



Federal Land Bank Association
of North Mississippi, FLCA
2008 ANNUAL REPORT

December 31, 2008



Part of the Farm Credit System

Table of Contents

Report of Management.....	2
Report of Audit Committee.....	3
Five-Year Summary of Selected Financial Data.....	4
Management’s Discussion and Analysis of Financial Condition and Results of Operations	6
Report of Independent Auditors.....	12
Financial Statements	13
Notes to Financial Statements	17
Disclosure Information and Index.....	34

REPORT OF MANAGEMENT

The financial statements of Federal Land Bank Association of North Mississippi, FLCA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the financial statements.

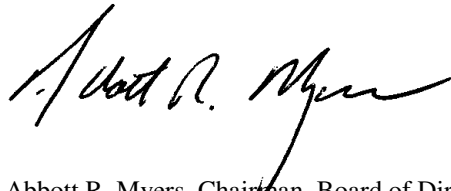
To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee (Committee) of the board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The Committee consults regularly with management and reviews the results of the audits and examinations previously mentioned.

The undersigned certify that this annual report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his or her knowledge or belief.



Gary L. Gaines, Chief Executive Officer
March 3, 2009



Abbott R. Myers, Chairman, Board of Directors
March 3, 2009



J. Matthew Walden, Chief Financial Officer
March 3, 2009

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Jan Hill, Abbott Myers and Alan Blaine. In 2008, two committee meetings were held. The Committee oversees the scope of Federal Land Bank Association of North Mississippi, FLCA's (Association) system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available upon request or on the Association's web site. The Committee approved the appointment of PricewaterhouseCoopers LLP as independent auditors for 2008.

Management is responsible for the Association's internal controls and the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared under the oversight of the Committee. PricewaterhouseCoopers LLP is responsible for performing an independent audit of the Association's financial statements in accordance with auditing standards generally accepted in the United States of America and issuing a report thereon. The Committee's responsibilities include monitoring and overseeing the processes.

In this context, the Committee reviewed and discussed the Association's audited financial statements for the year ended December 31, 2008 (audited financial statements) with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 114 "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PricewaterhouseCoopers LLP its independence from the Association. The Committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited financial statements in the Association's Annual Report to Stockholders for the year ended December 31, 2008.

Jan Hill
Abbott Myers
Alan Blaine

Audit Committee Members

March 3, 2009

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)

	December 31,				
	2008	2007	2006	2005	2004
Balance Sheet Data					
<u>Assets</u>					
Cash	\$ 1,847	\$ 1,513	\$ 2,709	\$ 1,176	\$ 3,679
Loans	409,681	355,615	319,846	310,278	276,064
Less: allowance for loan losses	383	338	123	190	419
Net loans	409,298	355,277	319,723	310,088	275,645
Investment in and receivable from the Bank	6,606	5,650	5,181	4,866	4,316
Other property owned, net	99	-	-	-	-
Other assets	12,782	10,839	9,424	7,461	5,602
Total assets	\$ 430,632	\$ 373,279	\$ 337,037	\$ 323,591	\$ 289,242
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 5,562	\$ 4,851	\$ 5,994	\$ 4,804	\$ 5,638
Obligations with maturities greater than one year	360,942	307,582	269,534	261,688	231,606
Total liabilities	366,504	312,433	275,528	266,492	237,244
<u>Members' Equity</u>					
Capital stock and participation certificates	2,305	2,145	1,988	1,836	1,679
Unallocated retained earnings	61,614	58,401	59,521	55,263	50,319
Accumulated other comprehensive income	209	300	-	-	-
Total members' equity	64,128	60,846	61,509	57,099	51,998
Total liabilities and members' equity	\$ 430,632	\$ 373,279	\$ 337,037	\$ 323,591	\$ 289,242
Year Ended December 31,					
Statement of Income Data					
Net interest income	\$ 9,768	\$ 9,353	\$ 8,989	\$ 8,480	\$ 7,704
(Provision for loan losses) or loan loss reversal	(45)	(5,029)	25	83	5,502
Income from the Bank	1,326	1,138	1,070	911	605
Other noninterest income	1,267	950	769	775	629
Noninterest expense	(7,866)	(5,923)	(5,177)	(4,639)	(5,130)
Net income	\$ 4,450	\$ 489	\$ 5,676	\$ 5,610	\$ 9,310
Key Financial Ratios for the Year					
Return on average assets	1.1 %	0.1%	1.8%	1.8%	3.5%
Return on average members' equity	7.0 %	0.8%	9.5%	10.2%	19.1%
Net interest income as a percentage of average earning assets	2.5 %	2.8%	2.9%	2.9%	2.9%
Net charge-offs as a percentage of average loans	0.0 %	1.4%	0.0%	0.0%	0.0%

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)

	December 31,				
	2008	2007	2006	2005	2004
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	14.9%	16.3%	18.3%	17.6%	18.0%
Debt as a percentage of members' equity	571.5%	513.5%	447.9%	466.7%	456.3%
Allowance for loan losses as a percentage of loans	0.1%	0.1%	0.0%	0.1%	0.2%
Permanent capital ratio	14.2%	15.5%	17.2%	16.6%	16.8%
Core surplus ratio	13.6%	14.9%	16.7%	16.0%	14.8%
Total surplus ratio	13.6%	14.9%	16.7%	16.0%	14.8%
<u>Net Income Distribution</u>					
Cash dividends paid	\$ 296	\$ -	\$ -	\$ 3,690	\$ -
Special capital distribution	825	-	-	-	-
Patronage refunds:					
Cash	489	1,418	666	-	285

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains management's assessment of the principal aspects of the financial condition and results of operations of Federal Land Bank Association of North Mississippi, FLCA (Association) for the years ended December 31, 2008, 2007 and 2006, and should be read in conjunction with the accompanying financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

Forward-Looking Information:

This annual information statement contains 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 of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other 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;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In December 2008, the Association received a direct loan patronage of \$1,003,685 from the Farm Credit Bank of Texas (Bank), representing 30 basis points on the average daily balance of the Association's direct loan with the Bank. During 2008, the Association received \$265,156 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$57,394 from the Bank, representing 65 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, the Federal Land Bank of North Alabama, FLCA, the Federal Land Bank of South Alabama, FLCA, Southern Ag Credit, ACA (formerly Land Bank South Association, FLCA), and the Louisiana Land Bank Association, FLCA. During the second quarter of 2007, the CMS members decided to discontinue the joint venture. The CMS group will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly, until such time as all of the loans are fully matured or paid off. For more information, see Note 12 to the financial statements, "Capital Markets," included in this annual report.

During 2007, the Association charged off \$4.8 million and set up a specific allowance of \$279 thousand related to a participation loan to one borrower. For more information, see "Loan Portfolio" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 12 to the financial statements, "Capital Markets," included in this annual report.

On September 30, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through other comprehensive income. SFAS No. 158 further requires the determination of the fair value of plan assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of other comprehensive income. In addition, SFAS No. 158 requires that the funded status of a plan be measured as of the date of the year-end financial statements. The Tenth District previously used a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. See Note 9 to the financial statements, "Employee Benefit Plans," included in this annual report, for more information and disclosures required by SFAS No. 158.

For over 18 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-based interest rates. Loan maturities range from one to 40 years, with 15- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The yields for most crops during the year were good. While input costs such as fuel and fertilizer were higher, commodity prices were also high. As a result, profit margins were relatively high. The downturn in the general economy has not been felt significantly in the Association's territory as of the end of the year; therefore, the Association anticipates sound collections. The composition of the Association's loan portfolio, including principal less funds held of \$409,681,482, \$355,615,476 and \$319,846,088 as of December 31, 2008, 2007 and 2006, respectively, is described more fully in detailed tables in Note 3 to the financial statement, "Loans and Allowance for Loan Losses," included in this annual report.

Twelve associations in the District, along with two other Farm Credit associations, participated in a loan to one borrower with the original funded balance of \$68.5 million. The Association owned approximately 5.56 percent of the loan. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant under collateralized position and a credit default. The lead lending association is currently pursuing collection efforts and in the third quarter of 2007 liquidated part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, in the second half of 2007 the Association, along with the four other Capital Markets of the South (CMS) member associations, repurchased, on a pro rata basis, the portions of the loan held by all other non-CMS participants. As part of loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

In 2008, collection efforts continued, resulting in legal judgments against the borrowers and allowing the lead lender to foreclose on portions of the real estate collateral, with sales proceeds being applied against the outstanding balance of the loan. On October 10, 2008, the foreclosed property was sold to a third party for \$7,001,000. The sale was consummated by the middle of November 2008, and the lead lender received \$6,971,336. The lead lender is still in the process of foreclosing on the remaining portions of the real estate collateral. In addition, the borrowers have surrendered various other real and personal properties, all of which are to be liquidated and applied against the loan balance. All sales of remaining real estate collateral and other properties are expected to be completed in the first half of 2009.

During 2007, net charge-offs of \$28.9 million were recognized on the loan; the Association's portion of the 2007 charge-offs was \$4.8 million. No further charge-offs or allowance reserves were required to be recognized in 2008. As of December 31, 2008, the total book balance remaining was \$2,413,392, of which the Association's portion was \$461,226. Also, as of December 31, 2008, total specific reserves of \$1,460,000 remained on the books related to this loan, of which the Association's portion was \$279,022. For more information on impaired loans and the allowance for loan losses, see Note 3 to the financial statements, "Allowance for Loan Losses," included in this annual report.

Purchase and Sales of Loans:

During 2008, 2007 and 2006, the Association was participating in loans with lenders. As of December 31, 2008, 2007 and 2006, these participations totaled \$28,041,082, \$33,454,645 and \$35,770,209, or 6.8 percent, 9.4 percent and 11.2 percent of loans, respectively. All of these loans are participations purchased from entities inside the Tenth District. The Association has also sold participations of \$8,759,330, \$3,572,441 and \$4,460,621 as of December 31, 2008, 2007 and 2006, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans which are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 1,246,585	79.8%	\$ 2,151,356	86.4%	\$ 138,077	24.4%
90 days past due and still accruing interest	-	0.0%	131,437	5.3%	-	0.0%
Formally restructured	217,549	13.9%	207,362	8.3%	429,007	75.6%
Other property owned, net	99,076	6.3%	-	0.0%	-	0.0%
Total	\$ 1,563,210	100.0%	\$ 2,490,155	100.0%	\$ 567,084	100.0%

At December 31, 2008, 2007 and 2006, loans that were considered impaired were \$1,464,134, \$2,490,155 and \$567,084, representing 0.4 percent, 0.7 percent and 0.2 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of or for the year ended, December 31:

	2008	2007	2006
Allowance for loan losses	\$ 382,665	\$ 337,779	\$ 123,215
Provision for loan losses	44,886	5,028,776	(24,755)
Loans charged off	-	(4,814,212)	(42,123)
Allowance for loan losses to total loans	0.093%	0.095%	0.039%
Allowance for loan losses to nonaccrual loans	30.7%	15.7%	89.2%
Allowance for loan losses to impaired loans	26.1%	13.6%	21.7%
Net charge-offs to average loans	0.0%	1.4%	0.0%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, general economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$382,665, \$337,779 and \$123,215 at December 31, 2008, 2007 and 2006, respectively, was considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations:

The Association's net income for the year ended December 31, 2008, was \$4,449,659 as compared to \$489,465 for the year ended December 31, 2007, reflecting an increase of \$3,960,194, or 809.1 percent. The Association's net income for the year ended December 31, 2006, was \$5,676,354. Net income decreased \$5,186,889, or 91.4 percent, in 2007 versus 2006. The primary reason for the fluctuation among the three years is a charge-off in 2007 of \$4,814,212, which is discussed in detail in the "Loan Portfolio" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 10 to the financial statements, "Commitments and Contingencies," included in this annual report.

Net interest income for 2008, 2007 and 2006 was \$9,768,474, \$9,353,461 and \$8,989,118, reflecting increases of \$415,013, or 4.4 percent, for 2008 versus 2007 and \$364,343, or 4.1 percent, for 2007 versus 2006. Net interest income is the principal source of earnings for the Association and is impacted by loan volume, yields on assets and cost of debt. The effects of changes in average loan volume and interest rates on net interest income over the past three years are presented in the following tables:

	2008		2007		2006	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 384,322,954	\$ 25,566,728	\$336,538,296	\$24,560,554	\$308,981,931	\$21,935,100
Interest-bearing liabilities	334,582,873	15,798,254	285,474,136	15,207,093	259,273,427	12,945,982
Impact of capital	<u>\$ 49,740,081</u>		<u>\$ 51,064,160</u>		<u>\$ 49,708,504</u>	
Net interest income		<u>\$ 9,768,474</u>		<u>\$ 9,353,461</u>		<u>\$ 8,989,118</u>

	Average Yield	Average Yield	Average Yield
Yield on loans	6.65%	7.30%	7.10%
Cost of interest-bearing liabilities	4.72%	5.33%	4.99%
Interest rate spread	1.93%	1.97%	2.11%

	2008 vs. 2007			2007 vs. 2006		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income	\$ 3,487,324	\$ (2,481,150)	\$ 1,006,174	\$ 1,956,281	\$ 669,173	\$ 2,625,454
Interest expense	2,616,022	(2,024,861)	591,161	1,308,254	952,857	2,261,111
Net interest income	<u>\$ 871,302</u>	<u>\$ (456,289)</u>	<u>\$ 415,013</u>	<u>\$ 648,027</u>	<u>\$ (283,684)</u>	<u>\$ 364,343</u>

Interest income increased by \$1,006,174, or 4.1 percent, compared to 2007, primarily due to significant growth in loan volume. Interest expense for 2008 increased by \$591,161, or 3.9 percent, compared to 2007 due to growth in the Association's direct note with the Bank partially offset by a decrease in the Association's cost of funds. The interest rate spread decreased by 4 basis points to 1.93 percent in 2008 from 1.97 percent in 2007, primarily due to continued competition and significant conversions to fixed rate products mainly in the first and second quarters of 2008. The interest rate spread decreased by 14 basis points to 1.97 percent in 2007 from 2.11 percent in 2006, primarily due to increased competition and increased conversions to fixed rate products driven by a continued rise in interest rates.

Noninterest income for 2008 increased by \$504,460, or 24.2 percent, compared to 2007, due primarily to increased loan closing fees of \$115,875, an increase of \$141,183 in the direct note patronage income received from the Bank and an increase in conversion fees of \$301,088. Noninterest income for 2007 increased by \$248,803, or 13.5 percent, compared to 2006, due primarily to a \$78,503 increase in the direct note patronage income received from the Bank, a \$32,849 increase in the interest credit patronage income received from the Bank, and a \$107,418 increase in fee income.

Operating expenses consist primarily of salaries, employee benefits, and purchased services. Expenses for purchased services include administrative services, marketing, information systems, accounting and loan processing, among others. Overall expenses for 2008, 2007 and 2006 were \$7,866,831, \$5,923,662 and \$5,177,158, respectively. The increase in 2008 of \$1,943,169 is primarily due to increases in salaries and benefits and purchased services of \$1,392,284 and \$337,223, respectively. The increase in 2007 of \$746,504 is due primarily to increases in salaries and benefits, advertising, training, and purchased services of \$342,116, \$91,718, \$52,712 and \$225,389, respectively. The primary increases in purchased services in 2007 and 2008 were costs related to the participation loan discussed in the "Loan Portfolio" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 10 to the financial statements, "Commitments and Contingencies," included in this annual report.

For the year ended December 31, 2008, the Association's return on average assets was 1.1 percent, as compared to 0.1 percent and 1.8 percent for the years ended December 31, 2007 and 2006, respectively. For the year ended December 31, 2008, the Association's return on average members' equity was 7.0 percent, as compared to 0.8 percent and 9.5 percent for the years ended December 31, 2007 and 2006, respectively. The fluctuation between 2007 versus 2006 and 2008 was due to the impact of the participation loan discussed in the "Loan Portfolio" section of Management's Discussion and Analysis and in Note 10 to the financial statements, "Commitments and Contingencies," included in this annual report. The impact on return on assets and return on equity for 2007 was approximately 1.6 percent and 8.6 percent, respectively.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar effect on the operations of the Association.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$359,552,371, \$306,221,087 and \$268,364,422 as of December 31, 2008, 2007 and 2006, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 4.42 percent, 5.33 percent and 5.24 percent at December 31, 2008, 2007 and 2006, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2007, is due to significant loan growth during 2008. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$50,036,656, \$49,394,389 and \$51,184,741 at December 31, 2008, 2007 and 2006, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2008, was \$417,214,875, as defined by the general financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2009. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$64,128,233, \$60,846,088 and \$61,509,415 at December 31, 2008, 2007 and 2006, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the Farm Credit Administration. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2008, 2007 and 2006 was 14.2 percent, 15.5 percent and 17.2 percent, respectively. The decrease is due primarily to significant growth in loan volume.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2008, 2007 and 2006 was 13.6 percent, 14.9 percent and 16.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The decrease is due primarily to significant growth in loan volume.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2008, 2007 and 2006 was 13.6 percent, 14.9 percent and 16.7 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent. The decrease is due primarily to significant growth in loan volume.

In 2008, the Association paid patronage, dividend and special distributions of \$489,465, \$296,154 and \$824,633 respectively. In 2007 and 2006, the Association paid patronage distributions of \$1,418,300 and \$665,500. In October 2008, the board of directors approved a \$1,227,000 patronage distribution to be paid in January 2009. See Note 7 to the financial statements, "Members' Equity," included in this annual report, for further information.

Relationship with the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6 to the financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 6 to the financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 8 to the financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems, and accounting services. Additionally, the Bank allocates District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 18 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
of Federal Land Bank Association of North Mississippi, FLCA

In our opinion, the accompanying balance sheet and related statements of income, changes in members' equity and cash flows present fairly, in all material respects, the financial position of Federal Land Bank Association of North Mississippi, FLCA (Association) at December 31, 2008, 2007 and 2006, and the results of its operations and its 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

Austin, Texas
March 3, 2009

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA

BALANCE SHEET

	December 31,		
	2008	2007	2006
<u>Assets</u>			
Cash	\$ 1,847,311	\$ 1,513,133	\$ 2,709,228
Loans	409,681,482	355,615,476	319,846,088
Less: allowance for loan losses	382,665	337,779	123,215
Net loans	409,298,817	355,277,697	319,722,873
Accrued interest receivable	9,118,066	8,628,516	7,764,766
Investment in and receivable from the Bank:			
Capital stock	6,600,020	5,643,725	5,174,675
Other	6,069	6,250	6,370
Other property owned, net	99,076	-	-
Premises and equipment	3,460,792	1,993,434	1,521,109
Other assets	201,661	216,505	137,481
Total assets	\$ 430,631,812	\$ 373,279,260	\$ 337,036,502
<u>Liabilities</u>			
Note payable to the Bank	\$ 359,552,371	\$ 306,221,087	\$ 268,364,422
Accrued interest payable	1,389,256	1,361,246	1,169,875
Drafts outstanding	1,572,136	1,138,942	2,263,244
Dividends payable	-	296,154	-
Patronage distributions payable	1,227,000	489,465	1,418,300
Special distributions payable	-	824,633	-
Other liabilities	2,762,816	2,101,645	2,311,246
Total liabilities	366,503,579	312,433,172	275,527,087
<u>Members' Equity</u>			
Capital stock and participation certificates	2,304,985	2,145,585	1,987,920
Unallocated retained earnings	61,614,041	58,400,708	59,521,495
Accumulated other comprehensive income	209,207	299,795	-
Total members' equity	64,128,233	60,846,088	61,509,415
Total liabilities and members' equity	\$ 430,631,812	\$ 373,279,260	\$ 337,036,502

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

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA

STATEMENT OF INCOME

	Year Ended December 31,		
	2008	2007	2006
<u>Interest Income</u>			
Loans	\$ 25,566,728	\$ 24,560,554	\$ 21,935,100
<u>Interest Expense</u>			
Note payable to the Bank	15,798,254	15,207,093	12,945,982
Net interest income	9,768,474	9,353,461	8,989,118
<u>Provision for Losses</u>			
Provision for loan losses (loan loss reversal)	44,886	5,028,776	(24,755)
Net interest income after provision for loan losses	9,723,588	4,324,685	9,013,873
<u>Noninterest Income</u>			
Patronage income from the Bank	1,326,235	1,138,118	1,070,143
Loan fees	1,208,289	886,411	732,935
Financially related services income	5,532	4,102	7,200
Gain on sale of premises and equipment, net	13,311	6,134	4,644
Other noninterest income	39,535	53,677	24,717
Total noninterest income	2,592,902	2,088,442	1,839,639
<u>Noninterest Expenses</u>			
Salaries and employee benefits	4,817,154	3,424,870	3,082,754
Directors' expense	101,092	88,930	110,957
Purchased services	882,621	545,398	320,009
Travel	374,195	293,615	263,796
Occupancy and equipment	244,416	213,851	203,280
Communications	62,953	51,823	64,616
Advertising	258,052	280,696	188,978
Public and member relations	127,277	92,761	81,732
Supervisory and exam expense	144,980	186,764	194,333
Insurance fund premiums	600,786	547,069	515,227
Other noninterest expense	253,305	197,885	151,476
Total noninterest expenses	7,866,831	5,923,662	5,177,158
Net income	\$ 4,449,659	\$ 489,465	\$ 5,676,354

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

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2005	\$ 1,836,135	\$ 55,263,441		\$ 57,099,576
Net income		5,676,354		5,676,354
Capital stock/participation certificates issued	356,790			356,790
Capital stock/participation certificates retired	(205,005)			(205,005)
Patronage refunds:				
Cash	-	(1,418,300)		(1,418,300)
Balance at December 31, 2006	1,987,920	59,521,495		61,509,415
Net income		489,465		489,465
Adjustment to initially apply FAS No. 158			299,795	299,795
Capital stock/participation certificates issued	392,520			392,520
Capital stock/participation certificates retired	(234,855)			(234,855)
Dividends declared		(296,154)		(296,154)
Special capital distribution		(824,633)		(824,633)
Patronage refunds:				
Cash		(489,465)		(489,465)
Balance at December 31, 2007	2,145,585	58,400,708	299,795	60,846,088
Adjustment to beginning balance due to FAS No. 158 accounting change		(9,326)		(9,326)
Balance at January 1, 2008	2,145,585	58,391,382	299,795	60,836,762
Comprehensive income				
Net income		4,449,659		4,449,659
Amortization of costs included in periodic retirement benefit costs			(90,588)	(90,588)
Total comprehensive income		4,449,659	(90,588)	4,359,071
Capital stock/participation certificates issued	447,455			447,455
Capital stock/participation certificates retired	(288,055)			(288,055)
Patronage refunds:				
Cash		(1,227,000)		(1,227,000)
Balance at December 31, 2008	\$ 2,304,985	\$ 61,614,041	\$ 209,207	\$ 64,128,233

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

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA

STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 4,449,659	\$ 489,465	\$ 5,676,354
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses (loan loss reversal)	44,886	5,028,776	(24,755)
Depreciation	197,215	169,527	151,937
Gain on sale of premises and equipment, net	(13,311)	(6,134)	(4,644)
Increase in accrued interest receivable	(489,550)	(863,750)	(1,251,929)
Increase in other assets	(84,233)	(145,862)	(35,780)
Increase in accrued interest payable	28,010	191,371	181,515
Increase in other liabilities	561,258	90,194	499,397
Net cash provided by operating activities	<u>4,693,934</u>	<u>4,953,587</u>	<u>5,192,095</u>
Cash flows from investing activities:			
Increase in loans, net	(54,066,006)	(40,583,600)	(9,610,494)
Decrease (increase) in other receivable from the Bank	181	120	(6,370)
Purchase of investment in the Bank	(956,295)	(469,050)	(308,815)
Purchases of premises and equipment	(1,716,266)	(628,690)	(848,169)
Proceeds from sales of premises and equipment	65,004	59,810	27,000
Net cash used in investing activities	<u>(56,673,382)</u>	<u>(41,621,410)</u>	<u>(10,746,848)</u>
Cash flows from financing activities:			
Net draws on note payable to the Bank	53,331,284	37,856,665	7,664,926
Increase (decrease) in drafts outstanding	433,194	(1,124,302)	(63,259)
Issuance of capital stock and participation certificates	447,455	392,520	356,790
Retirement of capital stock and participation certificates	(288,055)	(234,855)	(205,005)
Cash dividends paid	(296,154)	-	-
Special distributions paid	(824,633)	-	-
Patronage distributions paid	(489,465)	(1,418,300)	(665,500)
Net cash provided by financing activities	<u>52,313,626</u>	<u>35,471,728</u>	<u>7,087,952</u>
Net increase (decrease) in cash	334,178	(1,196,095)	1,533,199
Cash at the beginning of the year	<u>1,513,133</u>	<u>2,709,228</u>	<u>1,176,029</u>
Cash at the end of the year	<u>\$ 1,847,311</u>	<u>\$ 1,513,133</u>	<u>\$ 2,709,228</u>
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	\$ 99,076	\$ -	\$ -
Loans charged off	-	4,814,212	42,123
Dividends declared	-	296,154	-
Special distributions declared	-	824,633	-
Patronage distributions declared	1,227,000	489,465	1,418,300
SFAS No. 158 adjustment to accumulated other comprehensive income	-	299,795	-
Supplemental cash information:			
Cash paid during the year for interest	\$ 15,826,264	\$ 15,015,722	\$ 12,764,467

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

**FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Federal Land Bank Association of North Mississippi, FLCA (Association) is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Alcorn, Attala, Benton, Bolivar, Calhoun, Chickasaw, Choctaw, Clay, Coahoma, DeSoto, Itawamba, Lafayette, Lee, Lowndes, Marshall, Monroe, Noxubee, Oktibbeha, Panola, Pontotoc, Prentiss, Quitman, Sunflower, Tallahatchie, Tate, Tippah, Tishomingo, Tunica, Union, Webster, Winston and Yalobusha in the state of Mississippi.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). The most recent significant amendment to the Act was the Agricultural Credit Act of 1987 (1987 Act). At December 31, 2008, the System consisted of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “District.” The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2008, the District consisted of the Bank, 6 FLCAs and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations, and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and covering the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the associations into the Insurance Fund, based on its annual average loan principal outstanding, until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations) or other such percentage of the aggregate obligations as the FCSIC in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. In June 2008, with the passage of the Food, Conservation, and Energy Act of 2008 (Farm Bill), the basis for assessing premiums was changed, beginning with the second half of 2008, to reflect each bank’s pro rata share of outstanding insured debt. The Farm Bill imposes premiums of 20 basis points on adjusted insured debt obligations, with the Insurance Corporation Board having the ability to reduce the amount, and a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and providing additional services to borrowers such as financial management services and an investment bond program.

The Association’s financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders’ investments in the Association. Upon request, stockholders of the Association will be provided with the District’s Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District’s annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District’s annual

report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1 of the District's annual report to stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' financial statements have been reclassified to conform to current financial statement presentation.

- A. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- B. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years.

Loans are carried at their principal amount outstanding, adjusted for charge-offs and deferred loan fees or costs.

Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated With Originating and Acquiring Loans and Initial Direct Costs of Leases" (SFAS No. 91), requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. SFAS No. 91 has not been implemented because the effects were not material to the financial position or results of operations for any year presented.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

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

Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

- C. Capital Stock Investment in the Bank: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the

Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying balance sheet.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

- D. Other Property Owned, Net: Other property owned, net, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in gains (losses) on other property owned, net.
- E. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- F. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- G. Employee Benefit Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the year ended December 31, 2008, made on their behalf into various investment alternatives. The Association recognized pension costs for the DC Plan of \$66,434, \$51,109 and \$34,300 for the years ended December 31, 2008, 2007 and 2006, respectively.

The structure of the DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contributions to the plans for the year. Contributions due and unpaid are recognized as a liability. For the DB Plan, the Association recognized pension costs of \$828,979, \$240,476 and \$173,712 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$92,773, \$74,238 and \$68,481 for the years ended December 31, 2008, 2007 and 2006, respectively.

In addition to the DB Plan, the DC Plan, and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included on the Association's balance sheet in other liabilities. There are no employees currently participating in the plan; therefore, no liabilities or expenses are recorded on the Association's books related to this plan.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

On September 30, 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial

position and recognize changes in that funded status in the year in which the changes occur through other comprehensive income. SFAS No. 158 further requires the determination of the fair value of plan assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of other comprehensive income. In addition, SFAS No. 158 requires that the funded status of a plan be measured as of the date of the year-end financial statements. The District previously used a measurement date of September 30. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. Disclosures required by SFAS No. 158 are included in Note 9 to the financial statement, "Employee Benefit Plans."

- H. Patronage Refunds From the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank upon receipt of the patronage.
- I. Fair Value Measurement: Effective January 1, 2008, the System adopted SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Assets held in trust funds relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. The Association did not hold any Level 1 assets or liabilities at December 31, 2008.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. The Association did not hold any Level 2 assets or liabilities at December 31, 2008.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3 inputs. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, and highly structured or long-term derivative contracts.

The fair value disclosures have been expanded in accordance with SFAS No. 157, as disclosed in Note 11 to the financial statements, "Disclosure about the Fair Value of Financial Instruments."

- J. Recently Issued Accounting Pronouncements: In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under this statement and related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Association does not expect adoption of SFAS No. 161 to have any impact on its financial statement disclosures.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 389,770,291	95.1 %	\$ 335,284,614	94.3%	\$ 294,613,961	92.2%
Production and intermediate term	1,833,205	0.4 %	2,034,656	0.6%	1,704,406	0.5%
Agribusiness:						
Processing and marketing	2,546,921	0.6 %	2,786,171	0.8%	6,600,278	2.1%
Farm-related business	7,099,568	1.7 %	7,907,953	2.2%	8,391,113	2.6%
Communication	-	0.0 %	-	0.0%	1,610,979	0.5%
Energy	1,575,066	0.4 %	1,766,015	0.5%	1,882,476	0.6%
Rural residential real estate	6,665,100	1.6 %	5,641,411	1.6%	4,894,546	1.5%
International	106,050	0.0 %	107,456	0.0%	108,571	0.0%
Lease receivables	85,281	0.0 %	87,200	0.0%	39,758	0.0%
Total	\$ 409,681,482	100.0 %	\$ 355,615,476	100.0%	\$ 319,846,088	100.0%

Geographic Distribution:

County	2008	2007	2006
Noxubee	8.0 %	5.1%	7.1%
Bolivar	6.2 %	6.7%	5.9%
Sunflower	5.6 %	7.6%	6.3%
Panola	5.3 %	5.8%	5.8%
Tate	5.2 %	5.2%	4.5%
Oktibbeha	4.9 %	5.3%	4.8%
Marshall	4.6 %	4.2%	4.3%
Coahoma	4.3 %	2.5%	2.9%
Lee	3.8 %	4.1%	4.7%
Tunica	3.7 %	4.5%	4.2%
Tallahatchie	3.0 %	2.6%	2.6%
Chickasaw	3.0 %	2.6%	2.2%
Alcorn	2.8 %	3.1%	2.6%
Pontotoc	2.6 %	2.6%	2.5%
Quitman	2.4 %	2.5%	2.3%
Clay	2.2 %	2.4%	2.7%
Monroe	2.1 %	2.3%	1.6%
Lafayette	1.9 %	1.9%	1.2%
DeSoto	1.9 %	1.8%	1.3%
Yalobusha	1.4 %	1.0%	0.6%
Prentiss	1.4 %	1.4%	1.2%
Benton	1.3 %	0.9%	0.9%
Union	1.3 %	1.1%	1.3%
Tippah	1.2 %	1.3%	1.5%
Choctaw	1.1 %	1.1%	1.3%
Calhoun	1.1 %	1.0%	1.0%
Lowndes	1.1 %	1.1%	1.3%
Webster	0.8 %	0.7%	0.8%
Other Counties	4.7 %	5.3%	5.6%
Other States	11.1 %	12.3%	15.0%
Totals	100.0 %	100.0%	100.0%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Portfolio Composition:

Operation/Commodity	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 113,823,345	28.0 %	\$ 107,085,683	30.2%	\$ 97,957,945	30.6%
Timber	89,008,675	21.7 %	71,539,895	20.1%	66,236,503	20.7%
Field crops, except cash grains	55,229,218	13.5 %	36,005,235	10.1%	28,721,722	9.0%
Cotton	53,805,051	13.1 %	55,432,544	15.6%	45,654,593	14.3%
Rice	27,582,152	6.7 %	29,882,601	8.4%	25,663,003	8.0%
Poultry and eggs	14,711,449	3.6 %	5,289,977	1.5%	4,488,702	1.4%
Catfish	13,282,089	3.2 %	11,508,332	3.2%	17,809,699	5.6%
Rural home loans	8,378,103	2.0 %	5,641,412	1.6%	4,894,546	1.5%
Ethanol	7,564,667	1.8 %	6,281,652	1.8%	2,803,537	0.9%
Recreation property	7,059,015	1.7 %	5,460,457	1.5%	5,090,287	1.6%
Other	19,237,719	4.7 %	21,487,688	6.0%	20,525,551	6.4%
Total	\$ 409,681,482	100.0 %	\$ 355,615,476	100.0%	\$ 319,846,088	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

Asset Quality:

The following table reflects the credit quality of the Association's loan volume as of December 31:

	2008	2007	2006
Acceptable	98.5 %	97.3%	96.9%
Special mention	0.5 %	1.6%	2.2%
Substandard	1.0 %	1.1%	0.9%
Doubtful	0.0 %	0.0%	0.0%
Loss	0.0 %	0.0%	0.0%
Total	100.0 %	100.0%	100.0%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans as of December 31:

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	\$ 775,186	52.9%	\$ 97,102	3.9%	\$ 121,561	21.4%
Past due	471,399	32.2%	2,054,254	82.5%	16,516	2.9%
Total nonaccrual loans	<u>1,246,585</u>	<u>85.1%</u>	<u>2,151,356</u>	<u>86.4%</u>	<u>138,077</u>	<u>24.3%</u>
Accrual loans						
90 days or more past due	-	0.0%	131,437	5.3%	-	0.0%
Formally restructured	217,549	14.9%	207,362	8.3%	429,007	75.7%
Total impaired accrual loans	<u>217,549</u>	<u>14.9%</u>	<u>338,799</u>	<u>13.6%</u>	<u>429,007</u>	<u>75.7%</u>
Total impaired loans	<u>\$ 1,464,134</u>	<u>100.0%</u>	<u>\$ 2,490,155</u>	<u>100.0%</u>	<u>\$ 567,084</u>	<u>100.0%</u>

The increase in the nonaccrual loans that were current as to principal and interest is due to one participation loan in the ethanol commodity that filed for bankruptcy. At this time, the Association does not anticipate any loss in relation to this loan. The large decrease in the past due nonaccrual loans is due to one participation loan referred to in the "Loan Portfolio" section of Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 10 to the financial statements, "Commitments and Contingencies," and Note 14 to the financial statements, "Subsequent Events." There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2008.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2 to the financial statements, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	2008	2007	2006
Interest income recognized on nonaccrual loans	\$ 20,115	\$ 135,290	\$ -
Interest income recognized on impaired accrual loans	22,630	33,546	38,935
Interest income recognized on impaired loans	<u>\$ 42,745</u>	<u>\$ 168,836</u>	<u>\$ 38,935</u>

A summary of the allowance for loan losses as of December 31 follows:

	2008	2007	2006
Beginning balance	\$ 337,779	\$ 123,215	\$ 190,093
Provision for loan losses	44,886	5,028,776	(24,755)
Loans charged off	-	(4,814,212)	(42,123)
Allowance for loan losses	<u>\$ 382,665</u>	<u>\$ 337,779</u>	<u>\$ 123,215</u>

The following table presents information concerning impaired loans as of December 31:

	2008	2007	2006
Impaired loans with related allowance	\$ 471,399	\$ 2,054,254	\$ 16,515
Impaired loans with no related allowance	992,735	435,901	550,569
Total impaired loans	<u>\$ 1,464,134</u>	<u>\$ 2,490,155</u>	<u>\$ 567,084</u>
Allowance on impaired loans	<u>\$ 289,207</u>	<u>\$ 289,207</u>	<u>\$ 10,185</u>

The following table summarizes impaired loan information for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Average impaired loans	\$ 2,078,537	\$ 1,469,008	\$ 551,611

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income which would have been recognized under the original terms	\$ 742,753	\$ 983,147	\$ 48,705
Less: interest income recognized	(42,745)	(168,836)	(38,935)
Foregone interest income	<u>\$ 700,008</u>	<u>\$ 814,311</u>	<u>\$ 9,770</u>

NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 1,324,877	\$ 990,924	\$ 529,685
Building and improvements	1,918,382	661,509	652,732
Furniture and equipment	243,061	226,002	207,406
Computer equipment and software	134,971	103,911	105,964
Automobiles	536,169	522,838	528,701
Construction in progress	-	71,227	4,389
	<u>4,157,460</u>	<u>2,576,411</u>	<u>2,028,876</u>
Accumulated depreciation	<u>(696,668)</u>	<u>(582,977)</u>	<u>(507,767)</u>
Total	<u>\$ 3,460,792</u>	<u>\$ 1,993,434</u>	<u>\$ 1,521,109</u>

The Association leases office space in Clarksdale, Cleveland, Indianola, Houston and New Albany. Lease expense was \$63,000, \$72,000 and \$84,195 for 2008, 2007 and 2006, respectively. Minimum annual lease payments for the next three years are as follows:

	<u>Operating</u>
2009	\$ 18,600
2010	1,550
2011	-
Total	<u>\$ 20,150</u>

NOTE 5 – OTHER PROPERTY OWNED, NET:

In December 2008, the Association acquired property related to the participation loan discussed in the “Loan Portfolio” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in this annual report. The Association’s portion of the value of the property was \$99,076. No gain or loss was recognized in 2008.

NOTE 6 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association’s loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association’s indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association’s assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank’s cost of funding the loans that the Association has outstanding to its borrowers.

The total amount and the weighted average interest rate of the Association’s direct loan from the Bank at December 31, 2008, 2007 and 2006, was \$359,552,371 at 4.42 percent, \$306,221,087 at 5.33 percent and \$268,364,422 at 5.24 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2008, 2007 and 2006, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the bank as of December 31, 2008, was \$417,214,875, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2008, 2007 and 2006, the Association was not subject to remedies associated with the covenants in the financing agreement.

NOTE 7 — MEMBERS' EQUITY:

Protection of certain borrower equity is provided under the Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If the Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans) or participation certificates (for rural home and farm-related business loans) is equal to 2.0 percent of the loan amount, up to a maximum amount of \$1,000 per loan. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage stock requirement for each borrower up to a maximum of 10.0 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

All borrower stock is at-risk. As such, losses that result from impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2008, 2007 and 2006, respectively:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>	<u>Dividend</u>	<u>Special Distribution</u>
December 2008	January 2009	\$ 1,227,000	\$ -	\$ -
December 2007	January 2008	489,465	296,154	824,633
December 2006	January 2007	1,418,300	-	-

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2008, were 14.2 percent, 13.6 percent and 13.6 percent, respectively.

The board of directors of the Association has promulgated a detailed and specific Capital Adequacy Plan (Plan) to address the current and future needs of its borrowers. The framework of the Plan is based on both the specific circumstances of the Association and its borrowers, as well as regulatory requirements of the FCA. The Plan defines and measures the Association's goals and performance in large part based on the District's financial performance standards for FLCAs. At least quarterly, management and the board of directors review the Association's financial performance, key capital ratios, asset quality, the adequacy of the allowance for loan losses, the sufficiency of liquid funds and internal controls. The objectives of the board of directors, as outlined in the Plan, include, but are not limited to, sustained profitability and reasonable protection against risks inherent in the Association's operations, exceeding all minimum regulatory requirements and maximizing return on capital. A strong capital base, as outlined in the Plan, will afford the Association an opportunity to position itself to address the changing lending environment and provide the highest quality service to its stockholders.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the Association had the following shares of Class A capital stock and participation certificates outstanding at a par value of \$5 per share:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Class A stock	448,409	418,624	388,551
Participation certificates	12,588	10,493	9,033
Total	<u>460,997</u>	<u>429,117</u>	<u>397,584</u>

NOTE 8 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Transactions with directors and director nominees are made in the normal course of business, under the same terms, including interest rates, amortization schedule and collateral comparable with transactions available to other individuals. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to \$10,318,642, \$9,336,672 and \$4,667,101 at December 31, 2008, 2007 and 2006, respectively. During 2008, \$552,300 of new loans were made, and repayments totaled \$1,891,461. In the opinion of management, no such loans outstanding at December 31, 2008, 2007 and 2006 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank passed through to the associations such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$318,800, \$306,982 and \$288,454 in 2008, 2007 and 2006, respectively.

The Association received patronage payments from the Bank totaling \$1,326,235, \$1,138,118 and \$1,070,143 during 2008, 2007 and 2006, respectively.

NOTE 9 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section G of Note 2 to the financial statements, "Summary of Significant Accounting Policies."

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The Association's postretirement benefit obligation was \$988,335, \$857,740 and \$1,134,145 at December 31, 2008, 2007 and 2006 respectively.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS No. 158 were adopted at December 31, 2007. SFAS No. 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after

December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The standard provides two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007, to December 31, 2007, (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings \$9,326 and increased the pension and other postretirement benefit liabilities by \$9,326.

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association's other postretirement benefits:

**10th Farm Credit District
Retiree Welfare Benefit Plans**

Disclosure Information Under FASB Statement 132	2008	2007	2006
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 859,690	\$ 888,922	\$ 911,433
Service cost	30,215	26,884	31,003
Interest cost	69,544	52,952	47,581
Plan participants' contributions	1,080	900	936
Plan amendments	-	-	(11,716)
Special termination benefits	-	-	-
Actuarial loss (gain)	37,458	(97,717)	(80,627)
Benefits paid	(9,652)	(12,251)	(9,688)
Accumulated postretirement benefit obligation, end of year	<u>\$ 988,335</u>	<u>\$ 859,690</u>	<u>\$ 888,922</u>
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	8,572	11,351	8,752
Plan participants' contributions	1,080	900	936
Benefits paid	(9,652)	(12,251)	(9,688)
Plan assets at fair value, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Funded Status			
Funded status of the plan	\$ (988,335)	\$ (859,690)	\$ (888,922)
Unrecognized prior service cost	-	-	(400,087)
Unrecognized net loss	-	-	152,842
Contributions between measurement date and fiscal year-end	-	1,950	2,022
Net postretirement liability at end of year	<u>\$ (988,335)</u>	<u>\$ (857,740)</u>	<u>\$ (1,134,145)</u>
Amounts Recognized in Balance Sheet			
Noncurrent assets	\$ -	\$ -	\$ -
Current liabilities	(12,461)	-	-
Other liabilities	(975,874)	(857,740)	(1,134,145)
Total	<u>\$ (988,335)</u>	<u>\$ (857,740)</u>	<u>\$ (1,134,145)</u>
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	\$ 90,530	\$ 53,710	\$ -
Prior service credit	(299,737)	(353,505)	-
Net transition obligation (asset)	-	-	-
Total	<u>\$ (209,207)</u>	<u>\$ (299,795)</u>	<u>\$ -</u>
Additional Information			
Increase in minimum liability included in other comprehensive income	\$ 90,588		
Weighted-Average Assumptions Used to Determine Obligations at Year-end			
Measurement date	12/31/2008	9/30/2007	9/30/2006
Discount rate	6.30%	6.50%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.5% / 6.5%	8.5% / 6.5%	9.0% / 6.75%
Health care cost trend rate assumed for next year - Rx	12.00%	12.00%	13.00%
Ultimate health care cost trend rate	5.00%	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2015	2016	2016

Disclosure Information Under FASB Statement 132

	2008	2007	2006
Service cost	\$ 24,172	\$ 26,884	\$ 31,003
Interest cost	55,635	52,952	47,581
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(43,014)	(46,582)	(45,723)
Unrecognized net loss	512	1,414	8,297
Net postretirement benefit cost	\$ 37,305	\$ 34,668	\$ 41,158

Adjustment to Retained Earnings for 2008 due to change in measurement date \$ 9,326

Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income

Net actuarial loss	\$ 37,458
Amortization of net actuarial gain	(640)
FAS 88 recognition of loss (gain)	-
Prior service cost (credit)	-
Amortization of prior service cost	53,770
FAS 88 recognition of prior service cost	-
Amortization of transition liability (asset)	-
Total recognized in other comprehensive income	\$ 90,588

AOCI Amounts Expected to be Amortized into Expense in 2008

Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(42,417)	(43,014)	-
Unrecognized net loss	-	512	-
Total	\$ (42,417)	\$ (42,502)	\$ -

Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost

	9/30/2007	9/30/2006	9/30/2005
Measurement date	9/30/2007	9/30/2006	9/30/2005
Discount rate	6.50%	6.50%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	9.0%/6.75%	8.5%/6.5%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	13.00%	12.00%	13.00%
Ultimate health care cost trend rate	4.75%	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2016	2016	2016

Expected Future Cash Flows**Expected Benefit Payments (net of employee contributions)**

Fiscal 2009	12,461
Fiscal 2010	18,996
Fiscal 2011	28,757
Fiscal 2012	41,585
Fiscal 2013–2017	57,089
Fiscal 2014–2017	439,953

Expected Contributions

Fiscal 2009	12,461
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NOTE 10 — COMMITMENTS AND CONTINGENCIES:

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount 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 contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2008, \$12,318,981 of unfunded credit commitments and no commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At December 31, 2008, the Association had approximately \$597,081 in outstanding standby letters of credit, issued primarily in conjunction with participation loans.

In addition to those commitments and contingencies discussed above and in Note 2 to the financial statements, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association's financial statements.

Twelve associations in the District, along with two other Farm Credit associations, participated in a loan to one borrower with the original funded balance of \$68.5 million. The Association owned approximately 5.56 percent of the loan. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant under collateralized position and a credit default. The lead lending association is currently pursuing collection efforts, and in the third quarter of 2007 it liquidated part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, in the second half of 2007 the Association, along with the four other Capital Markets of the South (CMS) member associations, repurchased, on a pro rata basis, the portions of the loan held by all other non-CMS participants. As part of loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

The overall character of the two remaining lawsuits is of collection of the principal and interest from the borrower, control of the loan's remaining collateral and an effort to recover property purchased with the CMS members' loan proceeds. One of the lawsuits was filed in the borrower's domicile state of Texas in US Federal District Court and involved civil complaints by the Association against the borrower and other related individuals, as well as third parties, for damages incurred as a consequence of alleged wrongful acts by the respective parties and an effort to recover assets acquired with proceeds of the loan from such parties. The Association expects this suit to be called to trial in early February 2009. The borrower and all related defendants in this action have agreed to an injunction precluding the transfer of any assets acquired with proceeds of the loan. The other lawsuit was filed in the state of Kentucky, where the primary real estate collateral is located, for the purpose of gaining access to and foreclosing the lien of its mortgages on the real estate and commencing an action for collection of the debt. The Kentucky state court has appointed a receiver to protect the Association's collateral and preserve the status quo pending resolution of the suit. The borrower and other related individuals have responded in both of the described actions by filing a counterclaim seeking damages against the Association, alleging various claims including breach of contract.

These legal proceedings have been lengthy, and the outcome as to some of the counterclaims is unknown as of year end. However, on December 12, 2008, at the request of the Association, the judge in the Texas federal case dismissed all counterclaims except those of two individuals. Similarly, the Kentucky court dismissed all counterclaims pending in that suit in late December, effectively ending all litigation pending in Kentucky except that brought by the lead lender to foreclose the lien of its mortgage in Muhlenberg County. In addition, the Kentucky court had previously granted summary judgment in favor of the Association for the debt plus interest, costs and fees. This judgment on the debt dispensed with a major portion of the lead lender's action in Kentucky and allowed the lead lender to realize on its real estate collateral through foreclosure sales. After receiving this judgment, the lead lender pursued collection of the same in Texas state court against property of the borrower and has been successful in having certain real and personal properties turned over to be sold. These properties have not been sold as of December 31, 2008, but sales are anticipated to occur in the near future.

NOTE 11 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying amounts and estimated fair values of the Association's financial instruments at December 31, 2008, 2007 and 2006. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected losses, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments as of December 31 follow:

	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 1,847,311	\$ 1,847,311	\$ 1,513,133	\$ 1,513,133	\$ 2,709,228	\$ 2,709,228
Loans, net	409,298,817	418,508,040	355,277,697	347,287,502	319,722,873	308,510,192
Financial liabilities						
Note payable to the Bank	359,552,371	367,642,299	306,221,087	299,334,175	268,364,422	258,952,882

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying value is a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Association's loan rates, as well as on management's estimates, management has no basis to determine whether the fair values presented would be indicative of the values negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate 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. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

C. Investment in the Bank:

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2 to the financial statements, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 2.9 percent of the equity of the Bank as of December 31, 2008. As of that date, the Bank's assets totaled \$14.8 billion and members' equity totaled \$744.5 million. The Bank's earnings were \$76.7 million during 2008.

D. Note payable to the Bank:

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates, as well as on management estimates. For the purposes of this

estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

E. Commitments to extend credit:

The Association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded.

NOTE 12 — CAPITAL MARKETS:

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

Pursuant to the terms of the alliance, each of the five CMS participating associations generally share equally in the costs of operating the venture. The Association's pro rata share of income from CMS operations are recorded in the statement of income in their respective line items.

As of December 31, 2008, 2007 and 2006, the Association had CMS-related loan volume outstanding of \$23,388,996, \$28,398,715 and \$30,145,155, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$9,214,714 as of December 31, 2008. This is included in the amount of remaining commitments in Note 10, "Commitments and Contingencies."

The following table summarizes the Association's portion of the CMS operations for the years ended December 31, 2008, 2007 and 2006. These amounts are included in the Association's Statement of Income presented in this annual report.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income	\$ 1,494,695	\$ 2,107,338	\$ 2,215,712
Interest expense	<u>985,668</u>	<u>1,662,138</u>	<u>1,565,399</u>
Net interest income	<u>509,027</u>	<u>445,200</u>	<u>650,313</u>
Less: provision for loan losses	-	5,093,234	-
Noninterest income - loan fees	<u>134,560</u>	<u>192,411</u>	<u>235,971</u>
Noninterest expense	<u>448,146</u>	<u>268,231</u>	<u>115,162</u>
Net noninterest income (loss)	<u>(313,586)</u>	<u>(75,820)</u>	<u>120,809</u>
Net income (loss) from CMS operations	<u>\$ 195,441</u>	<u>\$ (4,723,854)</u>	<u>\$ 771,122</u>

The large provision for loan losses is related to the participation loan discussed in the "Loan Portfolio" section of Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this annual report and in Note 10 to the financial statements, "Commitments and Contingencies."

NOTE 13 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations (in thousands) for the years ended December 31 follow:

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,396	\$ 2,466	\$ 2,475	\$ 2,432	\$ 9,769
Provision for loan losses	(4)	(5)	(1)	(35)	(45)
Noninterest expense, net	(1,214)	(1,230)	(1,379)	(1,451)	(5,274)
Net income	\$ 1,178	\$ 1,231	\$ 1,095	\$ 946	\$ 4,450
	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,343	\$ 2,276	\$ 2,383	\$ 2,351	\$ 9,353
Reversal of (provision for) loan losses	9	(1,703)	(687)	(2,648)	(5,029)
Noninterest expense, net	(944)	(1,014)	(1,153)	(724)	(3,835)
Net income (loss)	\$ 1,408	\$ (441)	\$ 543	\$ (1,021)	\$ 489
	2006				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,228	\$ 2,266	\$ 2,218	\$ 2,277	\$ 8,989
Reversal of (provision for) loan losses	40	(1)	36	(50)	25
Noninterest expense, net	(927)	(856)	(898)	(657)	(3,338)
Net income	\$ 1,341	\$ 1,409	\$ 1,356	\$ 1,570	\$ 5,676

NOTE 14 — SUBSEQUENT EVENTS:

In connection with the legal proceedings described in Note 10 to the financial statements, "Commitments and Contingencies," several relevant events have occurred in early 2009. First, in January, all remaining counterclaims against the lead lender were dismissed in Texas federal court. Second, in early February, the trial for the civil action brought by the lead lender in Texas federal court was held, and the judge's final determination is unknown at this time. Third, on February 9, 2009, the lead lender received court approval to foreclose the lien of its mortgage on real estate held as collateral in Muhlenberg County, Kentucky. Intentions are to hold a foreclosure sale for the property in late March or early April 2009. Fourth and finally, on February 16, 2009, the lead lender received court approval to sell certain real and personal properties that were purchased with proceeds from the loan. Sale of these properties is expected in the near future.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference from Note 1 to the financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings or interest rates to borrowers and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Federal Land Bank Association of North Mississippi, FLCA (Association) serves its 32-county territory through its main administrative and lending office at 5509 Highway 51 North, P.O. Box 667, Senatobia, Mississippi, 38668-0667, (662) 562-9671. Additionally, there are seven branch lending offices located throughout the territory. The Association owns the office buildings in Senatobia, Starkville, Tupelo and Corinth, free of debt. The Association leases the office buildings in Clarksdale, Cleveland, Houston, Indianola, Kosciusko and New Albany. In 2006, the Association purchased a lot and building in Corinth. The Corinth branch moved from its leased building into the new office building in January 2007. Also in 2006, the Association purchased a lot in Tupelo. Construction was completed in November 2008, and the Tupelo branch moved from its leased building into the new office building in December 2008. In 2007, the Association purchased a lot in Starkville. Construction was completed in December 2008, and the Starkville branch moved from its leased building into the new office building in December 2008.

LEGAL PROCEEDINGS

In the ordinary course of business, the Association is involved in various legal proceedings. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the financial statements of the Association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 10 to the financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or by calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing fcdb@farmcreditbank.com. The District's annual and quarterly stockholder reports are also available on its web site at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Federal Land Bank Association of North Mississippi, FLCA, 5509 Highway 51 North, P.O. Box 667, Senatobia, Mississippi, 38668-0667 or by calling (662) 562-9671. The Association's quarterly stockholder report is available on its web site at www.mslandbank.com. The Association's annual stockholder report is available on its web site at www.mslandbank.com 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2008, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Combined Financial Data” included in this annual report to stockholders.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

“Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which precedes the combined financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association’s member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Abbott Myers	Chairman	2008	2011
William Dale Aycock	Vice Chairman	2007	2008
Alan Blaine	Director	2006	2009
Jan D. Hill	Director	2008	2011
A. S. Ballard, Jr.	Director-Elected Director	2005	2008
Calvin W. Ozier, Jr.	Director - Appointed	2008	2009
James Ed Hester	Director	2006	2009
James Gordon Robison	Director	2007	2010
Keith Morton	Director	2008	2011
Gary L. Gaines	President and Chief Executive Officer	1990	
Craig B. Shideler	Executive Vice President and Chief Credit Officer	1990	
J. Matthew Walden	Chief Financial Officer	2003	

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Abbott Myers, age 58. Mr. Myers owns and operates a 6,500 acre farm in Tunica County, farming rice, cotton and soybeans. He serves on the board of directors of Tunica Academy. He is the district chairman of Soil Conservation and a member of the Farm Bureau and of the American Soybean Association. He also serves as an elder of the Tunica Presbyterian Church.

William Dale Aycock, age 67. Mr. Aycock is a part-time farmer since his retirement from DuPont Ag Products. He owns land in Tate and Panola counties, farming cotton and soybeans and raising beef cattle. He serves on the board of directors of Delta Council and is a member of the Tate County Cattleman’s Association, Mississippi Agricultural Chemical Council and Mississippi Weed Science Society. Mr. Aycock retired in October 2008.

Alan Blaine, age 49. Dr. Blaine has a Ph.D. in agronomy from Mississippi State University. He recently retired as head of the North Mississippi Research and Extension Center in Verona, Mississippi. Dr. Blaine owns and operates a timber, hay and cattle farm in central Mississippi. Dr. Blaine is a Certified Crop Adviser (CCA). He is currently a partner in a crop consulting firm, Southern Ag Consulting, Inc.

Jan D. Hill, age 59. Mr. Hill has been a full-time farmer since 1970. He owns and operates a farm in Chickasaw County, raising beef cattle, cotton, soybeans, wheat and corn on 3,000 acres. He is a deacon of Pleasant Grove Baptist Church, a director on the Farm Bureau board, and a member of the ASCS County committee.

A. S. Ballard, Jr. (deceased), age 67. Mr. Ballard was the former chairman and Chief Executive Officer of Gateway Capital Corporation and Gateway Banks of DeSoto County. He was also commissioner with DeSoto County Soil and Water Conservation District and a director of Gulf Guaranty Insurance Company. Mr. Ballard passed away in November 2008.

Calvin W. Ozier, Jr., age 59. Mr. Ozier is the president of UWT Logistics, LLC. He raises beef cattle and timber on 400 acres in Marshall County. He is a member of First Evangelical Church in Memphis, Marshall County Mississippi Forestry Association, Marshall County Cattleman’s Association, and past president of Southeastern Warehouse Association. Mr. Ozier was appointed to fill Mr. Aycock’s position at the December 2008 board meeting.

James Ed Hester, age 78. Mr. Hester is a full-time farmer in Bolivar County, farming approximately 4,400 acres of cotton, soybeans and rice. He is a member of Bolivar County Farm Bureau and Bolivar County ASCS. He is also a board member of the American Soybean Association, Mississippi Rice Council, and Bolivar County Hospital.

James Gordon Robison, age 66. Mr. Robison is the president of Robison Brothers Farms, Incorporated. He is a beef cattle, dairy and row crop farmer of 2,200 acres in northern Lee County. He is a county committee member of the Farm Service Agency. He serves as president of the Lee County Farm Bureau and brotherhood director of Camp Creek Baptist Church.

Keith Morton, age 36. Mr. Morton started farming with his father, Billy Morton, in 1987. Keith and his wife, Beth, own and operate Morton Farms, Incorporated, together. Keith has served on the Mississippi Farm Bureau Federation board of directors and as president of the Mississippi Soybean Association, where he is on the board of directors. He is currently serving as vice chairman of the Mississippi Soybean Promotion Board, as the MS Farm Bureau Soybean Commodity chairman and as Tippah County Farm Bureau president. In 2004, Keith and Beth Morton received the prestigious Mississippi Farm Bureau “Young Farmers and Ranchers Achievement Award.”

Gary L. Gaines, age 57. Mr. Gaines has worked with the Farm Credit System for 32 years. He was formerly president of the FLBA of Senatobia and vice president of supervision over 33 associations in the states of Mississippi, Alabama and Louisiana for the FLBA of Jackson. He has served as president and chief executive officer of the Association since January 1, 1990.

Craig B. Shideler, age 54. Mr. Shideler has worked with the Farm Credit System since June 1978. He was formerly the president of the FLBA of Senatobia and divisional vice president for North Mississippi for both the FLCA and PCA operations. He has been employed with the Association since January 1, 1990, serving as senior vice president until he was promoted to executive vice president on January 1, 2001.

J. Matthew Walden, age 36. Mr. Walden joined the Farm Credit System in December 2003 as controller. He formerly served in tax accounting and financial reporting with International Paper Company. He holds a license as a Certified Public Accountant in the state of Tennessee.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$500 per day, except for the chairman who received \$600 per day, for director meetings and committee meetings, and reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2008 was paid at the IRS-approved rate at the time of travel. A copy of the travel policy is available to stockholders of the Association upon request.

The aggregate compensation paid to directors in 2008, 2007 and 2006 was \$60,200, \$64,500 and \$66,950, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table below) is as follows:

Name	Number of Days Served With				Compensation for Committee Service	Total Compensation in 2008
	Board Meetings	Audit Committee	Compensation Committee	Other Official Activities		
Abbott Myers	7	2	0	6	\$ 1,200	\$ 9,000
William Dale Aycock	4	0	1	6	-	5,500
Alan Blaine	7	0	1	6	-	7,000
Jan D. Hill	6	4	1	6	2,000	8,500
A. S. Ballard, Jr.	5	5	0	6	3,000	8,800
James Ed Hester	7	0	0	5	-	7,400
James Gordon Robison	5	0	1	6	-	6,000
Keith Morton	7	0	1	6	-	7,000
Calvin Ozier, Jr.	2	0	0	0	-	1,000
					\$ 6,200	\$ 60,200

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$40,892, \$24,430 and \$44,007 in 2008, 2007 and 2006, respectively.

The following table presents compensation information for officers of the Association:

	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Perquisite</u>	<u>Other</u>	<u>Total</u>
President/ Chief Executive Officer	2008	\$198,940	\$ 55,705	\$ 5,808	\$ 1,796	\$ 262,249
	2007	195,040	10,000	4,414	1,765	211,219
	2006	184,007	43,750	3,525	1,641	232,923
Five highest levels of compensation paid (exclusive of CEO)	2008	\$686,800	\$375,211	\$ 15,226	\$ 2,833	\$ 1,080,070
	2007	625,820	202,828	11,938	2,905	843,491
	2006	551,232	140,215	14,620	2,507	708,574

Following is a brief description of the items included in the above table:

- Salary – Compensation earned and paid during the respective year.
- Bonus – Incentive compensation earned in current year but paid to employees in the following year.
- Perquisite – Benefit derived from personal use of Association-owned vehicles. These amounts are calculated at the IRS-established rate and included in earnings of those employees assigned Association vehicles for use in normal operations.
- Other – Value of group term life insurance provided by the Association on behalf of its employees. According to IRS guidelines, value of insurance provided in excess of \$50,000 must be added to the employees' taxable earnings.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobile for business purposes were reimbursed during 2008 at the IRS-approved rate at the time of travel.

Incentive pay to the chief executive officer, executive vice president and chief financial officer is paid annually based on performance criteria established by the board of directors. Other senior officer incentive pay is paid annually based on performance criteria established by the CEO. The criteria includes loan volume, related services, various financial and credit ratios, personal objectives and performance ratings. Incentives are calculated after the end of the plan year (the plan year is the calendar year) and are paid out within 30 days of year end.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 8 to the financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

The Association has no directors, director nominees or senior officers involved in certain legal proceedings described in FCA Regulation §620.5(k) within the previous 5 years. Legal proceedings include, but are not limited to, bankruptcy, conviction or naming in a criminal proceeding, and judgment or finding limiting a right to engage in a business.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association engaged the independent accounting firm of PricewaterhouseCoopers LLP (PwC) to perform the annual audit of the Association's financial statements included in this annual report. During 2008, the Association paid fees and expenses totaling \$30,792 to PwC. No other services were performed by PwC during the reporting period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 3, 2009, and the report of management in this annual report to stockholders, are incorporated herein by reference.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The Association is committed to meeting the needs of Young, Beginning and Small (YBS) farmers and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association’s underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture.

Definitions for “young,” “beginning” and “small” farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than \$250,000 in annual gross sales of agricultural products

The 2002 USDA Census of Agriculture for Mississippi (Census) indicates that in the Association’s territory 4.5 percent of farm operators are “young,” 34.3 percent are “beginning” and 94.8 percent are “small.” The Census uses categories that are slightly different from the FCA definitions of YBS farmers, but the Census is the best available measure of our marketplace. USDA defines a farm as “any place from which \$1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the census year.” The Association’s minimum standards for YBS lending require the following:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	>10%	>10%
Beginning	>10%	>10%
Small	>30%	>30%

The Association’s YBS loans for the past three years are presented in the table below as a percentage of the total number of loans outstanding on December 31, 2008.

	Young	Beginning	Small
2008	21.3%	47.4%	69.4%
2007	20.9%	45.7%	68.4%
2006	20.9%	43.9%	70.0%

The Association’s goal over the succeeding three-year period is to reach the following percentages of its number of loans outstanding in young, beginning and small farmer loans as shown below.

	Young	Beginning	Small
2009	21.5%	48.5%	70.5%
2010	22.0%	49.5%	71.0%
2011	22.5%	50.5%	72.5%

The Association continues to provide credit to YBS farmers and ranchers at high levels, as presented by the above comparative data. Emphasis on this area of the Association’s lending business will continue to be a priority.

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