



*Louisiana*  
**LAND BANK**

2008 ANNUAL REPORT

*December 31, 2008*



Part of the Farm Credit System

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## REPORT OF MANAGEMENT

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

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

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

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



Darrel Jans, Chief Executive Officer

*March 9, 2009*



R. Ernest Girouard, Chairman, Board of Directors

*March 9, 2009*



Sandra Robinson, Chief Financial Officer

*March 9, 2009*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Bobby E. Stanley, Chairman; John Earl Carroll; Danny L. Webb; and Gerald E. Moore. In 2008, four Committee meetings were held. The Committee oversees the scope of Louisiana FLBA, FLCA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Louisiana FLBA, FLCA's web site. The Committee approved the appointment of PricewaterhouseCoopers LLP for 2008.

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

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

The Committee discussed with PricewaterhouseCoopers LLP its independence from Louisiana FLBA, FLCA. The Committee also reviewed the non-audit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the Committee deemed appropriate.

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

### Audit Committee Members

Bobby E. Stanley, Chairman  
John Earl Carroll  
Daniel L. Webb  
Gerald E. Moore

*March 9, 2009*

LOUISIANA FLBA, FLCA

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA  
(unaudited)  
(dollars in thousands)

	December 31,				
	2008	2007	2006	2005	2004
<b>Balance Sheet Data</b>					
<u>Assets</u>					
Cash	\$ 5,522	\$ 4,593	\$ 5,906	\$ 6,501	\$ 5,479
Loans	831,803	822,822	691,755	592,950	511,705
Less: allowance for loan losses	(756)	(419)	(102)	(77)	(88)
Net loans	831,047	822,403	691,653	592,873	511,617
Investment in and receivable from the Bank	14,861	13,095	10,234	8,911	8,323
Other property owned, net	105	-	503	-	-
Other assets	15,263	16,677	14,594	12,336	7,975
Total assets	<u>\$ 866,798</u>	<u>\$ 856,768</u>	<u>\$ 722,890</u>	<u>\$ 620,621</u>	<u>\$ 533,394</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 4,018	\$ 2,902	\$ 3,244	\$ 2,255	\$ 2,084
Obligations with maturities greater than one year	730,084	729,473	601,430	499,784	424,586
Total liabilities	734,102	732,375	604,674	502,039	426,670
<u>Members' Equity</u>					
Capital stock and participation certificates	3,073	2,968	2,702	13,622	13,400
Unallocated retained earnings	129,289	120,948	115,514	104,960	93,324
Accumulated other comprehensive income	334	477	-	-	-
Total members' equity	132,696	124,393	118,216	118,582	106,724
Total liabilities and members' equity	<u>\$ 866,798</u>	<u>\$ 856,768</u>	<u>\$ 722,890</u>	<u>\$ 620,621</u>	<u>\$ 533,394</u>
Year Ended December 31,					
<b>Statement of Income Data</b>					
Net interest income	\$ 20,132	\$ 19,499	\$ 17,353	\$ 15,755	\$ 14,293
(Provision for loan losses) or loan loss reversal	(337)	(5,467)	(1,099)	-	11,967
Income from the Bank	3,018	2,752	2,301	2,183	2,148
Other noninterest income	1,924	2,062	1,553	1,397	1,427
Noninterest expense	(11,654)	(8,836)	(7,689)	(6,474)	(7,704)
Net income	<u>\$ 13,083</u>	<u>\$ 10,010</u>	<u>\$ 12,419</u>	<u>\$ 12,861</u>	<u>\$ 22,131</u>
<b>Key Financial Ratios for the Year</b>					
Return on average assets	1.5%	1.3%	2.0%	2.3%	4.4%
Return on average members' equity	10.3%	8.4%	10.9%	11.7%	26.2%
Net interest income as a percentage of average earning assets	2.4%	2.6%	2.8%	2.9%	2.8%
Net charge-offs as a percentage of average loans	0.0%	0.7%	0.2%	0.0%	0.3%

**LOUISIANA FLBA, FLCA**

**FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA**  
**(unaudited)**  
**(dollars in thousands)**

	December 31,				
	2008	2007	2006	2005	2004
<b><u>Key Financial Ratios at Year End</u></b>					
Members' equity as a percentage of total assets	<b>15.3%</b>	14.5%	16.4%	19.1%	20.0%
Debt as a percentage of members' equity	<b>553.2%</b>	588.8%	511.5%	423.4%	399.8%
Allowance for loan losses as a percentage of loans	<b>0.1%</b>	0.05%	0.01%	0.01%	0.02%
Permanent capital ratio	<b>13.5%</b>	12.8%	15.6%	17.9%	16.8%
Core surplus ratio	<b>13.2%</b>	12.5%	15.2%	15.6%	14.1%
Total surplus ratio	<b>13.2%</b>	12.5%	15.2%	15.6%	14.1%
<b><u>Net Income Distribution</u></b>					
Cash dividends paid	\$ -	\$ -	\$ 1,865	\$ 1,225	\$ 1,188
Patronage refunds:					
Cash	<b>4,728</b>	4,576	-	-	-

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

The following commentary explains management's assessment of the principal aspects of the financial condition and results of operations of Louisiana FLBA, FLCA for the years ended December 31, 2008, 2007 and 2006, and should be read in conjunction with the accompanying financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

### **Forward-Looking Information:**

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

### **Significant Events:**

In December 2008, the Association received a direct loan patronage of \$2,194,808 from the Bank, representing 30 basis points on the average daily balance of the Association's direct loan with the Bank. During 2008, the Association received \$602,544 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$220,228 from the Bank, representing 65 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

Nonaccrual loan volume increased \$4,433,775 during 2008, and was primarily attributable to one poultry industry related relationship. This relationship accounts for 59.26 percent of total nonaccruals as of year end. There is no specific allowance for the related loans at this time due to the current net realizable value calculation which indicates that the loans are well secured. The relationship is closely monitored by management and if the net realizable value position deteriorates from well secured, or other factors impact the viability of repayment, then a specific allowance for the relationship will be evaluated.

In December 2007, the Association received a direct loan patronage of \$1,994,491 from the Bank, representing 30 basis points on the average daily balance of the Association's direct loan with the Bank. During 2007, the Association received \$557,687 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$201,043 from the Bank, representing 65 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

For over 19 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

## Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The Association's portfolio is comprised of 46.3 percent timber land loans, of which approximately 56.0 percent is timber dependent and 44.0 percent is nontimber dependent. The percentage of timberland loans relative to total loans is commensurate with timberland as a percentage to total agricultural land in Louisiana.

The Association's portfolio consists of 24.8 percent purchased participations, primarily out-of-state loans. Total out-of-state loans including purchased participations is 33.1 percent of total loans outstanding. Purchased participations and out-of-state loans provide commodity, industry and geographic portfolio diversity.

The significant reduction in loan volume growth in 2008 as compared to the previous two years is a result of a more conservative interpretation of eligible loans, less participations purchased activity, implementation of more restrictive underwriting standards, economic and financial market deterioration, and increases in interest rate spreads and loan fees.

The composition of the Association's loan portfolio, including principal less funds held of \$831,803,390, \$822,821,558 and \$691,754,757 as of December 31, 2008, 2007 and 2006, respectively, is described more fully in detailed tables in Note 3 to the financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

## Purchase and Sales of Loans:

During 2008, 2007 and 2006, the Association was participating in loans with lenders. As of December 31, 2008, 2007 and 2006, these participations totaled \$206,663,358, \$251,281,136 and \$233,096,817 or 24.8 percent, 26.8 percent and 33.7 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$118,543,445, \$218,752,096 and \$186,730,017, or 14.3 percent, 16.2 percent and 13.1 percent of loans, respectively. The Association has also sold participations of \$76,573,217, \$86,105,102, and \$87,468,799 as of December 31, 2008, 2007, and 2006, respectively.

The Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank. At December 31, 2008, 2007 and 2006, loans totaling \$3,643,911, \$4,080,596 and \$4,447,364, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$20,790, \$22,801 and \$26,878 in 2008, 2007 and 2006, respectively, and are reflected in "other noninterest expense."

## Risk Exposure:

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

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 7,731,903	96.8%	\$ 3,298,128	91.0%	\$ 912,810	54.2%
90 days past due and still accruing interest	32,550	0.4%	199,941	5.5%	135,983	8.1%
Formally restructured	121,717	1.5%	127,060	3.5%	131,659	7.8%
Other property owned, net	104,836	1.3%	-	0.0%	503,459	29.9%
Total	\$ 7,991,006	100.0%	\$ 3,625,129	100.0%	\$ 1,683,911	100.0%

At December 31, 2008, 2007 and 2006, loans that were considered impaired were \$7,886,170, \$3,625,129 and \$1,180,452, representing 0.9 percent, 0.4 percent and 0.2 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. Nonaccrual loan volume increased \$4,433,775 during 2008, and was primarily attributable to one poultry industry related relationship. This relationship accounts for 59.26 percent of total nonaccruals as of year end. There is no

specific allowance for the related loans at this time due to the current net realizable value calculation which indicates that the loans are well secured. The relationship is closely monitored by management and if the net realizable value position deteriorates from well secured, or other factors impact the viability of repayment, then a specific allowance for the relationship will be evaluated.

The Association is one of 13 associations in the District that participated in a loan to one borrower through the former Capital Markets of the South (CMS). Of the 13 associations that participated in the loan, five were members of CMS (including this Association), and eight were non-CMS members. The FLBA of South Alabama, FLCA, serves as the lead lender, and is currently pursuing collection efforts, and in the third quarter of 2007 liquidated part of the loan's collateral which was applied to the outstanding balance for all participants. The original funded balance of the loan was \$68,500,000, and the Association retained 20.22 percent of the loan. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant under-collateralized position and a credit default. Accordingly, the FLBA of South Alabama, FLCA began pursuing collection efforts, including liquidating part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, by the end of 2007 the Association, along with the four other CMS member associations, had repurchased, on a pro rata basis, the portions of the loan held by all other non-CMS participants. As part of loan repurchase transactions noted above, the CMS member associations received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

During 2007, net charge-offs of \$28.9 million were recognized; the Association's portion of the 2007 charge-offs was \$5,150,272. No further charge-offs or allowance reserves were required to be recognized in 2008, and as of December 31, 2008, the total book balance remaining was \$2,413,392, of which the Association's portion is \$488,042. Also as of December 31, 2008, total specific reserves of \$1,460,000 remained related to this loan, of which the Association's portion was \$295,244. For more information on impaired loans and the allowance for loan losses, see Note 3 to the financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

In 2008 collection efforts continued, resulting in legal judgments against the borrowers, allowing the FLBA of South Alabama, FLCA to foreclose on portions of the real estate collateral, with sales proceeds being applied on a pro rata share of ownership of each CMS-member association against the outstanding balance of the loan. The FLBA of South Alabama, FLCA is still in the process of foreclosing on the remaining portions of the real estate collateral. In addition, the borrowers have surrendered various other real and personal properties, all of which are to be liquidated and applied against the loan balance of each CMS member. All sales of remaining real estate collateral and other properties are expected to be completed in the first half of 2009.

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

#### **Allowance for Loan Losses:**

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Allowance for loan losses	\$ <b>755,584</b>	\$ 418,619	\$ 101,951
Provision for loan losses	<b>336,965</b>	5,466,940	1,098,890
Allowance for loan losses to total loans	<b>0.1%</b>	0.05%	0.01%
Allowance for loan losses to nonaccrual loans	<b>9.8%</b>	12.7%	11.2%
Allowance for loan losses to impaired loans	<b>9.6%</b>	11.5%	8.6%
Net charge-offs to average loans	<b>0.0%</b>	0.7%	0.2%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$755,584, \$418,619 and \$101,951 at December 31, 2008, 2007 and 2006, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

#### **Results of Operations:**

The Association's net income for the year ended December 31, 2008, was \$13,082,840 as compared to \$10,009,738 for the year ended December 31, 2007, reflecting an increase of \$3,073,102, or 30.7 percent. The Association's net income for the year ended December 31, 2006 was \$12,418,701. Net income decreased \$2,408,963, or 19.4 percent, in 2007 versus 2006.

Net interest income for 2008, 2007 and 2006 was \$20,131,869, \$19,499,271 and \$17,352,716, reflecting increases of \$632,598, or 3.2 percent, for 2008 versus 2007 and \$2,146,555, or 12.4 percent, for 2007 versus 2006. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2008		2007		2006	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 830,755,137	\$ 53,979,772	\$ 761,451,326	\$ 55,797,647	\$ 611,833,477	\$ 44,002,185
Interest-bearing liabilities	731,812,922	33,847,903	665,032,070	36,298,376	517,437,703	26,649,469
Impact of capital	\$ 98,942,215		\$ 96,419,256		\$ 94,395,774	
Net interest income		\$ 20,131,869		\$ 19,499,271		\$ 17,352,716

	Average Yield	Average Yield	Average Yield
Yield on loans	6.50%	7.33%	7.19%
Cost of interest-bearing liabilities	4.63%	5.46%	5.15%
Interest rate spread	1.87%	1.87%	2.04%

	2008 vs. 2007			2007 vs. 2006		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income	\$ 5,078,445	\$ (6,896,320)	\$ (1,817,875)	\$ 10,760,366	\$ 1,035,096	\$ 11,795,462
Interest expense	3,644,966	(6,095,439)	(2,450,473)	7,601,553	2,047,354	9,648,907
Net interest income	\$ 1,433,479	\$ (800,881)	\$ 632,598	\$ 3,158,813	\$ (1,012,258)	\$ 2,146,555

Interest income decreased by \$1,817,875, or 3.3 percent, compared to 2007, primarily due to decreases in interest rates which were partially offset by an increase in average loan volume. Interest expense for 2008 decreased by \$2,450,473, or 6.8 percent, compared to 2007 due to decreases in interest rates which were partially offset by an increase in interest-bearing liabilities. The interest rate spread remained unchanged from 2007 at 1.87 percent due to the changes in interest income and interest expense discussed above. The interest rate spread decreased by 17 basis points to 1.87 percent in 2007 from 2.04 percent in 2006, primarily because of competition.

Noninterest income for 2008 increased by \$127,299, or 2.6 percent, compared to 2007, due primarily to a \$193,810 increase in loan fees and a \$265,412 increase in patronage income, offset by a \$302,791 reduction in gains on sales of premises and equipment, year over year. Noninterest income for 2007 increased by \$960,811, or 24.9 percent, compared to 2006, due primarily to a \$450,711 increase in patronage received from the Bank, as well as a \$261,740 increase in gain on sale on premises and equipment and a \$218,513 increase in loan fees.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Operating expenses increased \$2,816,770 for 2008 over 2007, primarily due to a \$2,394,255 increase in salaries and employee benefits, a \$246,268 increase in purchased services, and a \$127,986 increase in supervisory and exam expense. The increase in salaries and employee benefits is due to incentive compensation paid in the first quarter of 2008 and an accrual for 2008 incentive compensation that will be paid in 2009. Related to the Defined Benefit Plan (DB Plan), the Association recognized pension costs of \$769,934, \$249,274 and \$226,745 for the years ended December 31, 2008, 2007 and 2006, respectively.

For the year ended December 31, 2008, the Association's return on average assets was 1.5 percent, as compared to 1.3 percent and 2.0 percent for the years ended December 31, 2007 and 2006, respectively. For the year ended December 31, 2008, the Association's return on average members' equity was 10.3 percent, as compared to 8.4 percent and 10.9 percent for the years ended December 31, 2007 and 2006, respectively.

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

## **Liquidity and Funding Sources:**

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$727,337,234, \$726,178,500 and \$598,795,465 as of December 31, 2008, 2007 and 2006, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 4.4 percent, 5.4 percent and 5.2 percent at December 31, 2008, 2007 and 2006, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2007, is due to increased funding needs created by loan growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$104,466,170, \$96,643,058 and \$92,959,362 at December 31, 2008, 2007 and 2006, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2008, was \$827,767,946 as defined by the general financing agreement.

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

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year. As of December 31, 2008, the Association had 10 loans with a total unpaid balance of \$3,643,911 guaranteed through Farmer Mac programs.

## **Capital Resources:**

The Association's capital position remains strong, with total members' equity of \$132,696,070, \$124,392,651 and \$118,216,042 at December 31, 2008, 2007 and 2006, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2008, 2007 and 2006 was 13.5 percent, 12.8 percent and 15.6 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2008, 2007 and 2006 was 13.2 percent, 12.5 percent and 15.2 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investment in the Association. The Association's total surplus ratio at December 31, 2008, 2007 and 2006 was 13.2 percent, 12.5 percent and 15.2 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2008 and 2007, the Association paid patronage of \$4,727,827 and \$4,575,825, respectively, and paid dividends of \$1,864,843 in 2006. See Note 7 to the financial statements, "Members' Equity," included in this annual report, for further information.

## **Relationship With the Bank:**

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

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

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

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 9 to the financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such

as administrative, marketing, information systems, and accounting services. Additionally, the Bank allocates District expenses to the Associations, such as the Farm Credit System Insurance Corporation insurance premiums.

**Summary:**

Over the past 19 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors and Stockholders  
of Louisiana FLBA, FLCA

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

*PricewaterhouseCoopers LLP*

Austin, Texas  
March 9, 2009

LOUISIANA FLBA, FLCA

BALANCE SHEET

	December 31,		
	2008	2007	2006
<b><u>Assets</u></b>			
Cash	\$ 5,522,062	\$ 4,593,488	\$ 5,905,903
Loans	831,803,390	822,821,558	691,754,757
Less: allowance for loan losses	(755,584)	(418,619)	(101,951)
Net loans	831,047,806	822,402,939	691,652,806
Accrued interest receivable	11,777,736	13,074,738	11,441,447
Investment in and receivable from the Bank:			
Capital stock	14,640,855	13,054,680	10,194,195
Other	220,228	40,000	40,000
Other property owned, net	104,836	-	503,459
Premises and equipment	3,261,023	3,133,469	2,676,092
Other assets	223,652	468,197	476,149
Total assets	<u>\$ 866,798,198</u>	<u>\$ 856,767,511</u>	<u>\$ 722,890,051</u>
<b><u>Liabilities</u></b>			
Note payable to the Bank	\$ 727,337,234	\$ 726,178,500	\$ 598,795,465
Accrued interest payable	2,747,124	3,294,663	2,634,819
Drafts outstanding	395,052	210,100	381,887
Other liabilities	3,622,718	2,691,597	2,861,838
Total liabilities	<u>734,102,128</u>	<u>732,374,860</u>	<u>604,674,009</u>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	3,073,375	2,968,120	2,702,295
Unallocated retained earnings	129,289,055	120,947,424	115,513,747
Accumulated other comprehensive income	333,640	477,107	-
Total members' equity	<u>132,696,070</u>	<u>124,392,651</u>	<u>118,216,042</u>
Total liabilities and members' equity	<u>\$ 866,798,198</u>	<u>\$ 856,767,511</u>	<u>\$ 722,890,051</u>

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

LOUISIANA FLBA, FLCA

STATEMENT OF INCOME

	Year Ended December 31,		
	2008	2007	2006
<b><u>Interest Income</u></b>			
Loans	\$ 53,979,772	\$ 55,797,647	\$ 44,002,185
<b><u>Interest Expense</u></b>			
Note payable to the Bank	33,847,903	36,298,376	26,649,469
Net interest income	20,131,869	19,499,271	17,352,716
<b><u>Provision for Losses</u></b>			
Provision for loan losses	336,965	5,466,940	1,098,890
Net interest income after provision for loan losses	19,794,904	14,032,331	16,253,826
<b><u>Noninterest Income</u></b>			
Patronage income from the Bank	3,017,580	2,752,168	2,301,457
Loan fees	1,807,488	1,613,678	1,395,165
Financially related services income	5,388	5,532	5,191
Gain on sale of premises and equipment, net	74,569	377,360	115,620
Other noninterest income	36,706	65,694	36,188
Total noninterest income	4,941,731	4,814,432	3,853,621
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	6,673,299	4,279,044	3,795,592
Directors' expense	240,087	212,239	180,956
Purchased services	1,069,077	822,809	557,380
Travel	426,055	412,468	372,487
Occupancy and equipment	406,281	369,581	348,874
Communications	135,392	131,444	136,693
Advertising	362,836	329,927	310,122
Public and member relations	247,122	250,180	219,767
Supervisory and exam expense	472,619	344,633	310,477
Insurance Fund premiums	1,189,204	1,146,101	902,222
Loss on sale of other property owned, net	-	84,621	56,407
Other noninterest expense	431,823	453,978	497,769
Total noninterest expenses	11,653,795	8,837,025	7,688,746
Net income	\$ 13,082,840	\$ 10,009,738	\$ 12,418,701

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

LOUISIANA FLBA, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings		Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2005	\$ 13,621,695	\$ -	\$ 104,959,889	\$ -	\$ 118,581,584
Net income	-	-	12,418,701	-	12,418,701
Capital stock/participation certificates issued	829,645	-	-	-	829,645
Capital stock/participation certificates and allocated retained earnings retired	(11,749,045)	-	-	-	(11,749,045)
Patronage refunds:					
Cash	-	-	(1,864,843)	-	(1,864,843)
Balance at December 31, 2006	2,702,295	-	115,513,747	-	118,216,042
Net income	-	-	10,009,738	-	10,009,738
Adjustment to initially apply SFAS No. 158	-	-	-	477,107	477,107
Capital stock/participation certificates issued	611,620	-	-	-	611,620
Capital stock/participation certificates and allocated retained earnings retired	(345,795)	-	-	-	(345,795)
Patronage refunds:					
Cash	-	-	(4,576,061)	-	(4,576,061)
Balance at December 31, 2007	2,968,120	-	120,947,424	477,107	124,392,651
Adjustment to beginning balance due to SFAS No. 158 accounting change	-	-	(13,611)	-	(13,611)
Balance at January 1, 2008	2,968,120	-	120,933,813	477,107	124,379,040
Comprehensive income:					
Net income	-	-	13,082,840	-	13,082,840
Change in pension and postretirement benefit plans	-	-	-	(143,467)	(143,467)
Total comprehensive income	-	-	13,082,840	(143,467)	12,939,373
Capital stock/participation certificates issued	535,050	-	-	-	535,050
Capital stock/participation certificates and allocated retained earnings retired	(429,795)	-	-	-	(429,795)
Patronage refunds:					
Cash	-	-	(4,727,598)	-	(4,727,598)
<b>Balance at December 31, 2008</b>	<b>\$ 3,073,375</b>	<b>\$ -</b>	<b>\$ 129,289,055</b>	<b>\$ 333,640</b>	<b>\$ 132,696,070</b>

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

**LOUISIANA FLBA, FLCA**

**STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2008	2007	2006
<b>Cash flows from operating activities:</b>			
Net income	\$ 13,082,840	\$ 10,009,738	\$ 12,418,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	336,965	5,466,940	1,098,890
Loss on other property owned, net	-	84,621	56,407
Depreciation	350,049	318,537	332,752
Gain on sale of premises and equipment, net	(74,569)	(377,360)	(115,620)
Decrease (increase) in accrued interest receivable	1,297,002	(1,633,291)	(2,079,722)
Decrease in other assets	64,317	7,952	241,689
(Decrease) increase in accrued interest payable	(547,539)	659,844	754,237
Increase in other liabilities	774,272	306,630	652,833
Net cash provided by operating activities	15,283,337	14,843,611	13,360,167
<b>Cash flows from investing activities:</b>			
Increase in loans, net	(9,086,668)	(136,217,073)	(100,437,819)
Purchases of investment in Bank	(1,586,175)	(2,860,485)	(1,323,530)
Purchases of premises and equipment	(915,010)	(775,914)	(863,863)
Proceeds from sales of premises and equipment	511,976	377,360	225,705
Proceeds from sales of other property owned	-	418,838	-
Net cash used in investing activities	(11,075,877)	(139,057,274)	(102,399,507)

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

**LOUISIANA FLBA, FLCA**

**STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2008	2007	2006
<b>Cash flows from financing activities:</b>			
Net draws on note payable from Bank	1,158,734	127,383,035	100,892,521
Increase (decrease) in drafts outstanding	184,952	(171,787)	335,501
Issuance of capital stock and participation certificates	535,050	611,620	829,645
Retirement of capital stock and participation certificates	(429,795)	(345,795)	(11,749,045)
Cash dividends paid	-	-	(1,864,843)
Patronage distributions paid	(4,727,827)	(4,575,825)	-
Net cash (used in) provided by financing activities	(3,278,886)	122,901,248	88,443,779
Net increase (decrease) in cash	928,574	(1,312,415)	(595,561)
Cash at the beginning of the year	4,593,488	5,905,903	6,501,464
Cash at the end of the year	\$ 5,522,062	\$ 4,593,488	\$ 5,905,903
 <b>Supplemental schedule of noncash investing and financing activities:</b>			
Loans transferred to other property owned	\$ 104,836	\$ -	\$ 559,865
Loans charged off	-	5,150,272	1,073,539
Dividends declared	-	-	1,864,843
Effect of adoption of SFAS No. 158	-	477,107	-
 <b>Supplemental cash information:</b>			
Cash paid during the year for:			
Interest	\$ 34,395,442	\$ 35,638,532	\$ 25,895,232

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

**LOUISIANA FLBA, FLCA**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: Louisiana FLBA, FLCA is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the parishes of Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermilion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana and Winn in the state of Louisiana.

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

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

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

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

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

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and providing additional services to its borrowers.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided with the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

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

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

- A. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- B. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

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

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

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

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

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

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

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

- C. **Capital Stock Investment in the Bank:** The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying balance sheet.

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

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

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the year ended December 31, 2008, made on their behalf into various investment alternatives.

The structure of the District's DB and DC plans is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$113,434, \$75,883 and \$51,409 for the years ended December 31, 2008, 2007 and 2006, respectively. For the DB Plan, the Association recognized pension costs of \$769,934, \$249,274 and \$226,745 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$149,378, \$113,949 and \$97,739 for the years ended December 31, 2008, 2007 and 2006, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The Association pays 100 percent of the medical insurance premium for a retiree with 30 years or more of service. For retiring employees with less than 30 years, a pro rata share of the premium is paid by the Association based on years of service of the employee.

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

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

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

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

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

**NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:**

A summary of loans as of December 31 follows:

Loan Type	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 669,576,048	80.5%	\$ 659,741,229	80.1%	\$ 596,808,027	86.3%
Agribusiness:						
Farm-related business	91,898,352	11.0%	104,134,842	12.7%	41,700,828	6.0%
Processing and marketing	36,439,866	4.4%	33,379,436	4.1%	23,921,661	3.4%
Loans to cooperatives	2,997,772	0.4%	2,500,000	0.3%	2,800,000	0.4%
Rural residential real estate	10,341,045	1.2%	7,883,808	1.0%	7,748,997	1.1%
Communication	8,319,533	1.0%	4,791,661	0.6%	8,924,051	1.3%
Production and intermediate term	8,100,017	1.0%	6,936,736	0.8%	6,622,920	1.0%
Energy	4,082,918	0.5%	3,433,436	0.4%	3,228,273	0.5%
Lease receivables	47,839	0.0%	20,410	0.0%	-	-
<b>Total</b>	<b>\$ 831,803,390</b>	<b>100.0%</b>	<b>\$ 822,821,558</b>	<b>100.0%</b>	<b>\$ 691,754,757</b>	<b>100.0%</b>

Geographic Distribution:

County	2008	2007	2006
Catahoula	4.0%	3.7%	3.0%
Tangipahoa	3.8%	3.4%	3.4%
Ouachita	3.1%	3.0%	3.3%
Franklin	3.1%	2.8%	3.3%
Madison	2.9%	3.5%	3.0%
Morehouse	2.8%	2.6%	2.7%
Concordia	2.6%	2.3%	2.9%
Richland	2.6%	1.9%	2.3%
Tensas	2.5%	2.0%	2.4%
Caddo	2.1%	2.3%	2.7%
Saint Tammany	2.0%	1.8%	2.1%
Saint Landry	1.9%	1.1%	1.1%
Bossier	1.9%	2.1%	1.3%
Allen	1.8%	1.7%	2.6%
Rapides	1.7%	1.8%	1.6%
Natchitoches	1.6%	1.6%	1.7%
Beauregard	1.6%	1.4%	0.8%
East Carroll	1.6%	2.6%	2.3%
Livingston	1.2%	0.9%	1.1%
De Soto	1.2%	0.7%	0.7%
Avoyelles	1.2%	0.7%	0.8%
West Carroll	1.2%	1.1%	1.2%
Jefferson Davis	1.2%	1.2%	1.1%
Acadia	1.1%	1.2%	1.4%
East Feliciana	1.0%	1.1%	1.4%
Ascension	1.0%	0.9%	0.2%
West Feliciana	1.0%	1.2%	1.3%
East Baton Rouge	0.9%	0.8%	0.7%
Vermilion	0.8%	1.2%	1.7%
Red River	0.7%	0.8%	0.8%
Washington	0.7%	0.7%	0.9%
Vernon	0.7%	0.9%	1.2%
Evangeline	0.7%	0.3%	0.3%
Winn	0.6%	0.5%	0.5%
Caldwell	0.6%	0.4%	0.5%
Grant	0.6%	0.5%	0.6%
Pointe Coupee	0.5%	0.5%	1.0%
Union	0.5%	0.5%	0.5%
Webster	0.5%	0.4%	0.3%
Saint Helena	0.5%	0.5%	0.5%
Other States	33.1%	36.8%	32.0%
Other with counties less than 3%	4.9%	4.6%	6.8%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

Portfolio Composition:

Operation/Commodity	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Timber	\$ 385,524,759	46.3%	\$ 408,930,722	49.7%	\$ 300,913,319	43.5%
Field crops except cash grains	145,632,641	17.5%	145,241,089	17.7%	119,673,573	17.3%
Livestock, except dairy and poultry	88,241,237	10.6%	81,418,568	9.9%	67,100,211	9.7%
Cash grains	80,297,706	9.7%	77,901,804	9.5%	79,551,797	11.5%
General farms, primarily livestock	17,142,170	2.1%	16,970,340	2.1%	17,293,869	2.5%
Hunting, trapping and game propagation	13,518,416	1.6%	10,152,565	1.2%	4,842,283	0.7%
Animal specialties	10,909,538	1.3%	11,430,912	1.4%	691,711	0.1%
Chemical and allied products	9,591,802	1.1%	8,036,845	1.0%	-	0.0%
Rural home loans	9,311,683	1.1%	6,599,275	0.8%	2,075,264	0.3%
Food and kindred products	8,742,218	1.1%	7,097,429	0.9%	-	0.0%
General farms, primarily crops	8,528,888	1.0%	3,287,416	0.4%	-	0.0%
Communications	8,319,533	1.0%	4,791,661	0.6%	8,922,812	1.3%
Poultry and eggs	6,777,563	0.8%	4,457,270	0.5%	2,075,264	0.3%
Dairy farms	6,621,726	0.8%	8,584,554	1.0%	8,301,057	1.2%
Paper and allied products	5,418,264	0.7%	3,323,069	0.4%	-	0.0%
Electric services	5,164,838	0.6%	4,433,436	0.5%	3,458,774	0.5%
Fruit and tree nuts	4,101,234	0.5%	4,077,614	0.5%	8,301,057	1.2%
Public warehousing and storage	3,868,273	0.5%	3,652,174	0.4%	1,383,510	0.2%
Lumber and wood products, except furniture	2,779,981	0.3%	2,963,983	0.4%	4,150,529	0.6%
Food stores	2,166,951	0.2%	2,768,952	0.3%	-	0.0%
Agricultural services	2,158,153	0.3%	307,369	0.0%	-	0.0%
Wholesale trade - nondurable goods	1,589,961	0.2%	1,358,950	0.2%	-	0.0%
Horticultural specialties	1,562,548	0.2%	1,780,940	0.2%	4,150,529	0.6%
Commercial fishing	1,378,745	0.2%	1,608,763	0.2%	1,383,510	0.2%
Vegetables and melons	1,116,010	0.1%	848,271	0.1%	691,755	0.1%
Non-depository credit institutions	705,166	0.1%	547,587	0.1%	-	-
Building materials hardware and garden supplies	493,888	0.1%	-	-	-	-
Other	139,498	0.0%	-	-	-	-
Tobacco products	-	-	250,000	-	56,793,933	8.2%
Total	<u>\$ 831,803,390</u>	<u>100.0%</u>	<u>\$ 822,821,558</u>	<u>100.0%</u>	<u>\$ 691,754,757</u>	<u>100.0%</u>

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

The Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation through an arrangement with the Bank. At December 31, 2008, 2007 and 2006, loans totaling \$3,643,911, \$4,080,596 and \$4,447,364, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$20,790, \$22,801 and \$26,878 in 2008, 2007 and 2006, respectively, and are reflected in "other noninterest expense."

Asset Quality:

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acceptable	93.4%	98.3%	96.8%
Special mention	4.1%	1.1%	2.3%
Substandard	2.5%	0.6%	0.9%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

	<u>2008</u>		<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual loans						
Current as to principal and interest	\$ 6,097,505	77.4%	\$ 1,078,031	29.7%	\$ 837,170	70.9%
Past due	<u>1,634,398</u>	<u>20.7%</u>	<u>2,220,097</u>	<u>61.3%</u>	<u>75,640</u>	<u>6.4%</u>
Total nonaccrual loans	<u>7,731,903</u>	<u>98.1%</u>	<u>3,298,128</u>	<u>91.0%</u>	<u>912,810</u>	<u>77.3%</u>
Accrual loans						
90 days or more past due	32,550	0.4%	199,941	5.5%	135,983	11.5%
Formally restructured	121,717	1.5%	127,060	3.5%	131,659	11.2%
Total impaired accrual loans	<u>154,267</u>	<u>1.9%</u>	<u>327,001</u>	<u>9.0%</u>	<u>267,642</u>	<u>22.7%</u>
Total impaired loans	<u>\$ 7,886,170</u>	<u>100.0%</u>	<u>\$ 3,625,129</u>	<u>100.0%</u>	<u>\$ 1,180,452</u>	<u>100.0%</u>

Nonaccrual loan volume increased \$4,433,775 during 2008, and was primarily attributable to one poultry industry related relationship. This relationship accounts for 59.26 percent of total nonaccruals as of year end. There is no specific allowance for the related loans at this time due to the current net realizable value calculation which indicates that the loans are well secured. The relationship is closely monitored by management and if the net realizable value position deteriorates from well secured, or other factors impact the viability of repayment, then a specific allowance for the relationship will be evaluated. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2008.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income recognized on nonaccrual loans	\$ 286,729	\$ 178,459	\$ 14,463
Interest income recognized on impaired accrual loans	20,920	35,652	31,212
Interest income recognized on impaired loans	<u>\$ 307,649</u>	<u>\$ 214,111</u>	<u>\$ 45,675</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 418,619	\$ 101,951	\$ 76,601
Provision for loan losses	336,965	5,466,940	1,098,890
Loans charged off	-	(5,150,272)	(1,073,540)
Recoveries	-	-	-
Allowance for loan losses	<u>\$ 755,584</u>	<u>\$ 418,619</u>	<u>\$ 101,951</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Impaired loans with related allowance	\$ 494,476	\$ 2,159,530	\$ -
Impaired loans with no related allowance	7,391,694	1,465,599	1,180,452
Total impaired loans	<u>\$ 7,886,170</u>	<u>\$ 3,625,129</u>	<u>\$ 1,180,452</u>
Allowance on impaired loans	<u>\$ 380,775</u>	<u>\$ 295,244</u>	<u>\$ -</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Average impaired loans	<u>\$ 3,852,689</u>	<u>\$ 2,485,945</u>	<u>\$ 2,906,240</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income which would have been recognized under the original terms	\$ 1,221,025	\$ 1,189,636	\$ 191,376
Less: interest income recognized	(307,649)	(214,111)	(45,675)
Foregone interest income	<u>\$ 913,376</u>	<u>\$ 975,525</u>	<u>\$ 145,701</u>

#### NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 627,272	\$ 627,272	\$ 627,272
Building and improvements	2,251,343	1,710,342	1,704,714
Furniture and equipment	577,234	486,191	486,544
Computer equipment and software	157,545	135,390	134,492
Automobiles	815,333	663,159	610,621
Construction in progress	-	488,327	-
	<u>4,428,727</u>	<u>4,110,681</u>	<u>3,563,643</u>
Accumulated depreciation	<u>(1,167,704)</u>	<u>(977,213)</u>	<u>(887,551)</u>
Total	<u>\$ 3,261,023</u>	<u>\$ 3,133,468</u>	<u>\$ 2,676,092</u>

The Association leases office space in Alexandria, Winnsboro, Tallulah, Crowley and Port Allen, Louisiana, and Austin, Texas. Lease expense was \$107,445, \$111,821 and \$87,720 for 2008, 2007 and 2006, respectively. Minimum annual lease payments for the next five years are as follows:

	<u>Operating</u>
2009	\$ 74,397
2010	51,397
2011	34,557
2012	2,880
Thereafter	-
Total	<u>\$ 163,231</u>

**NOTE 5 – OTHER PROPERTY OWNED, NET:**

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Loss on sale, net	\$ -	\$ (73,476)	\$ -
Carrying value adjustments	-	-	37,895
Operating (expense) income, net	-	(11,145)	18,512
Net (loss) gain on other property owned	<u>\$ -</u>	<u>\$ (84,621)</u>	<u>\$ 56,407</u>

**NOTE 6 — NOTE PAYABLE TO THE BANK:**

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

The total amount and the weighted average interest rate of the Association’s direct loan from the Bank at December 31, 2008, 2007 and 2006, was \$727,337,234 at 4.4 percent, \$726,178,500 at 5.4 percent and \$598,795,465 at 5.2 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association’s ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2008, 2007 and 2006, the Association’s note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2008, was \$827,767,946, as defined by the general financing agreement.

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

**NOTE 7 — MEMBERS’ EQUITY:**

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

In accordance with the Act and Association’s capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans), or participation certificates (for rural home and farm-related business) is equal to 2 percent of the loan amount, not to exceed \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates. Protected common stock and participation certificates are retired at par or face value in the normal course of business.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

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

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

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were paid in 2007, 2006 and 2005, respectively:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Dividend</u>	<u>Patronage</u>
March 2008	April 2008	-	\$ 4,727,598
	<b>Total 2008</b>	-	<b>\$ 4,727,598</b>
January 2007	April 2007	-	\$ 4,575,825
	Total 2007	-	\$ 4,575,825
March 2006	April 2006	\$ 1,864,843	-
	Total 2006	\$ 1,864,843	-

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2008, were 13.5 percent, 13.2 percent and 13.2 percent, respectively.

The Board, by adoption of an Obligating Resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for the previous fiscal year. Proportionate patronage basis is determined and approved by the Board. If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, allocations of earnings retained in an allocated members' equity account or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board.

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

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Class A stock	592,575	573,326	522,019
Participation certificates	22,100	20,298	18,440
Total	<b>614,675</b>	<b>593,624</b>	<b>540,459</b>

**NOTE 8 — EMPLOYEE BENEFIT PLANS:**

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

**Other Postretirement Benefits:** In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The Association pays 100 percent of the medical

insurance premium for a retiree with 30 years or more of service. For retiring employees with less than 30 years, a pro rata share of the premium is paid by the Association based on years of service of the employee.

In September 2006, the FASB issued SFAS No. 158, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the Association decreased retained earnings \$13,611 and increased the pension and other postretirement benefit liabilities by \$13,611.

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

**Disclosure Information Under FASB Statement 132****2008****2007****2006****Change in Accumulated Postretirement Benefit Obligation**

Accumulated postretirement benefit obligation, beginning of year	\$ 1,308,056	\$ 1,355,898	\$ 1,729,497
Service cost	48,569	46,214	42,054
Interest cost	105,001	80,648	58,981
Plan participants' contributions	15,024	2,666	2,894
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	57,947	(156,522)	(71,544)
Benefits paid	(46,712)	(20,848)	(17,972)
Accumulated postretirement benefit obligation, end of year	\$ 1,487,885	\$ 1,308,056	\$ 1,743,910

**Change in Plan Assets**

Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	31,688	18,182	15,078
Plan participants' contributions	15,024	2,666	2,894
Benefits paid	(46,712)	(20,848)	(17,972)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -

**Reconciliation of Funded Status**

Funded status of the plan	\$ (1,487,885)	\$ (1,308,056)	\$ (1,355,898)
Unrecognized prior service cost	-	-	(718,003)
Unrecognized net loss (gain)	-	-	326,248
Contributions between measurement date and fiscal year-end	-	5,138	3,743
Net postretirement liability at end of year	\$ (1,487,885)	\$ (1,302,918)	\$ (1,743,910)

**Amounts Recognized in Balance Sheet**

Noncurrent assets	\$ -	\$ -	\$ -
Current liabilities	(40,721)	-	-
Non current liabilities	(1,447,164)	(1,302,918)	(1,743,910)
Total	\$ (1,487,885)	\$ (1,302,918)	\$ (1,743,910)

**Amounts Recognized in Accumulated Other Comprehensive Income**

Net actuarial loss gain	\$ 223,525	\$ 166,321
Prior service cost (credit)	(557,165)	(643,428)
Net transition obligation (asset)	-	-
Total	\$ (333,640)	\$ (477,107)

**Additional Information**

Increase in minimum liability included in other comprehensive income	\$ 143,467
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**Weighted-Average Assumptions Used to Determine Obligations at Year-end**

Measurement date	12/31/2008	9/30/2007	9/30/2006
Discount rate	6.30%	6.50%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.5%/6.5%	8.5%/6.5%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	12.00%	12.00%	13.00%
Ultimate health care cost trend rate	5.00%	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2015	2016	2016

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**Disclosure Information Under FASB Statement 132****2008****2007****2006**

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Service cost	\$ 38,855	\$ 46,214	\$ 42,054
Interest cost	84,001	80,648	58,981
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(69,012)	(74,575)	(73,705)
Unrecognized net loss (gain)	595	3,405	3,626
Net postretirement benefit cost	\$ 54,439	\$ 55,692	\$ 30,956
Adjustment to Retained Earnings for 2008 due to change in measurement date	\$ 13,611		

**AOCI Amounts Expected to be Amortized into Expense in 2009**

Unrecognized net transition obligation (asset)	\$ -	\$ -
Unrecognized prior service cost	(68,084)	(69,012)
Unrecognized net loss (gain)	5,834	595
Total	\$ (62,250)	\$ (68,417)

**Weighted-Average Assumptions Used to Determine Benefit Cost**

Measurement date	9/30/2007	9/30/2006	9/30/2005
Discount rate	6.50%	6.00%	5.25%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	9.0%/6.75%	9.0%/6.75%	9.5%/7.0%
Health care cost trend rate assumed for next year - Rx	13.00%	13.00%	13.50%
Ultimate health care cost trend rate	4.75%	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2016	2016	2016

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**Expected Future Cash Flows**

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**Expected Benefit Payments (net of employee contributions)**

Fiscal 2009	\$ 40,721
Fiscal 2010	44,236
Fiscal 2011	40,627
Fiscal 2012	50,756
Fiscal 2013	62,417
Fiscal 2014–2018	440,889

**Expected Contributions**

Fiscal 2009	\$ 40,721
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**NOTE 9 — RELATED PARTY TRANSACTIONS:**

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

Total loans to such persons for the Association amounted to \$5,583,312, \$5,185,273 and \$3,335,833 at December 31, 2008, 2007 and 2006, respectively. During 2008, \$1,003,968 of new loans were made and repayments totaled \$605,929. In the opinion of management, no such loans outstanding at December 31, 2008, 2007 and 2006 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank passed through to the associations such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$448,392, \$483,021 and \$557,380 in 2008, 2007 and 2006, respectively.

The Association received patronage payments from the Bank totaling \$3,017,580, \$2,752,168 and \$2,301,457 during 2008, 2007 and 2006, respectively.

#### **NOTE 10 — COMMITMENTS AND CONTINGENCIES:**

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary course of business. As of December 31, 2008, the Association along with the four other CMS member associations was party to two lawsuits related to a large loan. The loan was originated by the FLBA of South Alabama, FLCA to one borrower through CMS and was participated to 13 other Farm Credit associations, with the FLBA of South Alabama, FLCA serving as the lead lender. The original funded balance of the loan was \$68.5 million, and the Association retained 20.22 percent of the loan. During 2007 the loan, which is significantly undercollateralized, was declared to be in default and transferred to nonaccrual status, and collection actions were commenced by the lead lender. Also during 2007, the Association, along with the other CMS member associations, repurchased on a pro rata basis the portions of the loan held by all other non-CMS participants. As part of the repurchase transactions, the FLBA of South Alabama, FLCA received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2008, \$90,125,138 of commitments were outstanding.

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

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

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

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

	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 5,522,062	\$ 5,522,062	\$ 4,593,488	\$ 4,593,488	\$ 5,905,903	\$ 5,905,903
Loans, net	831,047,806	847,945,878	822,402,939	804,992,669	691,754,757	672,627,738
Financial liabilities						
Note payable to the Bank	727,337,234	742,126,512	726,178,500	710,805,301	598,795,465	582,238,770

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

**A. Cash:**

The carrying value is a reasonable estimate of fair value.

**B. Loans:**

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

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

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

The carrying value of accrued interest approximates its fair value.

**C. Investment in the Bank:**

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 6.42 percent of the equity of the Bank as of December 31, 2008. As of that date, the Bank's assets totaled \$14.8 billion and members' equity totaled \$744.5 million. The Bank's earnings were \$76.7 million during 2008.

**D. Note Payable to the Bank:**

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

### E. Commitments to extend credit:

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

### NOTE 12 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,054	\$ 4,974	\$ 5,155	\$ 4,949	\$ 20,132
Provision for loan losses	-	(43)	(73)	(221)	(337)
Noninterest expense, net	(3,224)	(880)	(1,132)	(1,476)	(6,712)
Net income	\$ 1,830	\$ 4,051	\$ 3,950	\$ 3,252	\$ 13,083

  

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,751	\$ 4,616	\$ 5,041	\$ 5,091	\$ 19,499
Provision for loan losses	(72)	(2,112)	(690)	(2,593)	(5,467)
Noninterest income (expense), net	(2,057)	(1,280)	(1,477)	792	(4,022)
Net income	\$ 2,622	\$ 1,224	\$ 2,874	\$ 3,290	\$ 10,010

  

	2006				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,279	\$ 4,186	\$ 4,278	\$ 4,610	\$ 17,353
Provision for loan losses	-	-	(25)	(1,074)	(1,099)
Noninterest (expense) income, net	(1,815)	(1,245)	(1,246)	471	(3,835)
Net income	\$ 2,464	\$ 2,941	\$ 3,007	\$ 4,007	\$ 12,419

The Association experienced aggressive loan growth of 19.68 percent in 2007. As a result of this growth and as per the board-approved 2007 Incentive Compensation Plan, employees who reached goals and objectives as outlined in the plan were compensated for the excellent performance with payment in the first quarter of 2008.

In the second quarter of 2007, the Association recorded loan loss provision in the amount of \$2,111,553 related to an impaired loan participation. As the repurchases of non-CMS participant portions were completed, the Association recorded an additional loan loss provision in the third and fourth quarters in the amount of \$689,970 and \$2,643,993, respectively, related to the same loan participation. See the Loan Portfolio section in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further details on this loan participation.

### NOTE 13 – SUBSEQUENT EVENTS

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

## **DISCLOSURE INFORMATION AND INDEX**

### *Disclosures Required by Farm Credit Administration Regulations*

#### **DESCRIPTION OF BUSINESS**

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

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

#### **DESCRIPTION OF PROPERTY**

The Louisiana FLBA, FLCA (Association) serves its 64-parish territory through its main administrative and lending office at 2413 Tower Drive, Monroe, Louisiana 71201, (318) 387-7535. Additionally, there are nine branch lending offices located throughout the territory. The Association owns the office buildings in Shreveport, Opelousas, Hammond, Monroe and Winnsboro, free of debt. The Association leases the office buildings in Alexandria, Winnsboro, Tallulah, Crowley and Port Allen, Louisiana, and Austin, Texas.

#### **LEGAL PROCEEDINGS**

The information required to be disclosed in this section is incorporated by reference from Note 10 to the financial statements "Commitments and Contingencies," included in this annual report.

#### **DESCRIPTION OF CAPITAL STRUCTURE**

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

#### **DESCRIPTION OF LIABILITIES**

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

#### **RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS**

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

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Louisiana FLBA, FLCA 2413 Tower Drive, Monroe, Louisiana 71201 or calling (318)387-7535. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [sandra.robinson@farmcreditbank.com](mailto:sandra.robinson@farmcreditbank.com). The Association's annual stockholder report is available on its web site at [www.louisianalandbank.com](http://www.louisianalandbank.com) 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

## SELECTED FINANCIAL DATA

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

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

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

## DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
R. Ernest Girouard Jr.	Chairman	1990	2009
Robert A. Stinson	Director	1990	2011
Edward W. Patrick, Jr.	Vice Chairman	1994	2009
Daniel L. Webb	Director	2002	2011
Bobby E. Stanley	Board-Elected Director	1991	2009
Charles A. Vandersteen	Director	2007	2010
Larry M. McDaniel	Not reelected in 2008	1992	2008
John Earl Carroll	Director	2007	2010
Gerald E. Moore	Director	1997	2010
Gertrude L. Hawkins	Director	2002	2011
David C. Vanderlick	Director	1990	2009
Henry Capdeboscq	Director	2008	2011
Darrel K. Jans	President, CEO	1989	—
James L. Walker	Sr. Vice President, COO	1989	—
Sandra Robinson	Vice President/Administration, CFO	1989	—

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

**R. Ernest Girouard, Jr.**, was elected chairman in 2007. He has been employed as an LSU AgCenter area agent since September, 2006. For five years previous, Mr. Girouard farmed rice and crawfish. He is chairman of the USA Foundation, which allocates funds for research. Mr. Girouard also serves as chairman of the Vermilion Soil and Water Conservation District. He serves as 2<sup>nd</sup> vice president on the Louisiana Association of Conservation Districts. He also served as chairman of the Louisiana Rice Research Board.

**Robert A. Stinson**, farms 2,000 acres of cotton, corn and cattle in partnership with his brother, which has been his primary operation for the past five years. He also owns and operates an oil and gas and farm supply business.

**Edward W. Patrick, Jr.**, was elected vice chairman in 2007. He is a self-employed farmer with 2,600 acres of cotton, rice, corn and soybeans, which has been his primary operation for the past five years. He is part-owner and operator of Joe’s Bayou Gin. He also serves as president and director of Joe’s Bayou Farm Supply. Mr. Patrick is a director on the East Carroll Farm Bureau Board.

**Daniel L. Webb**, is the owner and operator of Marler Ford Co., Inc., which has been his primary operation for the past five years. He also owns farms and property in Grant and Morehouse parishes.

**Bobby E. Stanley** is a business accountant, which has been his primary occupation for the past five years. He serves as vice president of the board of directors of First Financial Bank and Trust Co. and is president of the West Baton Rouge Industrial Development board. Mr. Stanley serves as treasurer of the 18<sup>th</sup> Judicial District Court and serves as treasurer for the West Baton Rouge Fire Protection Sub District #4, #5 and #6.

**Charles A. “Buck” Vandersteen** is the executive director of the Louisiana Forestry Association, which has been his primary occupation for the past five years. He is a board member of the Poland Community Water Association, a community service organization. Mr. Vandersteen serves on the LSU-Ag Leadership Program board, an educational organization, and he serves on the

National Labor Management board for Forestry, an advocacy for forestry issues. Mr. Vandersteen is also a member of the National Forestry Research Advisory Council within USA.

**Larry M. McDaniel**, is a self-employed dairy farmer, which has been his primary operation for the past five years. Mr. McDaniel serves as chairman of the Tangipahoa/St. Helena Soil Conservation Committee. He is also a board member of the Tangipahoa Parish Water District.

**John E. Carroll** is a partner of J&J Farms, which farms 2,500 acres and which has been his primary operation for the past five years. Mr. Carroll is also the manager of Farmer's Gin Company. He is the chairman of the FSA County Committee, 3<sup>rd</sup> vice president of the Louisiana Cotton Producers, president of the Louisiana Cotton Ginners, and is also a delegate on the National Cotton Council.

**Gerald E. Moore**, is the county executive director of the Farm Service Agency in Jefferson Davis Parish, which has been his primary occupation for the past five years. Mr. Moore has 600 acres cattle production and 300 acres in timberland. In addition, he raises paint and quarter horses.

**Gertrude L. Hawkins**, farms approximately 6,000 acres of cotton, corn, soybeans, sugarcane and wheat with her brother, which she has done for the past five years. She is a research associate for the LSU AgCenter St. Gabriel Research Station. She is a board member of the Pointe Coupee Parish School Board.

**David C. Vanderlick**, is a self-employed cotton and soybean farmer, which has been his primary operation for the past five years.

**Henry A. Capdeboscq, Jr.**, 51, resides in Husser, LA. Mr. Capdeboscq is a dairy and beef cattle farmer, which has been his primary operation for the past five years. Mr Capdeboscq is president of Louisiana Milk Producers and was instrumental in forming Louisiana Family Farms, LLC, which is a bottling plant group, and presently serves as a director.

Senior officers of the Association include:

<u>Name</u>	<u>Position</u>	<u>Years of Service</u>
Darrel K. Jans	President/Chief Executive Officer as of October 1989	36 years
James L. Walker	Senior Vice President/Chief Credit Officer as of April 1992	27 years
Sandra Robinson	Vice President, Admin./Chief Financial Officer as of March 2001	24 years

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

#### **COMPENSATION OF DIRECTORS AND SENIOR OFFICERS**

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$800 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2008 was paid at the IRS-approved rate of 50.5 cents per mile for January through June, and 58.5 cents per mile for July through December. A copy of the travel policy is available to stockholders of the Association upon request.

<b>Director</b>	<b>Number of Days Served Associated With</b>		<b>Total Compensation in 2008</b>
	<b>Board Meetings</b>	<b>Other Official Activities</b>	
R. Ernest Girouard Jr.	6	26	\$ 19,375
Robert A. Stinson	6	9	12,625
Edward W. Patrick, Jr.	4	9	10,550
Daniel L. Webb	5	9	12,625
Bobby E. Stanley	6	21	17,250
Charles A. Vandersteen	6	27	17,775
Larry M. McDaniel	3	7	6,075
John Earl Carroll	6	13	13,425
Gerald E. Moore	5	15	13,425
Gertrude L. Hawkins	5	10	12,150
David C. Vanderlick	4	9	10,925
Henry Capdeboscq	3	8	8,200
			<u>\$ 154,400</u>

The aggregate compensation paid to directors in 2008, 2007 and 2006 was \$154,400, \$143,950 and \$128,825, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

<b>Director</b>	<b>Committee</b>		
	<b>Audit</b>	<b>Compensation</b>	<b>Other Committees</b>
R. Ernest Girouard Jr.	\$ 425	\$ 2,550	\$ 425
Robert A. Stinson	-	2,975	-
Edward W. Patrick, Jr.	-	1,275	425
Daniel L. Webb	1,700	-	-
Bobby E. Stanley	1,700	-	-
Charles A. Vandersteen	850	1,700	-
Larry M. McDaniel	-	1,275	-
John Earl Carroll	1,700	-	-
Gerald E. Moore	1,700	-	-
Gertrude L. Hawkins	425	1,275	-
David C. Vanderlick	-	1,275	425
Henry Capdeboscq	-	1,275	-
	<u>\$ 8,500</u>	<u>\$ 13,600</u>	<u>\$ 1,275</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$36,176, \$30,816 and \$52,881 in 2008, 2007 and 2006, respectively.

<b>Name of Individual or Group</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Total</b>	
Darrel Jans, CEO	2008	\$ 226,000	\$ -	\$ 226,000	
	2007	226,000	49,450	275,450	
	2006	215,000	29,135	244,135	
Aggregate No. of Senior Officers in Year	(5)	2008	\$ 588,415	\$ 219,518	\$ 807,933
	(5)	2007	568,035	111,446	679,481
	(5)	2006	508,900	77,032	585,932

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

Total compensation paid to the five most highly paid officers of the Association, including bonuses, was \$807,933, \$679,481 and \$585,932 in 2008, 2007 and 2006, respectively. Bonuses paid to such officers for 2008, 2007 and 2006 were \$219,518, \$111,446 and \$77,032, respectively.

In addition to a base salary, employees earn additional compensation under the Association's Incentive Compensation Plan. The plan is designed to motivate employees to exceed specific performance targets related to portfolio growth and quality, and the achievement of certain key goals for the association. The incentive, which is calculated as a percentage of annual salary of each employee, is based on a fiscal year from January 1 to December 31. All employees are included in the plan which is paid in the first quarter of the calendar year.

Employees who use their personal automobiles for business purposes were reimbursed during 2008 at the IRS-approved rate of 50.5 cents per mile for January through June, and 58.5 cents per mile for July through December.

### **TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS**

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 9 to the financial statements, "Related Party Transactions," included in this annual report.

### **DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2008 or at any time during the fiscal year just ended.

### **RELATIONSHIP WITH INDEPENDENT AUDITOR**

There were no changes in the relationship with the independent auditor during 2008. Total fees paid to the independent auditor were \$30,575. Such services were approved by the Audit Committee.

### **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2009, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

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

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

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

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than \$250,000.00 in annual gross sales of agricultural products

The 2002 USDA Census of Agriculture for Louisiana indicates that 9.5 percent of farm operators are “young,” 24 percent are “beginning” and 91 percent of the farms are “small.” The Association’s minimum standards for YBS lending require the following:

**2009**

<b>YBS Class</b>	<b>Percentage of Total Loans</b>	<b>Percentage of Loan Volume</b>
Young	>15%	>10%
Beginning	>45%	>45%
Small	>60%	>45%

**2010**

<b>YBS Class</b>	<b>Percentage of Total Loans</b>	<b>Percentage of Loan Volume</b>
Young	>15%	>10%
Beginning	>45%	>45%
Small	>60%	>45%

**2011**

<b>YBS Class</b>	<b>Percentage of Total Loans</b>	<b>Percentage of Loan Volume</b>
Young	>15%	>10%
Beginning	>45%	>45%
Small	>60%	>45%

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

	<b>2006</b>		<b>2007</b>		<b>2008</b>	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
<b>Young</b>	20.33%	10.06%	20.65%	9.70%	20.12%	11.22%
<b>Beginning</b>	50.71%	43.92%	51.16%	47.26%	50.77%	46.55%
<b>Small</b>	66.58%	47.36%	66.87%	67.62%	67.76%	56.83%

For purposes of the table above, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The Association’s YBS loans, as a percentage of all loans closed each year, are reflected in the table below for the past three years.

	<b>2006</b>		<b>2007</b>		<b>2008</b>	
	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume
<b>Young</b>	16.95%	5.68%	18.83%	7.87%	16.98%	16.86%
<b>Beginning</b>	50.86%	36.46%	48.69%	49.53%	46.60%	48.99%
<b>Small</b>	68.89%	44.52%	65.15%	66.58%	63.32%	57.42%

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