



Progressive ***Farm Credit Services***



Progressive Farm Credit Services, ACA

2008 Annual Report

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AgriBank, FCB's financial condition and results of operations materially affect members' investment in Progressive Farm Credit Services, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 240 N. Kingshighway, Sikeston, Missouri 63801, (573) 471-0342, or via e-mail at progressivefcs@progressivefcs.com or contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@AGRIBANK.COM. The reports are also available through AgriBank, FCB's website at www.agribank.com.

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

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Progressive Farm Credit Services, ACA

(Dollars in thousands)

	2008	2007	2006	2005	2004
Statement of Condition Data					
Loans	\$393,211	\$364,642	\$327,735	\$319,174	\$302,727
Allowance for loan losses	202	6	--	38	--
Net loans	393,009	364,636	327,735	319,136	302,727
Investment in AgriBank, FCB	11,090	11,090	11,090	11,090	11,090
Investment securities	14,803	7,184	1,478	--	--
Other assets	12,292	14,200	12,867	11,451	8,545
Total assets	\$431,194	\$397,110	\$353,170	\$341,677	\$322,362
Obligations with maturities of one year or less	\$361,525	\$332,653	\$292,635	\$284,696	\$268,800
Total liabilities	361,525	332,653	292,635	284,696	268,800
Protected members' equity	6	6	8	24	29
Capital stock and participation certificates	1,841	1,838	1,846	2,045	2,109
Unallocated surplus	67,822	62,613	58,681	54,912	51,424
Total members' equity	69,669	64,457	60,535	56,981	53,562
Total liabilities and members' equity	\$431,194	\$397,110	\$353,170	\$341,677	\$322,362
Statement of Income Data					
Net interest income	\$11,756	\$10,924	\$10,030	\$9,608	\$9,049
Provision for (reversal of) loan losses	193	2	(44)	35	(5,196)
Patronage and dividend income	1,066	1,248	1,129	1,092	899
Other expense, net	4,237	3,680	4,415	3,849	3,678
Provision for income taxes	174	631	357	218	634
Net income	\$8,218	\$7,859	\$6,431	\$6,598	\$10,832
Key Financial Ratios					
Return on average assets	1.9%	2.0%	1.8%	1.9%	3.5%
Return on average members' equity	12.2%	12.5%	10.9%	11.9%	23.1%
Net interest income as a percentage of average earning assets	2.9%	3.0%	3.0%	2.9%	3.1%
Members' equity as a percentage of assets	16.2%	16.2%	17.1%	16.7%	16.6%
Net chargeoffs as a percentage of average loans	--	--	--	--	--
Allowance for loan losses as a percentage of loans	0.1%	--	--	--	--
Permanent capital ratio	13.1%	13.5%	13.9%	13.7%	12.6%
Total surplus ratio	12.7%	13.0%	13.4%	13.1%	11.9%
Core surplus ratio	12.5%	12.6%	12.6%	12.1%	10.6%
Other					
Patronage distribution payable to members	\$3,010	\$3,650	\$2,662	\$3,125	\$2,338

The patronage distribution to members accrued for the year ended December 31, 2008 was distributed in cash during the first quarter of 2009. The patronage distributions accrued for the years ended December 31, 2007, 2006, 2005, and 2004 were distributed in cash during the first quarter of each following year. No income was distributed to members in the form of dividends, stock or allocated surplus during these time periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Progressive Farm Credit Services, ACA

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

Forward-Looking Information

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

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

Loan Portfolio

Loan volume totaled \$393.2 million at December 31, 2008. The changes in loan volume for the last two years were as follows (in thousands):

Change in loan volume	2008 vs. 2007		2007 vs. 2006	
Accrual				
Mortgage	\$5,058	2.4%	\$12,501	6.3%
Commercial	22,001	14.2%	24,448	18.8%
Nonaccrual	1,510	5592.6%	(42)	(60.9%)
Total loans	<u>\$28,569</u>	<u>7.8%</u>	<u>\$36,907</u>	<u>11.3%</u>

Our focus on customer satisfaction, marketing and higher than anticipated new money in both the mortgage and commercial loan portfolios resulted in growth in loan volume during 2008.

Portfolio Distribution

We are chartered to operate in certain counties in Missouri. Approximately 85.8% of our total loan portfolio was in Butler, Dunklin, Mississippi, New Madrid, Pemiscot, Scott and Stoddard counties at December 31, 2008.

Our territory is geographically split between the Missouri Bootheel and the "hill counties". The "hill counties" have terrain conducive to pasture and hay production as well as beef and hog operations. Counties in the Missouri Bootheel are concentrated in the production of row and cash crops, primarily soybeans, cotton, corn, wheat and rice. About 75.2% of our portfolio is concentrated in soybeans, cotton, corn and rice.

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

Financial Market Volatility

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

Agricultural and Economic Conditions

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

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

Precipitation levels remained relatively dry without any frosts enabling completion of the delayed harvest this year. Winds from Hurricane Ike in September did some damage to rice and corn yields. Overall, yields on corn and cotton were good to very good while soybean yields were above average.

Commodity price volatility affects all crop growers in our area, as well as the ethanol and biodiesel industry. Falling commodity prices during the fall may have hurt those farmers who did not book their crops in the spring when prices were much higher. It will not be until the completion of the 2008/2009 renewal season before we determine just how well individual farmers fared this year. In addition, whether or not the markets will stabilize in 2009 is unknown.

Analysis of Risk

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

As of December 31	2008	2007	2006
Loans:			
Accruing restructured	\$ --	\$ --	\$ --
Past due 90 days or more still accruing	1,344	527	506
Nonaccrual	1,537	27	69
Total risk loans	2,881	554	575
Other property owned	--	--	--
Total risk assets	\$2,881	\$554	\$575
Risk loans			
as a percentage of total loans	0.7%	0.1%	0.2%
Total delinquencies			
as a percentage of total loans	0.4%	0.4%	0.4%

Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

Nonaccrual loan volume rose due to two large loan participations that were moved to nonaccrual status at year end. The volume of nonaccrual loans remained at an acceptable level at December 31, 2008, and represented less than 0.01% of our total portfolio. At December 31, 2008, 87.8% of our nonaccrual loans were current.

The credit quality of our portfolio declined during 2008. Adversely classified assets increased from 1.8% of the portfolio at December 31, 2007, to 2.2% of the portfolio at December 31, 2008. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2008, \$15.3 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

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

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

Comparative allowance coverage of various loan categories follows:

As of December 31	2008	2007	2006
Allowance as a percentage of:			
Loans	0.1%	--	--
Nonaccrual loans	13.1%	22.2%	--
Total risk loans	7.0%	1.1%	--
Net chargeoffs as a percentage			
of average loans	--	--	--
Adverse assets to risk funds	14.8%	12.1%	11.9%

In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2008.

Young, Beginning and Small Farmers and Ranchers

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
 - A loan to a "young" or "beginning" borrower qualifies if the young or beginning borrower is obligated on the note or is an owner of the closely held entity financed. A loan to a publicly held entity or other entity that is not closely held does not qualify.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products.

Demographics

Based on the USDA 2002 Census of Agriculture, 6.36% of the farmers in our 12 county territory are young farmers (up to age 34); 25.96% of the farmers in the territory are beginning farmers (up to 9 years 'on the present farm'); and 85.70% of the farms are small farms (\$1,000 to \$249,000 gross farm income).

The USDA Census definitions are in parentheses above. Please note that the USDA Census definitions do not exactly match the accepted YBS definitions widely used in the Farm Credit System as listed in the previous section and therefore the Census percentages are not necessarily comparable to the associations' percentages.

Mission Statement

Young, beginning and small farmers, ranchers and producers or harvesters of aquatic products are valued customers of our Association. It is our mission to provide sound and constructive credit and services to young, beginning and small farmers, ranchers and producers or harvesters of aquatic products to the maximum extent possible consistent with safe and sound business practices and within our risk-bearing capacity.

Quantitative Goals and Results

Below are the 2008 targets and actual results for our young, beginning and small farmers and ranchers program:

2008 Target	2008 Actual Results
15% by Number	18.9% Young Farmers (all existing)
15% by Number	21.6% Young Farmers (new loans in 2008)
15% by Volume	14.1% Young Farmers (all existing)
15% by Number	19.0% Beginning Farmers (all existing)
15% by Number	21.7% Beginning Farmers (new loans in 2008)
15% by Volume	15.9% Beginning Farmers (all existing)
40% by Number	35.0% Small Farmers (all existing)
40% by Number	36.8% Small Farmers (new loans in 2008)
25% by Volume	14.4% Small Farmers (all existing)

Qualitative Goals and Outreach Programs

We set the following three qualitative goals for 2008:

- Offer related services either directly or in coordination with others that are responsive to the needs of the YBS farmers and ranchers in the territory,
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers, and
- Implement effective outreach programs to attract YBS farmers and ranchers, which may include the use of advertising campaigns and educational credit and services programs beneficial to YBS farmers and ranchers in the territory, as well as an advisory committee comprised of YBS farmers and ranchers to provide views on how the credit and services of the direct lender association could best serve the credit and services needs of YBS farmers and ranchers.

Based on our goals for the young, beginning and small farmers and ranchers program, the results were as follows:

- Sponsored meetings and seminars to educate YBS farmers on crop insurance services, marketing techniques (including futures and options), and how crop insurance can also be used to mitigate marketing strategy risks.
- Offered crop protection insurance and life insurance to YBS farmers and discussed the benefits with them individually, in meetings and via radio advertising.
- Met with YBS farmers to show them the support that could be made by using FSA 90/10 guarantees.
- Helped YBS farmers obtain lower interest loans using the BIG Missouri linked deposit program.
- Shared Farm Financial Checkup results with borrowers.
- Met with FSA to obtain information to provide to young farmers on programs that would benefit them, including guarantee and subordination programs.
- Counseled YBS farmers in the office on good financial practices.
- Ran ads on radio stations pertaining to YBS programs.
- Ran ads to promote our irrigation and grain bin loan programs which resulted in an added interest rate discount for YBS farmers.
- Attended semi-annual meetings on the Three Rivers Junior College Ag Committee to discuss educational needs of Ag students.
- Offered a grant up to \$500 per farmer for up to 8 farmers (one per branch office) for computer and record keeping software.

- Offered a streamlined scorecard approval service for small farmers to significantly reduce paperwork for them.
- Met with Ag business students from Arkansas State University to conduct a job interview which is a requirement for their class.
- Encouraged YBS farmers to use marketing consultants, scouting services and financial guidance counselors.
- Encouraged YBS farmers to keep adequate financial records and for their accountant to prepare full disclosure year-end financial statements including a Statement of Cash Flows to better analyze and manage their finances.
- Met with Senath and Holcomb school system FFA programs.
- Offered financial and informational support to Southland and Campbell schools.
- Attended Kennett Chamber of Commerce Agriculture committee meetings as a member.
- Attended Senath FFA officer installation dinner.
- Met with FSA officials to identify YBS farmers that may be able to graduate from FSA and qualify for loans from Progressive FCS.
- Visited with county extension personnel to seek their input on young farmers who we may not have identified.
- Invited FSA loan officer to be special guest speaker at annual customer appreciation dinner to discuss programs and opportunities for YBS farmers.
- Made FSA guaranteed loans with YBS farmers.
- Made FSA subordinated loans to YBS farmers and continued to work with the FSA loan officer on possible new loans for them.
- Made BIG Missouri Linked Deposit Loans with YBS farmers.
- Purchased highway billboard specifically seeking YBS farmers.
- Participated in various sponsorships:
 - MO Rice Research Field Day
 - MO Delta Center Field Day
 - Missouri Farm Bureau Foundation for YBS farmers
 - Farmers Recognition Banquet for the Charleston & Kelly High School Districts
 - Meal for SEMO District Ag Teachers meeting
 - Missouri Farm Bureau Foundation golf tournament
 - Bootheel Tractor Pull Association tractor pull
 - Butler County fair
 - Ripley County fair
 - Butler County Rodeo
 - Ag Expo tractor driving contest
 - Several high school athletic teams and events
 - SEMO district fair 4H & FFA livestock show
 - Missouri Angus tour held in SEMO
 - Missouri Holstein Day held in SEMO
 - Local FFA Chapters for awards
 - University of MO corn production meeting
 - Speaker at agriculture seminar at Senath
 - Fair tickets to students working at the 2008 Delta Fair FFA building
 - Southeast Missouri Waterfowl Festival which was targeted at youth
 - Legal workshop on farm operating entity structure and FSA programs

Safety and Soundness of the Program

In order to provide for extension of sound and constructive credit to young, beginning, and small farmers and ranchers, consistent with our mission statement and business objectives, we set standards and guidelines related to character, capacity, capital and collateral.

The following standards and guidelines applied to our young, beginning and small farmers and ranchers:

YBS Standards and Guidelines		
Character:	Must be satisfactory	(same as regular standard)
Capacity:	115% Capital debt repayment capacity	(same as regular standard)
Capital:	Liquidity: 0% working capital divided by ave. gross income	(vs 15% regular standard)
	Solvency: 40% owners' equity	(vs 50% regular standard)
Collateral:	85% Loan to appraised value for the PCA	(vs 75% regular standard)
	75% Loan to appraised value for the FLCA	(vs 65% regular standard)

As indicated by these standards, primary emphasis will be on the character and capacity standards. Exceptions may be granted if there are offsetting strengths. All terms of repayment or advances will be consistent with our existing lending standards and policy. Obtaining co-signers or guarantors will be encouraged where applicable in order to maintain credit standard, but is not necessarily a requirement. Whenever possible, maximum coordination will occur between us and with governmental and other private sources of credit to provide the best credit package for the customer. Applicants are expected to have the capability to manage and perform at or above average enterprise standards of earnings.

To minimize credit and profit risk exposure when less restrictive minimum credit criteria are required than for other customers, supplemental services or incentives not offered to other customers are available, or qualifying farmers receive preferred interest rates, we have set a maximum portfolio concentration. This maximum portfolio concentration is the total outstanding principal balances of loans to young, beginning and small farmers and ranchers which have one or more exceptions to the core underwriting standards for regular loans (ie, 50% owners' equity, 15% working capital divided by average gross income, 115% capital debt repayment capacity, and 75% loan to appraised value for the PCA or 65% loan to appraised value for the FLCA – as traditionally analyzed, or loans scoring less than 200 if scorecard processed) will not exceed 100% of our risk funds.

Management will ensure that loans made under these programs are identified and reported to the Board quarterly and to AgriBank, FCB annually, or more frequently as required. Such reports will provide a summary of actual results compared to the quantitative and qualitative program targets and goals as set forth in our operational and strategic business plan. Reports on these programs will also be provided to regulatory agencies, as required.

Additional Loan Information

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

Investments Securities

In addition to loans, we hold investment securities. Investments represent our share of investment securities made up of pools of the guaranteed portion of loans guaranteed by the Small Business Administration. Investment securities totaled \$14.8 million at December 31, 2008, \$7.2 million at December 31, 2007 and \$1.4 million at December 31, 2006.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2008	2007	2006
Net income	\$8,218	\$7,859	\$6,431
Return on average assets	1.9%	2.0%	1.8%
Return on average members' equity	12.2%	12.5%	10.9%

Changes in these ratios relate directly to:

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

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

	2008 vs. 2007	2007 vs. 2006
Increase (decrease) in net income		
Net interest income	\$832	\$894
Provision for (reversal of) loan losses	(191)	(46)
Patronage and dividend income	(182)	119
Financially related services and miscellaneous income, net	(356)	1,079
Operating expenses	(201)	(344)
Provision for income taxes	457	(274)
Total change in net income	\$359	\$1,428

Net Interest Income

Net interest income was \$11.8 million for the year ended December 31, 2008. The following table quantifies changes in net interest income (in thousands):

	2008 vs. 2007	2007 vs. 2006
Changes in net interest income due to:		
Changes in volume	\$1,068	\$3,519
Changes in rates	(261)	(2,621)
Changes in nonaccrual income and other	25	(4)
Net change	\$832	\$894

Net interest income included income on nonaccrual loans that totaled \$30 thousand in 2008, \$5 thousand in 2007, and \$20 thousand in 2006. Nonaccrual income is recognized when:

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

Net interest margin (net interest income divided by average earning assets) was 2.9% in 2008, 3.0% in 2007, and 3.0% in 2006.

Provision for (Reversal of) Loan Losses

The increase in provision for (reversal of) loan losses is due to increased risk in the portfolio due to commodity price and input cost volatility as it relates to weaker loans that are marginally or under collateralized.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of \$970 thousand in 2008, \$1.1 million in 2007, and \$937 thousand in 2006. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 27 basis points in 2008, 34 basis points in 2007, and 32 basis points in 2006.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. AgriBank's Board of Directors sets the equalization rate. The targeted rate equals the average cost of funds for all affiliated associations as a group. Equalization income totaled \$96 thousand for 2008, \$169 thousand for 2007 and \$192 thousand for 2006.

Financially Related Services and Miscellaneous Income, Net

The decrease in financially related services and miscellaneous income, net is primarily due to a one time \$1.0 million gain recognized in January 2007, on the sale of Farm Credit System Financial Assistance Corporation stock offset by an increase in commission revenue in 2008.

Operating Expenses

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

For the year ended December 31	2008	2007	2006
Salaries and benefits	\$3,480	\$3,426	\$3,231
Purchased and vendor services	617	589	584
Advertising and promotion	163	173	140
Communications	57	53	51
Occupancy and equipment	417	382	353
Examination	142	144	147
Farm Credit System insurance	617	513	466
Other	308	320	284
Total	\$5,801	\$5,600	\$5,256
Operating rate	1.4%	1.5%	1.6%

The operating expense increases were primarily related to purchased and vendor services, occupancy and equipment, and Farm Credit System insurance expense.

Provision for Income Taxes

We recorded tax expense of \$174 thousand for the year ended December 31, 2008, compared to \$631 thousand for 2007, and \$357 thousand for 2006. The decrease in provision for income taxes is due to a decrease in taxable income. Patronage distributions to members reduced our tax liability in 2008, 2007, and 2006. See Note 9 for additional discussion.

Funding and Liquidity

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2008, our average balance was \$359.3 million with an average interest rate of 3.4%. Our average balance during 2007 was \$317.0 million with an average interest rate of 5.2% and during 2006 our average balance was \$292.7 million with an average interest rate of 5.1%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2008, we had \$144.0 million available under our line of credit. We generally apply excess cash to this line of credit.

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

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

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

Capital Adequacy

Total members' equity increased \$5.2 million during 2008 due to net income for the period, partially offset by an increase in capital stock and participation certificates outstanding, and patronage distribution accruals.

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

As of December 31	2008	2007	2006
Members' equity	\$69,669	\$64,457	\$60,535
Surplus as a percentage of members' equity	97.3%	97.1%	96.9%
Permanent capital ratio	13.1%	13.5%	13.9%
Total surplus ratio	12.7%	13.0%	13.4%
Core surplus ratio	12.5%	12.6%	12.6%

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

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

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2008, our optimum permanent capital target was 13.0%.

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

Initiatives

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

Farm Cash Management

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

Mission Related Investments

We are participating in an Investments for Rural America pilot program authorized during 2006 by the Farm Credit Administration in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had \$358 thousand of volume under this pilot program outstanding at December 31, 2008 and \$221 thousand of volume outstanding at December 31, 2007. We had no loan volume outstanding at December 31, 2006, under this pilot program.

Relationship with AgriBank

Borrowings

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

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

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

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2008, we were required to maintain a common stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. Effective in 2009, our required investment will include an additional 1% on growth that exceeds a targeted rate. At December 31, 2008, our entire investment in AgriBank consisted of stock representing distributed AgriBank surplus.

Patronage

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

Purchased Services

We purchase various services from AgriBank including:

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

The total cost of services we purchased from AgriBank was \$415 thousand in 2008, \$403 thousand in 2007, and \$431 thousand in 2006.

Affect on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members' investment. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at 240 N. Kingshighway, Sikeston, Missouri 63801, (573) 471-0342, or via e-mail at progressivefcs@progressivefcs.com or contact AgriBank at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

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

Relationship with Other Farm Credit Institutions

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

We have a relationship with CoBank, ACB which involves purchasing or selling participation interests in loans. As part of this relationship, at December 31, 2008, our required equity investment in CoBank, ACB was \$1 thousand. CoBank, ACB provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

REPORT OF MANAGEMENT

Progressive Farm Credit Services, ACA

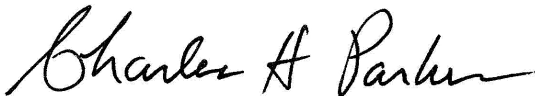


We prepare the consolidated financial statements of Progressive Farm Credit Services, ACA and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting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

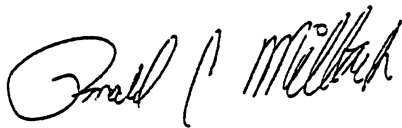
To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the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

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

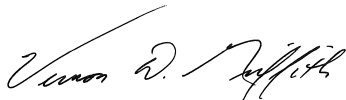
The undersigned certify we have reviewed Progressive Farm Credit Services, ACA's annual report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Charles H. Parker
Chairperson of the Board
Progressive Farm Credit Services, ACA



Ronald C. Milbach
Chief Executive Officer
Progressive Farm Credit Services, ACA



Vernon D. Griffith
Chief Financial Officer
Progressive Farm Credit Services, ACA

February 27, 2009

REPORT OF AUDIT COMMITTEE

Progressive Farm Credit Services, ACA



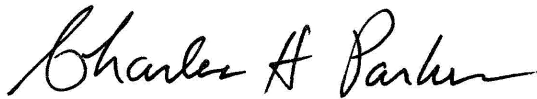
The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of the entire Board of Directors of Progressive Farm Credit Services, ACA. The Audit Committee oversees the scope of the Association's internal audit program, the approval and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

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

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

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

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



Charles H. Parker
Chairperson of the Audit Committee
Progressive Farm Credit Services, ACA

Audit Committee Members

Charles H. Parker, Chairperson
Thomas Fisher
Randy Hulshof
Edward C. Marshall, III
Darrell Nichols
John Robinson
Mark Yarbrow
Jim Yount

February 27, 2009

PricewaterhouseCoopers LLP

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

Report of Independent Auditors

To the Board of Directors and Members of
Progressive Farm Credit Services, ACA

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

PricewaterhouseCoopers LLP

February 27, 2009

CONSOLIDATED STATEMENT OF CONDITION

Progressive Farm Credit Services, ACA

(Dollars in thousands)

As of December 31	2008	2007	2006
ASSETS			
Loans	\$393,211	\$364,642	\$327,735
Allowance for loan losses	202	6	--
Net loans	393,009	364,636	327,735
Investment in AgriBank, FCB	11,090	11,090	11,090
Investment securities	14,803	7,184	1,478
Accrued interest receivable	8,565	10,680	9,308
Premises and equipment, net	2,117	1,949	1,987
Net deferred income tax asset	56	29	52
Other assets	1,554	1,542	1,520
Total assets	\$431,194	\$397,110	\$353,170
LIABILITIES			
Note payable to AgriBank, FCB	\$352,740	\$322,676	\$283,499
Accrued interest payable	2,895	4,187	4,110
Patronage distribution payable	3,010	3,650	2,662
Other liabilities	2,880	2,140	2,364
Total liabilities	361,525	332,653	292,635
Contingencies			
MEMBERS' EQUITY			
Protected members' equity	6	6	8
Capital stock and participation certificates	1,841	1,838	1,846
Unallocated surplus	67,822	62,613	58,681
Total members' equity	69,669	64,457	60,535
Total liabilities and members' equity	\$431,194	\$397,110	\$353,170

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

CONSOLIDATED STATEMENT OF INCOME

Progressive Farm Credit Services, ACA

(Dollars in thousands)

Year ended December 31	2008	2007	2006
Interest income	\$23,790	\$27,401	\$24,821
Interest expense	12,034	16,477	14,791
Net interest income	11,756	10,924	10,030
Provision for (reversal of) loan losses	193	2	(44)
Net interest income after provision for loan losses	11,563	10,922	10,074
Other income			
Patronage income	1,066	1,248	1,129
Financially related services and miscellaneous income, net	1,564	1,920	841
Total other income	2,630	3,168	1,970
Operating expense			
Salaries and employee benefits	3,480	3,426	3,231
Other operating expense	2,321	2,174	2,025
Total operating expense	5,801	5,600	5,256
Income before income taxes	8,392	8,490	6,788
Provision for income taxes	174	631	357
Net income	\$8,218	\$7,859	\$6,431

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

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Progressive Farm Credit Services, ACA

(Dollars in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2005	\$24	\$2,045	\$54,912	\$56,981
Net income	--	--	6,431	6,431
Unallocated surplus designated for patronage distributions	--	--	(2,662)	(2,662)
Capital stock/participation certificates issued	--	100	--	100
Capital stock/participation certificates retired	(16)	(299)	--	(315)
Balance at December 31, 2006	8	1,846	58,681	60,535
Net income	--	--	7,859	7,859
Adoption of new accounting principle (Notes 2 and 9)	--	--	(271)	(271)
Unallocated surplus designated for patronage distributions	--	--	(3,656)	(3,656)
Capital stock/participation certificates issued	--	150	--	150
Capital stock/participation certificates retired	(2)	(158)	--	(160)
Balance at December 31, 2007	6	1,838	62,613	64,457
Net income	--	--	8,218	8,218
Unallocated surplus designated for patronage distributions	--	--	(3,009)	(3,009)
Capital stock/participation certificates issued	--	172	--	172
Capital stock/participation certificates retired	--	(169)	--	(169)
Balance at December 31, 2008	\$6	\$1,841	\$67,822	\$69,669

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Progressive Farm Credit Services, ACA

(Dollars in thousands)

Year ended December 31	2008	2007	2006
Cash flows from operating activities			
Net income	\$8,218	\$7,859	\$6,431
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	223	190	185
Provision for (reversal of) loan losses	193	2	(44)
Decrease (increase) in accrued interest receivable	2,036	(1,404)	(1,875)
(Increase) decrease in other assets	(39)	1	419
(Decrease) increase in accrued interest payable	(1,292)	77	883
Increase (decrease) in other liabilities	740	(495)	776
Gain on sale of Farm Credit System Financial Assistance Corporation stock	--	(964)	--
(Gain) on sale of premises and equipment	(4)	--	(1)
Total adjustments	1,857	(2,593)	343
Net cash provided by operating activities	10,075	5,266	6,774
Cash flows from investing activities			
Increase in loans, net	(28,421)	(36,810)	(8,453)
Increase in investment securities, net	(7,619)	(5,706)	(1,478)
Sale of Farm Credit System Financial Assistance Corporation stock	--	964	--
Purchases of premises and equipment, net	(387)	(152)	(242)
Net cash used in investing activities	(36,427)	(41,704)	(10,173)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	30,064	39,177	6,743
Patronage distributions	(3,649)	(2,668)	(3,125)
Capital stock and participation certificates retired, net	(63)	(71)	(219)
Net cash provided by financing activities	26,352	36,438	3,399
Net change in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	\$ --	\$ --	\$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$132	\$108	\$71
Stock applied against loan principal	66	47	66
Stock applied against interest	--	--	1
Interest transferred to loans	79	32	97
Decrease in members' equity from the adoption of FIN 48 (Notes 2 and 9)	--	(271)	--
Patronage distributions payable to members	3,010	3,650	2,662
Supplemental information			
Interest paid	\$13,326	\$16,400	\$13,908
Taxes paid	191	1,140	--

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Progressive Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

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

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

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

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

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

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

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

Association

Progressive Farm Credit Services, ACA and its subsidiaries, Progressive Farm Credit Services, FLCA and Progressive Farm Credit Services, PCA are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Bollinger, Butler, Cape Girardeau, Carter, Dunkin, Mississippi, New Madrid, Pemiscot, Ripley, Scott, Stoddard and Wayne in the state of Missouri.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans.

We offer various risk management services, including credit life, term life, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer producer education services to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The following are our significant accounting policies:

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

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

We place loans in nonaccrual status when:

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

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

- principal and interest are current,
- prior chargeoffs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

Investment Securities: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost.

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

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

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

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

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

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

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

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

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

current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

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

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

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

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

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

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

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

Fair Value Measurement: Fair Value Measurements: Effective January 1, 2008, we adopted SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. It describes three levels of inputs that may be used to measure fair value.

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

NOTE 3: LOANS AND INVESTMENT SECURITIES

Loans consisted of the following (in thousands):

As of December 31, 2008	Amount	Percentage
Long-term agricultural mortgage	\$180,883	45.4%
Production	82,808	20.8%
Intermediate term	88,386	22.2%
Farm related	5,196	1.3%
Rural home	1,191	0.3%
Participations purchased	11,919	3.0%
Marketing and processing	14,697	3.7%
Loans purchased (Secondary market)	13,391	3.3%
Subtotal	\$398,471	100.0%
Participations sold	(5,260)	
Total	\$393,211	
As of December 31, 2007	Amount	Percentage
Long-term agricultural mortgage	\$173,347	47.3%
Production	78,328	21.4%
Intermediate term	69,962	19.1%
Farm related	1,986	0.5%
Rural home	1,065	0.3%
Participations purchased	7,522	2.1%
Marketing and processing	16,894	4.6%
Loans purchased (Secondary market)	17,349	4.7%
Subtotal	\$366,453	100.0%
Participations sold	(1,811)	
Total	\$364,642	
As of December 31, 2006	Amount	Percentage
Long-term agricultural mortgage	\$160,169	49.0%
Production	65,922	20.1%
Intermediate term	62,318	19.0%
Farm related	1,609	0.5%
Rural home	1,078	0.3%
Participations purchased	3,085	0.9%
Marketing and processing	14,386	4.4%
Loans purchased (Secondary market)	19,168	5.8%
Total	\$327,735	100.0%

Participations

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

As of December 31, 2008	Participations	
	Purchased	Sold
Participations purchased from / sold to:		
Other Farm Credit institutions	\$11,486	\$5,260
Non-Farm Credit institutions	433	--
Total participations purchased/sold	\$11,919	\$5,260

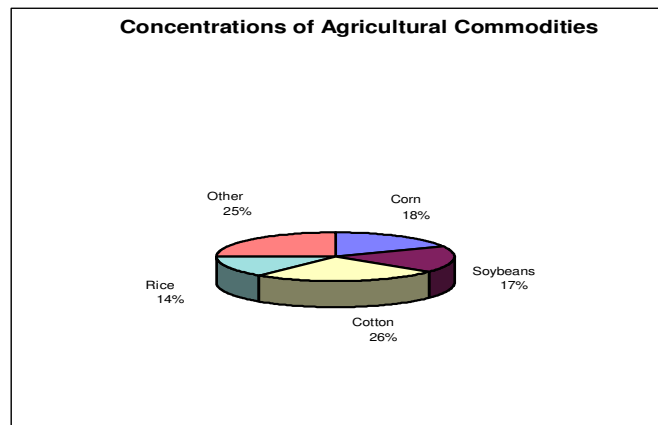
The participation volume is largely due to participations on loans to agribusinesses.

Portfolio Concentrations

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

At December 31, 2008, volume plus commitments to our ten largest borrowers totaled an amount equal to 81.7% of members' equity.

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



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Missouri. Approximately 85.8% of our total loan portfolio was in Butler, Dunklin, Mississippi, New Madrid, Pemiscot, Scott and Stoddard counties at December 31, 2008.

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

Risk Loans

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

As of December 31	2008	2007	2006
Nonaccrual loans:			
Current as to principal and interest	\$1,350	\$27	\$51
Past due	187	--	18
Total nonaccrual loans	1,537	27	69
Loans past due 90 days or more still accruing	1,344	527	506
Total risk loans	\$2,881	\$554	\$575
Volume with specific reserves	\$--	\$--	\$--
Volume without specific reserves	2,881	554	575
Total risk loans	\$2,881	\$554	\$575
Total specific reserves	\$--	\$--	\$--
For the year ended December 31	2008	2007	2006
Income on accrual risk loans	\$42	\$35	\$29
Income on nonaccrual loans	30	5	20
Total income on risk loans	\$72	\$40	\$49
Average recorded investment	\$1,878	\$428	\$559

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

Loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

Investment Securities

We purchased investment bonds as a part of the 3-year Agricultural and Rural Community (ARC) bond pilot program. Our current investment securities balance consists of small pools of SBA loans. The following table presents the book value, unrealized gain/loss and fair value of these investment securities (in thousands).

As of December 31	2008	2007	2006
Book value	\$14,803	\$7,184	\$1,478
Gross unrealized losses	115	356	98
Estimated fair value	\$14,688	\$6,828	\$1,380
Weighted average yield	4.2%	2.9%	5.2%

Income is recorded in interest income and totaled \$616 thousand in 2008, \$210 thousand in 2007, and \$77 thousand in 2006.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

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

For the year ended December 31	2008	2007	2006
Balance at beginning of year	\$6	\$--	\$38
Provision for (reversal of) loan losses	193	2	(44)
Loan recoveries	3	4	6
Balance at end of year	\$202	\$6	\$--

The increase in allowance is due to increased risk in the portfolio due to commodity price and input cost volatility as it relates to weaker loans that are marginally or under collateralized.

NOTE 5: INVESTMENT IN AGRIBANK

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

The following summarizes investment balances (in thousands):

	2008	2007	2006
As of December 31:			
Common stock	\$9,585	\$8,406	\$7,772
Preferred stock	1,505	2,684	3,318
Total investment	\$11,090	\$11,090	\$11,090

NOTE 6: PREMISES AND EQUIPMENT

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

As of December 31	2008	2007	2006
Land, buildings and improvements	\$2,441	\$2,438	\$2,417
Furniture and equipment	1,403	1,106	975
Subtotal	3,844	3,544	3,392
Less: accumulated depreciation	(1,727)	(1,595)	(1,405)
Total	\$2,117	\$1,949	\$1,987

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and our assets serve as collateral. The total line of credit was \$500.0 million and the outstanding principal under the line of credit was \$352.7 million as of December 31, 2008. The interest rate is adjusted monthly and was 2.5% at December 31, 2008. During 2008, our average balance was \$359.3 million with an average interest rate of 3.4%. Our average balance during 2007 was \$317.0 million with an average interest rate of 5.2% and during 2006 our average balance was \$292.7 million with an average interest rate of 5.1%. The maturity date is June 30, 2009, for our note payable, at which time the note will be renegotiated.

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

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

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

Protection Mechanisms

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

Regulatory Capitalization Requirements

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

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2008, our ratio was 13.1%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2008, our ratio was 12.7%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2008, our ratio was 12.5%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all preferred stock which is the amount of our investment in AgriBank that is in excess of the required amount. At December 31, 2008, we included 13.6%, at December 31, 2007, we included 24.2%, and at December 31, 2006, we included 29.9% of our investment in AgriBank as capital. These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

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

As of December 31, 2008	Shares Outstanding
Class A common stock (protected)	1,168
Class B common stock (at-risk)	6,389
Class C common stock (at-risk)	357,574
Series 2 participation certificates (at-risk)	4,277

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

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

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

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

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

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

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

Patronage Distributions

We accrued patronage distributions of \$3.0 million at December 31, 2008, \$3.7 million at December 31, 2007, and \$2.7 million at December 31, 2006. The patronage distributions were made in cash during the first quarter of each subsequent year. In December 2008, the Board of Directors passed a resolution to distribute patronage refunds in 2010 based on 2009 net earnings. The amount of the 2009 patronage refund will be determined by the Board of Directors subject to all statutory and regulatory requirements.

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

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

Our provision for income taxes follows (in thousands):

For the year ended December 31	2008	2007	2006
Current:			
Federal	\$201	\$551	\$252
State	--	57	54
Total current	201	608	306
Deferred:			
Federal	(28)	29	44
State	1	(6)	7
Total deferred	(27)	23	51
Total provision for income taxes	\$174	\$631	\$357
Effective tax rate	2.1%	7.4%	5.3%

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

For the year ended December 31	2008	2007	2006
Federal tax at statutory rate	\$2,853	\$2,887	\$2,308
Net effect of non-taxable entity	(1,643)	(1,061)	(1,053)
State tax, net	11	36	21
Patronage distributions	(1,023)	(1,241)	(905)
Other	(24)	10	(14)
Provision for income taxes	\$174	\$631	\$357

Deferred Income Taxes

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

As of December 31	2008	2007	2006
Allowance for loan losses	\$37	\$ --	\$ --
Postretirement benefits accrual	302	307	313
Accrued pension asset	(275)	(241)	(260)
Other liabilities	(8)	(39)	(1)
Other assets	--	2	--
Net deferred income tax assets	\$56	\$29	\$52
Gross deferred tax assets	\$339	\$309	\$313
Gross deferred tax liabilities	(\$283)	(\$280)	(\$261)

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

We have not provided deferred income taxes on approximately \$10 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$43.3 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

We adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. Upon adoption of this Interpretation during the first quarter of 2007, we recognized a \$289 thousand increase in the liability

for unrecognized tax liabilities which was accounted for as a reduction to the balance of members' equity. The liability for this uncertain tax position was settled by filing amended income tax returns for the applicable periods. The difference between the actual tax liability paid and accrued liabilities resulted in a reversal of \$18 thousand in the third quarter 2007. At December 31, 2008, we had no uncertain income tax positions to recognize.

NOTE 10: EMPLOYEE BENEFIT PLANS

Our employees may be eligible to participate in a District-wide multi-employer defined benefit retirement plan (the Plan). The Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. We recognize our proportional share of expense and contribute a proportional share of funding. As a participant in the Plan, we contributed \$396 thousand for 2008, \$173 thousand for 2007. We did not make a contribution for 2006. Plan expenses included in salaries and employee benefits expense in the Consolidated Statement of Income were \$194 thousand for 2008, \$268 thousand for 2007, and \$280 thousand for 2006. Additional financial information for the Plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

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

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

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

Life Insurance and Retiree Medical Plans

District employers also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits (primarily health care benefits and life insurance) included in salaries and employee benefits expense were \$35 thousand for 2008, \$53 thousand for 2007, and \$101 thousand for 2006. Additional financial information for this plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

Retirement Savings Plan

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax

contributions. The maximum employer contribution is 9%. Employer contributions and recorded expense to this plan were \$99 thousand in 2008, \$96 thousand in 2007, and \$85 thousand in 2006.

NOTE 11: RELATED PARTY TRANSACTIONS

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

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

	2008	2007	2006
As of December 31:			
Total related party loans and leases	\$10,602	\$10,318	\$9,482
For the year ended December 31:			
Advances to related parties	\$6,828	\$8,712	\$7,988
Repayments by related parties	6,361	8,363	9,967

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

We purchase various services from AgriBank including certain information systems, certain financial services, certain accounting and reporting services, and selected retail product processing and support services. The total cost of services we purchased from AgriBank was \$415 thousand in 2008, \$403 thousand in 2007, and \$431 thousand in 2006.

NOTE 12: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2008, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$123.9 million. Additionally, we had \$350 thousand of issued standby letters of credit as of December 31, 2008.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit

will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

Investment Securities: Our current investment securities balance consists of small pools of SBA loans. The fair value of these loans is determined by obtaining current market rates as of December 31, 2008. We calculate unrealized gains and losses based on these market rates. See Note 3 for further discussion.

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

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

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

As of December 31, 2008	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$393,009	\$397,647
Investment securities	14,803	14,093
Financial liabilities:		
Note payable to AgriBank, FCB	\$352,740	\$357,806
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$155)
As of December 31, 2007	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$364,636	\$365,565
Investment securities	7,184	6,828
Financial liabilities:		
Note payable to AgriBank, FCB	\$322,676	\$323,769
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$136)
As of December 31, 2006	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$327,735	\$327,116
Investment securities	1,478	1,380
Financial liabilities:		
Note payable to AgriBank, FCB	\$283,499	\$283,302
Unrecognized financial instruments:		
Commitments to extend credit		(\$115)

NOTE 14: FARM CREDIT SYSTEM FINANCIAL ASSISTANCE CORPORATION STOCK SALE

In January 2007, we sold to AgriBank all Farm Credit System Financial Assistance Corporation stock held by us at 71% of the face value of that stock. Legislation in 1987 required us to purchase this stock to capitalize the Farm Credit System Financial Assistance Corporation. Due to the uncertainty regarding the realization of the asset, the stock had previously been written off and carried at zero book value. The sale resulted in a gain of \$1.0 million in the first quarter 2007. The gain was recorded in "Financially related services and miscellaneous income, net" on the Consolidated Statement of Income. The Financial Assistance Corporation's charter was cancelled as of December 31, 2006.

NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

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

2008	First	Second	Third	Fourth	Total
Net interest income	\$2,733	\$2,753	\$3,210	\$3,060	\$11,756
(Reversal of) provision for loan losses	(6)	--	(2)	201	193
Patronage income	233	262	304	267	1,066
Other expense, net	1,262	1,292	835	848	4,237
(Reversal of) provision for income taxes	(17)	110	90	(9)	174
Net income	\$1,727	\$1,613	\$2,591	\$2,287	\$8,218
2007	First	Second	Third	Fourth	Total
Net interest income	\$2,476	\$2,705	\$2,998	\$2,745	\$10,924
(Reversal of) provision for loan losses	(1)	--	(1)	4	2
Patronage income	221	260	292	475	1,248
Other expense, net	284	1,286	1,248	862	3,680
Provision for income taxes	427	81	98	25	631
Net income	\$1,987	\$1,598	\$1,945	\$2,329	\$7,859
2006	First	Second	Third	Fourth	Total
Net interest income	\$2,260	\$2,418	\$2,745	\$2,607	\$10,030
(Reversal of) provision for loan losses	(28)	(1)	(1)	(14)	(44)
Patronage income	204	233	256	436	1,129
Other expense, net	1,224	1,337	862	992	4,415
Provision for income taxes	94	111	136	16	357
Net income	\$1,174	\$1,204	\$2,004	\$2,049	\$6,431

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Progressive Farm Credit Services, ACA

(Unaudited)

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Sikeston, MO	Owned	Headquarters
Sikeston, MO	Owned	Branch
Caruthersville, MO	Owned	Branch
Mississippi County, MO	Owned	Branch
Dexter, MO	Owned	Branch
Jackson, MO	Owned	Branch
Kennett, MO	Owned	Branch
Portageville, MO	Owned	Branch
Poplar Bluff, MO	Owned	Branch

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

SELECTED FINANCIAL DATA

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

BOARD OF DIRECTORS

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

Thomas E. Fisher, Outside Director, is a self-employed grain farmer and Superintendent of the University of Missouri Delta Research Center in Portageville, MO. He also serves as director for the M&A Electric Cooperative, Poplar Bluff, MO, the Pemiscot-Dunklin Electric Cooperative, a rural electric coop, in Kennett, MO, the Pemiscot County Farm Bureau, Caruthersville, MO, a political action group representing the interests of farmers to state and federal legislatures, and the Pemiscot County Welfare Commission, Caruthersville, MO, which oversees county welfare programs. His term on the board expires in 2010.

Randal Hulshof, is a self-employed grain and cotton farmer. He also serves as a board member for Drainage District #18, a special taxing entity located in Marston, MO. His term on the board expires in 2010.

Ed Marshall III, is a self-employed grain farmer. He also serves as a board member for Bootheel Agri-Energy LLC, an ethanol manufacturing plant located in Scott County, MO. His term on the board expires in 2011.

Darrell Nichols, is a self-employed grain farmer. His term on the board expires in 2011.

Charles H. Parker, Chairman of the Board, is a self-employed cotton farmer. He also serves as a board member with the Farmers Union Gin Company, a company engaged in custom cotton ginning, in Senath, MO, and with Planters Cotton Oil Mill, Inc., a cottonseed crushing company, in Pine Bluff, AR. His term on the board expires in 2009.

John Robinson, is a self-employed grain and cotton farmer and a board member of Ditch #37, a special taxing entity located in Dexter, MO. His term on the board expires in 2011.

Mark Yarbro, is a self-employed grain farmer. He also serves on the Ozark Border Electric Coop Board, a rural electric coop, in Poplar Bluff, MO. His term on the board expires in 2010.

James D. Yount, Vice-Chairman of the Board, is a self-employed grain and livestock farmer, seed dealer and an owner of a crop hail insurance agency. His term on the board expires in 2009.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of \$350 per day and a per diem rate of \$175 per conference call.

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

	Number of Days Served		Compensation paid for service on a board committee	Name of committee	Total Compensation Paid in 2008
	Board Meetings	Other Official Activities			
	Fisher, Thomas E.	10	2	\$350	Audit
Hulshof, Randal	11	6	350	Audit	5,444
Marshall III, Ed	11	3	350	Audit	4,395
Nichols, Darrell	11	6	350	Audit	5,444
Parker, Charles H.	10	5	350	Audit	4,745
Robinson, John	10	3	350	Audit	4,044
Yarbro, Mark	10	5	350	Audit	4,920
Yount, James D.	9	5	350	Audit	4,570
Total	82	35	\$2,800		\$37,081

SENIOR OFFICERS

The senior officers include:

Ronald C. Milbach, Chief Executive Officer
 Robert E. Smith, Chief Credit Officer
 Vernon D. Griffith, Chief Financial Officer

All of the senior officers have held their current positions for the past five years.

Information related to compensation paid to the senior officers is provided in our Annual Meeting Information Statement and is available for inspection at our office locations.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

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

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 240 N. Kingshighway, Sikeston, Missouri 63801, (573) 471-0342, or via e-mail at progressivefcs@progressivefcs.com.

The total directors' travel, subsistence and other related expenses were \$7 thousand in 2008, \$14 thousand in 2007, and \$15 thousand in 2006.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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

MEMBER PRIVACY

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

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT

There were no changes in independent auditors since the last annual report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2008 to our independent auditors were \$18 thousand for audit services. We also had \$63 thousand of fees to another qualified public accountant for non-audit internal operations review services which were approved by the audit committee.

FINANCIAL STATEMENTS

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

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

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

EQUAL EMPLOYMENT OPPORTUNITY

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

Progressive Farm Credit Services, ACA

Funds Held Program

The Association offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate loans and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement, or related documents, between the Association and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special or early prepayment of principal.

When a loan installment becomes due, monies in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held may not exceed 50% of the unpaid principal balance of the loan.

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest determined by the Association, but may never exceed the interest rate charged on the related loan. The Association may change the interest rate from time to time, and may provide for different rates for different categories of loans. The current interest rate paid on all funds held accounts is equal to the interest rate accruing on the related loan.

Interest rates are currently reported on each customer's year-end loan statement.

Withdrawals

The Association may permit borrowers to withdraw funds from a voluntary funds held account, on an exception basis, up to four times per year. The minimum amount that may be withdrawn at any one time is limited to the lesser of \$500 or the balance remaining in the funds held account.

Any requests for withdrawal of funds must be submitted for Association approval.

Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues its Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to regulations.

Questions

Please direct any questions regarding Funds Held to your local FCS representative.



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