual	158	160	159
Leasing related	44	97	72
Net operating loss carryforwards	--	--	33
Accrued patronage income not received	(80)	(133)	(105)
AgriBank, FCB 2002 allocated stock	(328)	(328)	(328)
Accrued pension asset	(481)	(434)	(458)
Depreciation	(18)	(19)	16
Other assets	16	15	22
Other liabilities	--	(1)	(3)
Net deferred tax liabilities	(\$264)	(\$261)	(\$239)
Gross deferred tax assets	\$643	\$654	\$655
Gross deferred tax liabilities	(\$907)	(\$915)	(\$894)

A valuation reserve for the deferred tax assets was not necessary at December 31, 2008, December 31, 2007, or December 31, 2006.

We have not provided deferred income taxes on approximately \$11.3 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Additionally, we have not provided deferred income taxes on

accumulated FLCA earnings of \$77.2 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

We adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*, on January 1, 2008. At the time of adoption, as well as at December 31, 2008, we had no uncertain income tax positions to recognize.

NOTE 10: EMPLOYEE BENEFIT PLANS

Our employees may be eligible to participate in a District-wide multi-employer defined benefit retirement plan (the Plan). The Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. We recognize our proportional share of expense and contribute a proportional share of funding. As a participant in the Plan, we contributed \$606 thousand for 2008 and \$265 thousand for 2007. We did not make a contribution in 2006. Plan expenses included in salaries and employee benefits expense in the Consolidated Statement of Income were \$326 thousand for 2008, \$414 thousand for 2007, and \$490 thousand for 2006. Additional financial information for the Plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

The funded status of the plans will be recorded at the District level only. Please refer to the AgriBank, FCB and Affiliated Associations 2008 Annual Report for detailed disclosures under Statement of Financial Accounting Standard No. 158 – *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

In December 2007, the District adopted SFAS No. 158, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. SFAS No. 158 also requires that employers measure the benefit obligation and plan assets as of fiscal year end in 2008. The Standard allows for the use of the measurements determined for the prior year-end.

Under this approach, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) was credited to beginning 2008 unallocated surplus. As a result, the District decreased unallocated surplus by \$5.0 million and increased the pension and other postretirement benefits liabilities by \$5.0 million.

Life Insurance and Retiree Medical Plans

District employers also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits (primarily health care benefits and life insurance) included in salaries and employee benefits expense were \$29 thousand for 2008, \$45 thousand for 2007, and \$44 thousand for 2006. Additional financial information for this plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

Retirement Savings Plan

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For

employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contributions and recorded expense to this plan were \$140 thousand in 2008, \$127 thousand in 2007, and \$117 thousand in 2006.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in Farm Credit Administration Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2008, involved more than a normal risk of collectibility.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2008	2007	2006
As of December 31:			
Total related party loans and leases	\$19,402	\$22,016	\$16,979
For the year ended December 31:			
Advances to related parties	\$36,184	\$29,055	\$18,766
Repayments by related parties	\$39,975	\$25,175	\$22,490

The composition of related parties can be different each year end due primarily to changes in the makeup of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including certain information systems, certain financial services, certain accounting and reporting services, and selected retail product processing and support services. The total cost of services we purchased from AgriBank was \$466 thousand in 2008, \$485 thousand in 2007, and \$503 thousand in 2006.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2008, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$216.4 million. Additionally, we had \$863 thousand of issued standby letters of credit as of December 31, 2008.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

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 2 for additional information.

Assets measured at fair value on a non-recurring basis at December 31, 2008 for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Loans*	\$0	\$36	\$0	\$36	(\$7)

* Represents the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying real estate collateral. The fair value measurement process uses independent appraisals and other market-based information. As a result, these fair value measurements fall within Level 2 of the hierarchy. However, 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.

Note Payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

	Carrying Amount	Estimated Fair Value
As of December 31, 2008		
Financial assets:		
Loans, net	\$558,124	\$569,225
Financial liabilities:		
Note payable to AgriBank, FCB	\$470,726	\$479,299
Unrecognized financial instruments:		
Commitments to extend credit		(\$270)
As of December 31, 2007		
Financial assets:		
Loans, net	\$501,105	\$505,883
Financial liabilities:		
Note payable to AgriBank, FCB	\$420,675	\$423,872
Unrecognized financial instruments:		
Commitments to extend credit		(\$194)
As of December 31, 2006		
Financial assets:		
Loans, net	\$422,536	\$422,106
Financial liabilities:		
Note payable to AgriBank, FCB	\$345,625	\$344,597
Unrecognized financial instruments:		
Commitments to extend credit		(\$184)

NOTE 14: FARM CREDIT SYSTEM FINANCIAL ASSISTANCE CORPORATION STOCK SALE

In December 2006, we sold to AgriBank all Farm Credit System Financial Assistance Corporation stock held by us at 71% of the face value of that stock. Legislation in 1987 required us to purchase this stock to capitalize the Farm Credit System Financial Assistance Corporation. Due to the uncertainty regarding the realization of the asset, the stock had previously been written off and carried at zero book value. The sale resulted in a gain of \$833 thousand in the fourth quarter of 2006. The gain was recorded in "Financially related services and miscellaneous income, net" on the Consolidated Statement of Income. The Financial Assistance Corporation's charter was cancelled as of December 31, 2006.

NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, follow (in thousands):

2008	First	Second	Third	Fourth	Total
Net interest income	\$3,872	\$4,035	\$4,484	\$4,037	\$16,428
(Reversal of) provision for loan losses	(345)	118	197	3	(27)
Patronage income	296	348	410	351	1,405
Other expense, net	1,671	1,709	1,875	1,811	7,066
Provision for (reversal of) income taxes	14	13	14	(3)	38
Net income	\$2,828	\$2,543	\$2,808	\$2,577	\$10,756
2007	First	Second	Third	Fourth	Total
Net interest income	\$3,246	\$3,625	\$4,104	\$3,704	\$14,679
(Reversal of) provision for loan losses	(17)	(70)	292	(205)	--
Patronage income	272	325	367	600	1,564
Other expense, net	1,838	1,921	1,920	1,791	7,470
Provision for (reversal of) income taxes	12	21	168	(166)	35
Net income	\$1,685	\$2,078	\$2,091	\$2,884	\$8,738
2006	First	Second	Third	Fourth	Total
Net interest income	\$3,041	\$3,285	\$3,774	\$3,331	\$13,431
(Reversal of) provision for loan losses	(251)	45	--	(235)	(441)
Patronage income	248	284	319	520	1,371
Other expense, net	1,792	1,825	1,903	840	6,360
Provision for income taxes	8	8	215	278	509
Net income	\$1,740	\$1,691	\$1,975	\$2,968	\$8,374

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Midsouth, ACA
(Unaudited)

DESCRIPTION OF BUSINESS

General information regarding the business is discussed in Note 1 of this annual report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" portion of this annual report.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Jonesboro	Owned	Headquarters/Branch
Barton	Owned	Branch
Corning	Owned	Branch
Forrest City	Owned	Branch
Osceola	Owned	Branch
Paragould	Owned	Branch
Marion	Owned	Branch
Wynne	Owned	Branch

LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 9 and Note 12 of this annual report. We were not subject to any enforcement actions at December 31, 2008.

DESCRIPTION OF CAPITAL STRUCTURE

Information regarding our capital structure is discussed in Note 8 of this annual report.

DESCRIPTION OF LIABILITIES

Information regarding liabilities is discussed in Note 7 and Note 12 of this annual report.

SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" portion of this annual report.

BOARD OF DIRECTORS

Information regarding directors who served as of December 31, 2008, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Fred L. Cathcart is a rice and soybeans farmer. He also owns a business, Valley View Agri, Inc, which sells and installs grain storage equipment. His term expires in 2009.

Johnny Ray Distretti is a self-employed grain farmer. He is also on the Board of Directors of the Greene County Farm Bureau in Paragould, AR. His term on the board expires in 2009.

Marion D. Fletcher, Outside Director, is the national treasurer of the National FFA Board of Directors and the National FFA Foundation, Inc. both in Indianapolis, IN. He also serves as a Director of the Garland County Farm Bureau in Hot Springs, AR. His term on the board expires in 2009.

Carl A. Loewer, Vice Chairperson of the Board, is a self-employed grain and livestock farmer and is also employed as a seed and parts dealer. He is also on the Board of Directors of the Cross County Farm Bureau, and the Cross County Library. His term on the board expires in 2010.

Matt Knight, Outside Director, Board and Audit Committee financial expert, is a certified public accountant and is a partner with a local public accounting firm. His term on the board expires in 2011.

Donald Norwood is a self-employed grain farmer. He is also on the Board of Directors of the Greene County Farm Bureau in Paragould, AR. His term on the board expires in 2009.

Jane Pirani is a self-employed cotton and grain farmer. Her term on the board expires in 2011.

Lowry E. Robinson is a self-employed grain and cotton farmer. He is the Chairman of the Mississippi County Conservation District and also serves on the Mississippi County Farm Bureau Board, both in Osceola, AR, and the Staplecotton Cooperative Board. His term on the board expires in 2010.

Gary Sitzer, Chairperson of the Board, is a self-employed grain farmer. He also serves on the Poinsett County Farm Bureau Board in Harrisburg, AR, the Arkansas Soybean Association Board, the Advisory Board of Northeast Arkansas Research and Extension Center, the Catholic Neuman Center Endowment Board, the St. Bernard's Regional Medical Center Advisory Board, the Arkansas Soybean Research and Promotion Board, the Poinsett County Emergency/Food/Shelter Board, and the Rice Tec Regional Advisory Board. His term on the board expires in 2010.

Keith Thomas is a self-employed grain farmer. His term on the board expires in 2009.

Jerry D. Turner is a self-employed grain farmer. He also serves on the Clay County Electric Cooperative Board and Clay County Regional Water Board. His term on the board expires in 2010.

Leslie E. Turner is a self-employed grain and cotton farmer. He serves on the Board of Directors of the Phillips County Farm Bureau; Service Gin, a cotton ginning company; and Barton Agri, Inc. in Barton, AR, a cooperative style company selling fertilizer. He is also the Fire Chief of Barton Rural Fire Company and is Treasurer of Barton Baptist Church. His term on the board expires in 2011.

Mark Waldrip is a self-employed grain farmer and has two seed businesses, East Arkansas Seeds in Moro, AR and Cullum Seeds, LLC in Fisher, AR. He also is an owner in East Arkansas Grain located in Marianna, AR, East Arkansas Equipment in Moro, AR, Ag-Turf, LLC located in Fort Smith, AR and a Sonic franchise in Marianna, AR. He serves on the Lee County Farm Bureau Board, the Arkansas State Plant Board, the University of Arkansas Agriculture Development Council Board, and the Arkansas Agriculture Board. His term on the board expires in 2011.

Thomas W. Wilkie is a self-employed grain farmer who owns and operates a drainage supply business in Forrest City, AR. He is the Vice Chairman of the National Farm Credit Council Services Board in Denver, CO and also serves on the Board of St. Francis County Farmers, the District Farm Credit Council Board, and the National Farm Credit Council Board in Washington D.C. His term on the board expires in 2011.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of \$300 per day and a per diem rate of \$100 per conference call. Board members will also receive a \$2,500 annual retainer fee except for the board chairperson who receives a \$3,500 annual retainer fee and the board vice chairperson who receives a \$3,000 annual retainer fee. The retainer fee is equally paid at the end of each quarter.

Information regarding compensation for each director who served during 2008 follows:

	Number of Days Served		Compensation paid for service on a board committee	Name of Committee	Total Compensation Paid in 2008
	Board Meetings	Other Official Activities			
Fred Cathcart	9.0	5.0			\$6,700
Johnny Ray Distretti	8.0	0.0			4,900
Marion D. Fletcher	5.0	7.0			6,100
Matt Knight *	5.0	9.0			5,450
Carl A. Loewer	9.0	14.0	\$300	Assn State Bd	9,700
Carl A. Loewer			300	Executive	
Donald Norwood	9.0	9.0			7,900
Jane Pirani	8.0	13.0	900	Audit	8,800
Lowry E. Robinson	7.0	7.0			6,700
Gary Sitzer	9.0	14.0	300	Executive	10,200
Gary Sitzer			900	Assn State Bd	
Keith Thomas	9.0	16.0	900	Audit	9,800
Jerry D. Turner	9.0	8.0	300	Executive	7,400
Leslie E. Turner	9.0	10.0	300	Executive	8,200
Mark Waldrip	9.0	8.0			7,600
Thomas W. Wilkie	6.0	25.0	900	ADFCC	10,600
			900	District FCC	
	111.0	145.0	\$6,000		\$110,050

* Newly elected in 2008

SENIOR OFFICERS

The senior officers as of December 31, 2008 include:

Gary N. Kinder, President and Chief Executive Officer
 Shari J. Wilson, Senior Vice President Finance, CFO
 Donald E. Brown, Jr., Vice President, Support Services
 Davy Crockett, Senior Vice President Credit, CCO
 James McJunkins, Senior Vice President, Field Operations

All of the senior officers have been with Farm Credit Midsouth, ACA for the past five years except for Ms. Wilson. Prior to beginning her employment with us in 2008, Ms. Wilson's business experience was as an independent

CPA for a local firm providing audit, tax and bookkeeping services, an accounting manager for a large non-profit organization, and the Senior Vice President/CFO for Farm Credit Services of Western Arkansas.

A summary of compensation paid to the most highly compensated officers, including the senior officers previously noted follows (in thousands):

	Year	Salary	Bonus	Deferred/Perquisites	Other	Total
CEO						
Gary Kinder	2008	\$183	\$110	\$1	\$ --	\$294
Gary Kinder	2007	167	100	3	--	270
Gary Kinder	2006	157	88	2	--	247
Aggregate Number of Individuals (does not include CEO):						
Six	2008	\$561	\$189	\$9	\$1	\$760
Four	2007	417	123	8	--	548
Five	2006	493	145	11	--	649

Members may request information on the compensation paid during 2008 to the individuals listed in the preceding table. The amount included in 'Other' as shown in the preceding table represents relocation allowances.

Senior officer incentives are paid annually based on performance criteria established by the Board of Directors. The criteria include net earnings, net operating rate, association risk rating, personal objectives and performance ratings. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

Information regarding related party transactions is discussed in Note 11 of this annual report.

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 3000 Prosperity Drive, Jonesboro, Arkansas 72404, (870) 932-2288 or through our website at www.farmcreditmidsouth.com.

The total directors' travel, subsistence and other related expenses were \$60 thousand in 2008, \$34 thousand in 2007, and \$30 thousand in 2006.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2009 or at any time during 2008.

MEMBER PRIVACY

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT

There were no changes in independent auditors since the last annual report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2008 were \$20 thousand for audit services. We also had fees to other qualified public accountants of \$22 thousand for an operations audit, \$1 thousand for audit committee and

board financial expert services, and \$3 thousand for tax services which were approved by our Audit Committee.

FINANCIAL STATEMENTS

The "Report of Management", "Report of Audit Committee", "Report of Independent Auditors," "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

CREDIT AND SERVICES TO YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Information regarding credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products is discussed in the "Management's Discussion and Analysis" portion of this annual report.

EQUAL EMPLOYMENT OPPORTUNITY

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

Farm Credit Midsouth, ACA

Funds Held Disclosure

Farm Credit Midsouth, ACA (the Association) offers a Funds Held Program ("Program") that provides for Borrowers to make uninsured advance payments on designated loans for the purpose of paying future maturities or other related charges.

Objective

The Association offers the Funds Held Program for the benefit and convenience of Borrowers who desire to make advance payments.

The following terms and conditions apply to Program accounts in connection with loans from the Association, subject to any rights that the Association or Borrower may have as specified in loan documents governing designated loans.

Handling Advance Payments

- Advance payments received on a loan participating in the Program before the loan has been billed will normally be placed in the Program account ("Account") as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that the Association may have to apply such payments in a different manner as specified in the loan documents governing designated loans.
- Advance payments received on a loan participating in the Program after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.
- Funds received in excess of the installment amount or other related charges will be placed in the Account.
- If a special prepayment of principal is desired, Borrowers must so specify at the time funds are paid in advance to the Association.
- When an installment becomes due, any accrued interest in the Account and other funds in the Account for the loan will be automatically applied toward payment of the installment or related charges on the due date. If the balance in the Account is not adequate to pay the installment or related charges in full, Borrowers are expected to pay the difference by the installment due date. Any excess funds will remain in the Account.

Even when no installment or related charge is due, the Association may, at its option, apply funds from the Account without notice to Borrower as follows:

- **Protective Advances.** If the Borrower fails to pay when due other items as required pursuant to the mortgage, deed of trust, promissory note or any other loan documents, the Association may apply funds in the Account to pay them.

- **Account Ceiling.** If the Account balance exceeds the unpaid balance of the loan, the Association may apply the funds in the Account to repay the entire unpaid balance and will return any excess funds. The Association allows up to two full annual installments (principal and interest) to be placed in the Account on each individual loan.
- **Transfer of Security.** If the Borrowers sell, assign, or transfer any interest in the underlying collateral, the Association may apply the funds in the Account against the remaining loan balance.
- **Deceased Borrowers.** If all Borrowers are deceased, the Association may apply the funds in the Account to the remaining loan balance.

The Association may pay interest on Account Balances. Interest on Account Balances (exclusive of funds applied directly to billed amounts) will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, without written notification to the Borrower, and may provide for different interest rates for different categories of loans. Subject to change as aforesaid, currently the rate paid on the Account by the Association is equal to the rate being charged the Borrower on the individual loan.

Borrower Withdrawals from Accounts

The Association may permit Borrowers to withdraw funds from the Account according to the Association's Program, including medical emergencies and natural disasters.

The Association permits one withdrawal by Borrowers from Accounts in any calendar year and the minimum amount that can be withdrawn is the entire Account balance. The request for the withdrawal must be in writing and state the reason(s) why withdrawal is being requested.

Liquidation

Account balances are not insured. In the event of the Association liquidation, all Borrowers having balances in these uninsured Accounts shall be notified according to FCA Regulations then in effect. Applicable regulations now provide that the notice shall instruct that the funds ceased earning interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the Borrowers unless, within 15 days notice, the Borrower provides direction to the Associations to apply the funds according to existing loan documents.

Termination

If the Association terminates the Program, Account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.



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