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REPORT OF MANAGEMENT

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

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The financial statements are audited by PricewaterhouseCoopers LLP, independent 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.



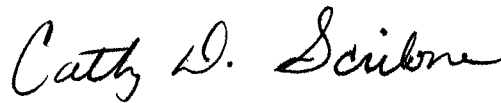
Robert R. Williams, Jr., President

March 4, 2009



Dennis Babcock, Chairman, Board of Directors

March 4, 2009



Cathy D. Scribner, Chief Financial Officer

March 4, 2009

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of the entire board of directors of Panhandle-Plains Land Bank, FLCA (Association). In 2008, nine Committee meetings were held. The Committee oversees the scope of Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Association's web site. The Committee approved the appointment of PricewaterhouseCoopers LLP for 2008.

Management is responsible for Association's internal controls and the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared under the oversight of the Committee. PricewaterhouseCoopers LLP is responsible for performing an independent audit of Association'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 Association's audited financial statements for the year ended December 31, 2008 (audited financial statements) with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance) and both PricewaterhouseCoopers LLP's and Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PricewaterhouseCoopers LLP its independence from Association. 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 the Association's Annual Report to Stockholders for the year ended December 31, 2008.

Daniel L. Krienke
Randy Darnell
Walter Henson
Ronnie N. Hopper
Dennis Babcock

Wayne Garrett
Larry Fairchild
Steve Rader
Steve Brown
Don James

Audit Committee Members

March 4, 2009

PANHANDLE-PLAINS LAND BANK, FLCA

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

	December 31,				
	2008	2007	2006	2005	2004
Balance Sheet Data					
<u>Assets</u>					
Cash	\$ 2,794	\$ 2,613	\$ 1,966	\$ 1,045	\$ 1,590
Loans	373,106	345,384	297,312	244,851	214,653
Less: allowance for loan losses	361	176	298	88	93
Net loans	<u>372,745</u>	<u>345,208</u>	<u>297,014</u>	<u>244,763</u>	<u>214,560</u>
Investment in and receivable from the Bank	6,128	5,268	4,154	3,517	3,413
Other assets	6,210	7,153	6,484	5,299	4,429
Total assets	<u>\$ 387,877</u>	<u>\$ 360,242</u>	<u>\$ 309,618</u>	<u>\$ 254,624</u>	<u>\$ 223,992</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 3,017	\$ 6,376	\$ 5,427	\$ 4,976	\$ 1,312
Obligations with maturities greater than one year	320,006	293,675	247,032	194,706	168,322
Total liabilities	<u>323,023</u>	<u>300,051</u>	<u>252,459</u>	<u>199,682</u>	<u>169,634</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	1,755	1,745	1,683	1,621	1,606
Unallocated retained earnings	62,887	58,178	55,476	53,321	52,752
Accumulated other comprehensive income	212	268	-	-	-
Total members' equity	<u>64,854</u>	<u>60,191</u>	<u>57,159</u>	<u>54,942</u>	<u>54,358</u>
Total liabilities and members' equity	<u>\$ 387,877</u>	<u>\$ 360,242</u>	<u>\$ 309,618</u>	<u>\$ 254,624</u>	<u>\$ 223,992</u>
<u>Year Ended December 31,</u>					
Statement of Income Data					
Net interest income	\$ 8,722	\$ 7,793	\$ 6,982	\$ 5,972	\$ 6,340
(Provision for loan losses) or loan loss reversal	(2,015)	(480)	(210)	4	5,447
Income from the Bank	1,153	1,029	822	670	431
Other noninterest income	680	642	548	506	389
Noninterest expense	(3,570)	(3,197)	(2,887)	(2,472)	(3,163)
Net income	<u>\$ 4,970</u>	<u>\$ 5,787</u>	<u>\$ 5,255</u>	<u>\$ 4,680</u>	<u>\$ 9,444</u>
Key Financial Ratios for the Year					
Return on average assets	1.3%	1.8%	1.9%	2.0%	4.3%
Return on average members' equity	7.9%	9.9%	9.2%	8.5%	20.0%
Net interest income as a percentage of average earning assets	2.4%	2.5%	2.7%	2.6%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	0.5%	0.2%	0.0%	0.0%	0.0%

PANHANDLE-PLAINS LAND BANK, FLCA

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

	December 31,				
	2008	2007	2006	2005	2004
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	16.7%	16.7%	18.5%	21.6%	24.3%
Debt as a percentage of members' equity	498.1%	498.5%	441.7%	363.4%	309.6%
Allowance for loan losses as a percentage of loans	0.1%	0.1%	0.1%	0.0%	0.0%
Permanent capital ratio	15.1%	15.4%	17.8%	20.8%	20.8%
Core surplus ratio	14.7%	15.2%	17.3%	20.2%	20.1%
Total surplus ratio	14.7%	15.2%	17.3%	20.2%	20.1%
<u>Net Income Distribution</u>					
Patronage refunds:					
Cash	\$ 2,835	\$ 3,350	\$ 2,700	\$ 1,412	\$ -

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 Panhandle-Plains Land Bank, 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 \$926,886 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 \$226,104 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank.

The Association recorded provision of \$1.8 million during 2008 on a purchased participation loan. This loan had been made for an ethanol plant under construction that ultimately failed to reach nameplate production levels. After the company tried and failed to secure other financing, it took Chapter 11 bankruptcy and the loan was downgraded to nonaccrual in the fourth quarter of 2008. In addition, the lead lender then charged off virtually its entire loan balance, and the Association then recorded a net charge-off of \$1.8 million.

In December 2007, the Association received a direct loan patronage of \$801,209 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 \$228,144 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank.

For over 90 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 composition of the Association's loan portfolio, including principal less funds held of \$373,106,244, \$345,384,492 and \$297,312,342 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 other lenders. As of December 31, 2008, 2007 and 2006, these participations totaled \$113,394,704, \$103,260,736 and \$87,009,461, or 30.4 percent, 29.9 percent and 29.3 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$4,205,968, \$4,401,617 and \$4,575,945, or 1.1 percent, 1.3 percent and 1.5 percent of loans, respectively. The Association has also sold participations of \$15,750,000, \$14,750,000 and \$0 as of December 31, 2008, 2007, and 2006, respectively.

Risk Exposure:

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

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 3,968,258	99.9%	\$ 125,984	91.8%	\$ 170,295	89.6%
90 days past due and still accruing interest	-	-	-	-	-	-
Formally restructured	5,665	0.1%	11,247	8.2%	19,730	10.4%
Other property owned, net	-	-	-	-	-	-
Total	\$ 3,973,923	100.0%	\$ 137,231	100.0%	\$ 190,025	100.0%

At December 31, 2008, 2007 and 2006, loans that were considered impaired were \$3,973,923, \$137,231 and \$190,025, representing 1.1 percent, 0.0 percent and 0.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. The increase in nonaccrual loans for 2008 over 2007 was due primarily to two purchased participation loans.

These borrowers took Chapter 11 bankruptcy and the loans were downgraded to nonaccrual in the fourth quarter of 2008. The total allowance as of year end 2008 was \$361,206, of which \$242,372 was general allowance and \$118,834 was specific reserves for the two aforementioned nonaccrual participation loans. A third participation loan for which the borrower filed bankruptcy in the fourth quarter of 2008 was downgraded to substandard but did not require a specific reserve based on the Association's analysis.

The current economic recession has created a credit freeze-up that continues to negatively affect the credit quality of some of the participation loans in the Association's portfolio. Management expects this condition to continue well into 2009. The Association's farm and ranch mortgage loan credit quality has remained strong through 2008. Management expects to see some credit quality deterioration in its main line farm and ranch mortgage loan portfolio in 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:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Allowance for loan losses	\$ 361,206	\$ 175,747	\$ 298,466
Provision for loan losses	2,015,147	479,740	210,306
Allowance for loan losses to total loans	0.1%	0.1%	0.1%
Allowance for loan losses to nonaccrual loans	9.1%	139.5%	175.3%
Allowance for loan losses to impaired loans	9.1%	128.1%	157.1%
Net charge-offs to average loans	0.5%	0.2%	0.0%

The Association recorded a provision of \$1.8 million prior to the end of 2008 on a purchased participation loan. This loan had been made for an ethanol plant under construction that ultimately failed to reach nameplate production levels. After the company tried and failed to secure other financing, it took Chapter 11 bankruptcy and the loan was downgraded to nonaccrual in the fourth quarter of 2008. In addition, the lead lender then charged off virtually its entire loan balance, and the Association then recorded a net charge-off of \$1.8 million.

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 a collateral analysis of nonaccrual and impaired loans, and ongoing risk assessment on the remainder of our loan portfolio, the allowance for loan losses of \$361,206, \$175,747 and \$298,466 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 \$4,970,485 as compared to \$5,786,719 for the year ended December 31, 2007, reflecting a decrease of \$816,234, or 14.1 percent. The Association's net income for the year ended December 31, 2006 was \$5,255,218. Net income increased \$531,501, or 10.1 percent, in 2007 versus 2006.

Net interest income for 2008, 2007 and 2006 was \$8,722,382, \$7,793,195 and \$6,982,111, respectively, reflecting increases of \$929,187, or 11.9 percent, for 2008 versus 2007 and \$811,084, or 11.6 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:

	<u>2008</u>		<u>2007</u>		<u>2006</u>	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 361,584,550	\$ 22,054,020	\$ 317,312,767	\$ 22,440,107	\$ 262,180,932	\$ 18,240,488
Interest-bearing liabilities	308,979,581	13,331,638	267,164,972	14,646,912	212,295,288	11,258,377
Impact of capital	<u>\$ 52,604,969</u>		<u>\$ 50,147,795</u>		<u>\$ 49,885,644</u>	
Net interest income		<u>\$ 8,722,382</u>		<u>\$ 7,793,195</u>		<u>\$ 6,982,111</u>
	<u>Average Yield</u>		<u>Average Yield</u>		<u>Average Yield</u>	
Yield on loans	6.10%		7.07%		6.96%	
Cost of interest-bearing liabilities	4.31%		5.48%		5.30%	
Interest rate spread	1.79%		1.59%		1.66%	
	<u>2008 vs. 2007</u>			<u>2007 vs. 2006</u>		
	<u>Increase (decrease) due to</u>			<u>Increase (decrease) due to</u>		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest income	\$ 3,130,856	\$ (3,516,943)	\$ (386,087)	\$ 3,806,103	\$ 393,516	\$ 4,199,619
Interest expense	2,292,402	(3,607,676)	(1,315,274)	2,909,849	478,686	3,388,535
Net interest income	<u>\$ 838,454</u>	<u>\$ 90,733</u>	<u>\$ 929,187</u>	<u>\$ 896,254</u>	<u>\$ (85,170)</u>	<u>\$ 811,084</u>

Interest income decreased by \$386,087, or 1.7 percent, compared to 2007, primarily due to a decrease in interest rates partially offset by an increase in average loan volume. Interest expense for 2008 decreased by \$1,315,274, or 9.0 percent, compared to 2007 due to a decrease in interest rates partially offset by average interest-bearing liabilities. The interest rate spread increased by 20 basis points to 1.79 percent in 2008 from 1.59 percent in 2007, primarily because of the factors mentioned above. The interest rate spread decreased by 7 basis points to 1.59 percent in 2007 from 1.66 percent in 2006, primarily due to increases in average loan volume year over year, as well as marginal increases in interest rates.

Noninterest income for 2008 increased by \$160,967, or 9.6 percent, compared to 2007, due primarily to a \$123,637 increase in patronage income from the Bank and a \$34,963 increase in loan fees. Noninterest income for 2007 increased by \$302,053, or 22.0 percent, compared to 2006, due primarily to a \$207,619 increase in patronage income from the Bank and a \$108,791 increase in loan fees, offset by a \$16,355 decrease in gains on the sale of premise and equipment.

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 \$370,981 in 2008 over 2007 primarily due to a \$272,160 increase in salaries and employee benefits and a \$28,815 increase in Insurance Fund Premiums. Operating expenses increased \$312,202 for 2007 as compared to 2006, primarily due to a \$194,770 increase in salaries and employee benefits expense, and a \$98,660 increase in Insurance Fund Premiums.

For the year ended December 31, 2008, the Association's return on average assets was 1.3 percent, as compared to 1.8 percent and 1.9 percent for the years ended December 31, 2007 and 2006, respectively. For the year ended December 31, 2008, the Association's return on average members' equity was 7.9 percent, as compared to 9.9 percent and 9.2 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 \$318,849,872, \$292,391,183 and \$245,894,175 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 3.8 percent, 5.3 percent and 5.3 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 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 \$53,421,827, \$51,296,585 and \$51,418,166 at December 31, 2008, 2007 and 2006, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2008, was \$375,576,803 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 has reclassified cash receipts of \$2,740,704 to the direct note at December 31, 2008.

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

Capital Resources:

The Association's capital position remains strong with total members' equity of \$64,854,032, \$60,190,307 and \$57,159,073 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 15.1 percent, 15.4 percent and 17.8 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 14.7 percent, 15.2 percent and 17.3 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 14.7 percent, 15.2 percent and 17.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2008, 2007 and 2006, the Association paid patronage of \$2,835,000, \$3,350,000 and \$2,700,000, respectively.

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 90 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 the Panhandle-Plains Land Bank, FLCA

In our opinion, the accompanying balance sheets and related statements of income, changes in members' equity and cash flows present fairly, in all material respects, the financial position of Panhandle-Plains Land Bank, 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

March 4, 2009

PANHANDLE-PLAINS LAND BANK, FLCA

BALANCE SHEET

	December 31,		
	2008	2007	2006
<u>Assets</u>			
Cash	\$ 2,793,572	\$ 2,612,986	\$ 1,965,685
Loans	373,106,244	345,384,492	297,312,342
Less: allowance for loan losses	361,206	175,747	298,466
Net loans	372,745,038	345,208,745	297,013,876
Accrued interest receivable	5,448,667	6,279,224	5,593,047
Investment in capital stock of the Bank	6,128,200	5,268,415	4,154,460
Premises and equipment	700,813	782,411	802,224
Other assets	60,796	89,733	88,449
Total assets	\$ 387,877,086	\$ 360,241,514	\$ 309,617,741
<u>Liabilities</u>			
Note payable to the Bank	\$ 318,849,872	\$ 292,391,183	\$ 245,894,175
Accrued interest payable	1,123,881	1,283,780	1,137,656
Drafts outstanding	1,491,187	2,370,486	1,012,557
Patronage distributions payable	250,000	2,835,000	3,100,000
Other liabilities	1,308,114	1,170,758	1,314,280
Total liabilities	323,023,054	300,051,207	252,458,668
Commitments and contingencies (Note 10)	-	-	-
<u>Members' Equity</u>			
Capital stock and participation certificates	1,754,805	1,745,090	1,683,215
Unallocated retained earnings	62,886,962	58,177,577	55,475,858
Accumulated other comprehensive income	212,265	267,640	-
Total members' equity	64,854,032	60,190,307	57,159,073
Total liabilities and members' equity	\$ 387,877,086	\$ 360,241,514	\$ 309,617,741

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF INCOME

	Year Ended December 31,		
	2008	2007	2006
<u>Interest Income</u>			
Loans	\$ 22,054,020	\$ 22,440,107	\$ 18,240,488
<u>Interest Expense</u>			
Note payable to the Bank	13,331,638	14,646,912	11,258,377
Net interest income	8,722,382	7,793,195	6,982,111
<u>Provision for Losses</u>			
Provision for loan losses	2,015,147	479,740	210,306
Net interest income after provision for loan losses	6,707,235	7,313,455	6,771,805
<u>Noninterest Income</u>			
Patronage income from the Bank	1,152,990	1,029,353	821,734
Loan fees	642,983	608,020	499,229
Financially related services income	14,717	15,551	14,915
Gain on sale of premises and equipment, net	-	-	16,355
Other noninterest income	22,833	19,632	18,270
Total noninterest income	1,833,523	1,672,556	1,370,503
<u>Noninterest Expenses</u>			
Salaries and employee benefits	1,986,652	1,714,492	1,519,722
Directors' expense	147,696	129,083	125,382
Purchased services	330,259	308,983	323,137
Travel	83,665	97,444	92,699
Occupancy and equipment	118,246	122,699	117,739
Communications	20,183	17,254	18,311
Advertising	90,141	80,152	82,729
Public and member relations	61,334	47,946	52,700
Supervisory and exam expense	126,829	115,090	106,752
Insurance Fund premiums	513,119	484,304	385,644
Loss on the sale of premises and equipment , net	-	1,421	-
Other noninterest expense	92,149	80,424	62,275
Total noninterest expenses	3,570,273	3,199,292	2,887,090
Net income	\$ 4,970,485	\$ 5,786,719	\$ 5,255,218

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Other Comprehensive Income</u>	<u>Total Members' Equity</u>
Balance at December 31, 2005	\$ 1,620,905	\$ 53,320,640	\$ -	\$ 54,941,545
Net income	-	5,255,218	-	5,255,218
Capital stock/participation certificates issued	211,240	-	-	211,240
Capital stock/participation certificates and allocated retained earnings retired	(148,930)	-	-	(148,930)
Patronage refunds:				
Cash	-	(3,100,000)	-	(3,100,000)
Balance at December 31, 2006	1,683,215	55,475,858	-	57,159,073
Net income	-	5,786,719	-	5,786,719
Adjustment to initially apply FAS No. 158	-	-	267,640	267,640
Capital stock/participation certificates issued	216,610	-	-	216,610
Capital stock/participation certificates and allocated retained earnings retired	(154,735)	-	-	(154,735)
Patronage refunds:				
Cash	-	(3,085,000)	-	(3,085,000)
Balance at December 31, 2007	1,745,090	58,177,577	267,640	60,190,307
Adjustment to beginning balance due to FAS No. 158 accounting change	-	(11,100)	-	(11,100)
Balance at January 1, 2008	1,745,090	58,166,477	267,640	60,179,207
Comprehensive income				
Net income	-	4,970,485	-	4,970,485
Change in pension and postretirement benefit plans	-	-	(55,375)	(55,375)
Total comprehensive income (loss)	-	4,970,485	(55,375)	4,915,110
Capital stock/participation certificates issued	229,760	-	-	229,760
Capital stock/participation certificates and allocated retained earnings retired	(220,045)	-	-	(220,045)
Patronage refunds:				
Cash	-	(250,000)	-	(250,000)
Balance at December 31, 2008	\$ 1,754,805	\$ 62,886,962	\$ 212,265	\$ 64,854,032

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 4,970,485	\$ 5,786,719	\$ 5,255,218
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	2,015,147	479,740	210,306
Depreciation	85,317	103,926	100,590
Loss (gain) on sale of premises and equipment, net	-	1,421	(16,355)
Decrease (increase) in accrued interest receivable	830,557	(686,177)	(1,211,048)
Decrease (increase) in other assests	28,937	(1,284)	(6,984)
(Decrease) increase in accrued interest payable	(159,899)	146,124	381,782
Increase in other liabilities	70,882	124,118	301,227
Net cash provided by operating activities	<u>7,841,426</u>	<u>5,954,587</u>	<u>5,014,736</u>
Cash flows from investing activities:			
Increase in loans, net	(29,551,440)	(50,424,539)	(52,461,602)
Cash recoveries of loans previously charged off	-	1,749,930	-
Purchases of investment in Bank	(859,785)	(1,113,955)	(637,110)
Purchases of premises and equipment	(3,720)	(86,967)	(66,886)
Proceeds from sales of premises and equipment	-	1,433	16,407
Net cash used in investing activities	<u>(30,414,945)</u>	<u>(49,874,098)</u>	<u>(53,149,191)</u>

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF CASH FLOWS

Year Ended December 31,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows from financing activities:			
Net draws on notes payable from the Bank	\$ 26,458,689	\$ 46,497,008	\$ 51,943,865
(Decrease) increase in drafts outstanding	(879,299)	1,357,929	(250,879)
Increase in advance conditional payments	-	-	211,240
Issuance of capital stock and participation certificates	229,760	216,610	-
Retirement of capital stock and participation certificates	(220,045)	(154,735)	(148,930)
Patronage distributions paid	(2,835,000)	(3,350,000)	(2,700,000)
Net cash provided by financing activities	<u>22,754,105</u>	<u>44,566,812</u>	<u>49,055,296</u>
Net increase in cash	180,586	647,301	920,841
Cash at the beginning of the year	<u>2,612,986</u>	<u>1,965,685</u>	<u>1,044,844</u>
Cash at the end of the year	<u>\$ 2,793,572</u>	<u>\$ 2,612,986</u>	<u>\$ 1,965,685</u>
Supplemental schedule of noncash investing and financing activities:			
Loans charged off	\$ 1,829,688	\$ 2,352,389	\$ -
Patronage distributions declared	250,000	3,085,000	3,100,000
Supplemental cash information:			
Cash paid during the year for:			
Interest	\$ 13,491,537	\$ 14,500,788	\$ 10,876,595

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

PANHANDLE-PLAINS LAND BANK, FLCA
NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Panhandle-Plains Land Bank, 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 counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Pitter, Randall and Roberts in the in the state of Texas.

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

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

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and 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 long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance.

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.

- 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 up to 35 years.

Loans are carried at their principal amount outstanding less unearned income. Interest on loans accrued and credited to interest income based upon the daily principal amount outstanding.

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.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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 plan is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required 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 \$39,152, \$36,436 and \$24,441 for the years ended December 31, 2008, 2007 and 2006, respectively. For the DB Plan, the Association recognized pension costs of \$265,112, \$91,428 and \$105,612 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 \$47,537, \$45,013 and \$37,754 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.

- 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." 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.

The fair value disclosures have been expanded in accordance with SFAS No. 157, as disclosed in Note 13.

- 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	\$ 290,394,931	77.8%	\$ 268,170,360	77.6%	\$ 235,293,987	79.1%
Production and intermediate term	18,761,619	5.0%	17,106,662	5.0%	5,506,202	1.8%
Agribusiness:						
Loans to cooperatives	3,182,174	0.8%	3,775,382	1.1%	1,754,492	0.6%
Processing and marketing	28,630,218	7.7%	23,308,083	6.7%	23,401,010	7.9%
Farm-related business	5,632,851	1.5%	6,086,382	1.8%	4,176,130	1.4%
Communication	9,218,022	2.5%	9,259,859	2.7%	13,036,250	4.4%
Energy	16,293,256	4.4%	12,944,799	3.7%	9,104,567	3.1%
Rural residential real estate	993,173	0.3%	4,732,965	1.4%	5,039,704	1.7%
Total	<u>\$ 373,106,244</u>	<u>100.0%</u>	<u>\$ 345,384,492</u>	<u>100.0%</u>	<u>\$ 297,312,342</u>	<u>100.0%</u>

Geographic Distribution:

County	2008	2007	2006
Hale	11%	10%	11%
Randall	7%	7%	6%
Gray	5%	5%	4%
Carson	5%	5%	5%
Armstrong	5%	5%	4%
Floyd	5%	4%	5%
Hansford	3%	4%	5%
Hutchinson	3%	3%	3%
Oldham	3%	3%	3%
Ochiltree	3%	3%	3%
Lipscomb	2%	3%	3%
Collingsworth	2%	2%	2%
Deaf Smith	1%	2%	1%
Briscoe	1%	1%	2%
Hemphill	1%	1%	2%
Hall	1%	1%	1%
Roberts	1%	1%	1%
Motley	1%	1%	1%
Moore	1%	1%	1%
Potter	1%	1%	1%
Other counties	14%	13%	14%
Other states	24%	24%	22%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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	%
Cattle	\$ 128,839,068	34.5%	\$ 125,228,125	36.2%	\$ 99,815,167	33.6%
Cotton	50,305,870	13.5%	44,428,789	12.9%	40,060,038	13.5%
Wheat	42,831,595	11.5%	40,304,451	11.7%	37,995,754	12.8%
Coarse Grains	31,576,553	8.5%	30,472,809	8.8%	25,219,583	8.5%
Timber	23,872,242	6.4%	22,317,337	6.5%	24,812,521	8.3%
Electric services	18,006,825	4.8%	12,876,590	3.7%	10,025,620	3.4%
Ethanol plant	11,186,690	3.0%	7,608,773	2.2%	3,250,275	1.1%
Paper/pulp	10,671,610	2.9%	4,775,009	1.4%	3,084,965	1.0%
Telecommunications	9,410,208	2.5%	9,259,858	2.7%	13,036,250	4.4%
Milk/Dairy/Cheese	8,113,832	2.2%	10,100,422	2.9%	7,029,716	2.4%
Conservation reserve programs	7,853,508	2.1%	6,353,161	1.8%	6,437,952	2.2%
Meat packing plants	6,753,370	1.8%	5,403,176	1.6%	4,428,627	1.5%
Cotton ginning	6,624,426	1.8%	7,961,781	2.3%	6,464,204	2.2%
Farm products warehousing	2,672,691	0.7%	2,361,409	0.7%	2,579,210	0.9%
Rural home loans	1,099,789	0.3%	1,361,664	0.4%	1,450,463	0.5%
Other	13,287,967	3.5%	14,571,138	4.2%	11,621,997	3.9%
Total	<u>\$ 373,106,244</u>	<u>100.0%</u>	<u>\$ 345,384,492</u>	<u>100.0%</u>	<u>\$ 297,312,342</u>	<u>100.2%</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.

Asset Quality:

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

	2008	2007	2006
Acceptable	95.8%	98.1%	95.2%
Special mention	2.0%	1.1%	3.5%
Substandard	2.2%	0.8%	1.3%
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:

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	\$ 3,964,034	99.8%	\$ 119,052	86.7%	\$ 147,961	77.9%
Past due	4,224	0.1%	6,932	5.1%	22,334	11.7%
Total nonaccrual loans	<u>3,968,258</u>	<u>99.9%</u>	<u>125,984</u>	<u>91.8%</u>	<u>170,295</u>	<u>89.6%</u>
Accrual loans						
90 days or more past due	-	-	-	-	-	-
Formally restructured	5,665	0.1%	11,247	8.2%	19,730	10.4%
Total impaired accrual loans	<u>5,665</u>	<u>0.1%</u>	<u>11,247</u>	<u>8.2%</u>	<u>19,730</u>	<u>10.4%</u>
Total impaired loans	<u>\$ 3,973,923</u>	<u>100.0%</u>	<u>\$ 137,231</u>	<u>100.0%</u>	<u>\$ 190,025</u>	<u>100.0%</u>

The increase in nonaccrual loans for 2008 over 2007 was due primarily to two purchased participation loans. These borrowers took Chapter 11 bankruptcy and the loans were downgraded to nonaccrual in the fourth quarter of 2008. The total allowance as of year end 2008 was \$361,206, of which \$242,372 was general allowance and \$118,834 was specific reserves for the two aforementioned nonaccrual participation loans. A third participation loan for which the borrower filed bankruptcy in the fourth quarter of 2008 was downgraded to substandard but did not require a specific reserve based on the Association's analysis. 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.

	2008	2007	2006
Interest income recognized on nonaccrual loans	\$ 300,778	\$ -	\$ 1,807
Interest income recognized on impaired accrual loans	373	916	1,536
Interest income recognized on impaired loans	<u>\$ 301,151</u>	<u>\$ 916</u>	<u>\$ 3,343</u>

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

	2008	2007	2006
Beginning balance	\$ 175,747	\$ 298,466	\$ 88,160
Provision for loan losses	2,015,147	479,740	210,306
Loans charged off	(1,829,688)	(2,352,389)	-
Recoveries	-	1,749,930	-
Allowance for loan losses	<u>\$ 361,206</u>	<u>\$ 175,747</u>	<u>\$ 298,466</u>

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

	2008	2007	2006
Impaired loans with related allowance	\$ 200,514	-	\$ -
Impaired loans with no related allowance	3,773,409	137,230	190,025
Total impaired loans	<u>\$ 3,973,923</u>	<u>\$ 137,230</u>	<u>\$ 190,025</u>
Allowance on impaired loans	<u>\$ 118,834</u>	<u>\$ -</u>	<u>\$ -</u>

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

	2008	2007	2006
Average impaired loans	<u>\$ 403,644</u>	<u>\$ 248,873</u>	<u>\$ 176,435</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	\$ 418,243	\$ 336,801	\$ 18,678
Less: interest income recognized	(301,151)	(916)	(3,343)
Foregone interest income	<u>\$ 117,092</u>	<u>\$ 335,885</u>	<u>\$ 15,335</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	\$ 245,398	\$ 245,399	\$ 245,399
Building and improvements	842,983	842,983	815,938
Furniture and equipment	240,255	239,540	227,731
Computer equipment and software	49,210	59,676	55,125
Automobiles	231,092	231,092	206,592
	<u>1,608,938</u>	<u>1,618,690</u>	<u>1,550,785</u>
Accumulated depreciation	(908,125)	(836,279)	(748,561)
Total	<u>\$ 700,813</u>	<u>\$ 782,411</u>	<u>\$ 802,224</u>

NOTE 5 – OTHER PROPERTY OWNED, NET:

The Association did not have any other property owned, net, for the years ended December 31, 2008, 2007 and 2006.

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 \$318,849,872 at 3.8 percent, \$292,391,183 at 5.3 percent and \$245,894,175 at 5.3 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 \$375,576,803, 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, and 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 farms loans), or participation certificates (for rural home and farm-related business loans) is equal to 2 percent of the loan amount, up to a maximum amount of \$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.

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.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower’s outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association’s board of directors. At December 31, 2008, 2007 and 2006 the Association had no Class C capital stock.

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 declared and paid in 2008, 2007 and 2006, respectively:

Date Declared	Date Paid or Payable	Patronage
December 2008	March 2009	\$ 250,000
December 2007	February 2008	2,835,000
	Total 2008	\$ 2,835,000
January 2007	February 2007	\$ 250,000
	Total 2007	\$ 250,000
December 2006	February 2007	\$ 3,100,000
	Total 2006	\$ 3,100,000

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 15.1 percent, 14.7 percent and 14.7 percent, respectively.

The board of directors of the Association has promulgated a detailed and specific Capital Adequacy Plan (Plan) to address the current and future needs of its borrowers. The framework of the Plan is based on both the specific circumstances of the Association and its borrowers as well as the regulatory requirements of the FCA. The Plan defines and measures the Association’s goals and performance

in large part based on the Tenth District’s financial performance standards for FLCAs. At least quarterly, management and the board of directors review the Association’s financial performance, key capital ratios, asset quality, the adequacy of the allowance for loan losses, the sufficiency of liquid funds and internal controls. The objectives of the board of directors, as outlined in the Plan, include, but are not limited to sustained profitability, reasonable protection against risks inherent in the Association’s operations, exceeding all minimum regulatory requirements and maximizing return on capital. A strong capital base, as outlined in the Plan, will afford the Associations the opportunity to position itself to address the changing lending environment, and provide the highest quality service to its stockholders.

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

At December 31, the Association had the following shares of Class A capital stock, Class B 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	346,591	344,363	330,465
Participation certificates	4,370	4,655	6,178
Total	<u>350,961</u>	<u>349,018</u>	<u>336,643</u>

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 of the District. 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.

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 year 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 \$22,844, and increased the pension and other postretirement benefit liabilities \$22,844.

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	\$ 619,510	\$ 616,505	\$ 616,505
Service Cost	34,399	30,231	-
Interest Cost	49,649	36,375	-
Plan Participants' contributions	1,208	1,404	-
Plan Amendments	-	-	-
Special Termination Benefits	-	-	-
Actuarial Loss (Gain)	26,819	(46,099)	-
Benefits Paid	(20,423)	(18,907)	-
Accumulated Postretirement Benefit Obligation, End of Year	<u>\$ 711,162</u>	<u>\$ 619,509</u>	<u>\$ 616,505</u>
Change in Plan Assets			
Plan Assets at Fair Value, Beginning of Year	\$ -	\$ -	\$ -
Actual Return on Plan Assets	-	-	-
Company Contributions	19,215	17,503	22,741
Plan Participants' contributions	1,208	1,404	4,307
Benefits Paid	(20,423)	(18,907)	(27,048)
Plan Assets at Fair Value, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Funded Status			
Funded status of the plan	\$ (711,162)	\$ (619,510)	\$ (616,505)
Unrecognized prior service cost	-	-	\$ (240,381)
Unrecognized net (gain) loss	-	-	\$ (6,588)
Contributions between measurement date and fiscal year-end	-	\$ 3,940	\$ 3,855
Net postretirement liability at end of year	<u>\$ (711,162)</u>	<u>\$ (615,570)</u>	<u>\$ (859,619)</u>
Amounts Recognized in Balance Sheet			
Assets	\$ -	\$ -	\$ -
Liabilities	(711,162)	(615,570)	(859,619)
Total	<u>\$ (711,162)</u>	<u>\$ (615,570)</u>	<u>\$ (859,619)</u>
Amounts Recognized in Accumulated Other Comprehensive Income			
Net Actuarial Loss (Gain)	\$ (27,057)	\$ (53,268)	\$ -
Prior Service Cost (Credit)	(185,208)	(214,372)	-
Net Transition Obligation (Asset)	-	-	-
Total	<u>\$ (212,265)</u>	<u>\$ (267,640)</u>	<u>\$ -</u>
Additional Information			
Increase in minimum liability included in other comprehensive income	\$ 55,375	\$ -	\$ -
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

Total Cost	2008	2007	2006
Service Cost	\$ 27,519	\$ 30,232	\$ 32,517
Interest Cost	39,719	36,375	32,942
Expected Return on Plan Assets	-	-	-
Amortization of:			
Unrecognized Net Transition Obligation (Asset)	-	-	-
Unrecognized Prior Service Cost	(23,332)	(26,009)	(25,569)
Unrecognized Net Loss (Gain)	487	581	520
Net Postretirement Benefit Cost	\$ 44,393	\$ 41,179	\$ 40,410

AOCI Amounts Expected to be Amortized into Expense in 2009

Unrecognized Net Transition Obligation (Asset)	\$ -	\$ -	\$ -
Unrecognized Prior Service Cost	22,884	(23,332)	-
Unrecognized Net Loss (Gain)	-	487	-
Total	\$ 22,884	\$ (22,845)	\$ -

Adjustment to Retained Earnings for 2008 due to change in measurement date **\$ 11,100**

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

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2009	\$ 22,693
Fiscal 2010	22,376
Fiscal 2011	26,200
Fiscal 2012	30,565
Fiscal 2013	35,673
Fiscal 2014–2018	246,869

Expected Contributions

Fiscal 2009	\$ 22,693
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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 \$6,136,320, \$6,713,079 and \$4,519,272 at December 31, 2008, 2007 and 2006, respectively. During 2008, \$586,443 of new loans were made and repayments totaled \$1,163,202. 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 \$223,255, \$208,351 and \$208,564 in 2008, 2007 and 2006, respectively.

The Association received patronage payments from the Bank totaling \$1,152,990, \$1,029,353 and \$821,734 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. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

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, \$39,572,164 of commitments and \$2,108,548 of commercial letters of credit were outstanding.

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

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	\$ 2,793,572	\$ 2,793,572	\$ 2,612,986	\$ 2,612,986	\$ 1,965,685	\$ 1,965,685
Loans, net	372,745,038	375,730,726	345,208,745	333,689,129	297,013,876	282,861,164
Financial liabilities						
Note payable to the bank	318,849,872	321,403,859	292,391,183	282,634,089	245,894,175	234,177,318

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 2.69 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	\$ 2,152	\$ 2,164	\$ 2,295	\$ 2,112	\$ 8,723
Provision for loan losses	(7)	(26)	(88)	(1,894)	(2,015)
Noninterest income (expense), net	(880)	(607)	(555)	305	(1,737)
Net income	\$ 1,265	\$ 1,531	\$ 1,652	\$ 523	\$ 4,971

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,995	\$ 1,970	\$ 1,756	\$ 2,072	\$ 7,793
Provision for loan losses	1	(2,318)	(6)	1,843	(480)
Noninterest income (expense), net	(810)	(419)	(540)	243	(1,526)
Net income	\$ 1,186	\$ (767)	\$ 1,210	\$ 4,158	\$ 5,787

	2006				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,676	\$ 1,691	\$ 1,754	\$ 1,861	\$ 6,982
Provision for loan losses	(16)	(6)	(12)	(176)	(210)
Noninterest income (expense), net	(769)	(470)	(463)	185	(1,517)
Net income	\$ 891	\$ 1,215	\$ 1,279	\$ 1,870	\$ 5,255

In 2008, the Association recorded a charge-off in the amount of \$1,829,688 related to a purchased participation loan. For additional discussion related to this participation see “Risk Exposure,” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in this annual report.

In 2007, the Association recorded charge-offs in the amount of \$2,352,389 related to impaired loan participation. In the fourth quarter of 2007, the Association recorded a recovery in the amount of \$1,749,930 related to the same loan participation.

NOTE 13 — SUBSEQUENT EVENTS:

On January 22, 2009 the Association declared an additional \$865,000 in patronage to be paid to borrowers in early 2009.

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 Panhandle-Plains Land Bank, FLCA (Association) serves its 17-county territory through its main administrative and lending office at 5700 Southwest 45th Street, Amarillo, Texas 79109, (806) 353-6688. Additionally, there are three branch lending offices located throughout the territory. The Association owns all of the office buildings free of debt.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

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

The Association's quarterly stockholder reports on its website at www.panhandle-plainsflba.com 40 days after the quarter end. These quarterly stockholder reports are also available free of charge, upon request, and can be obtained by writing to Panhandle-Plains Land Bank, FLCA P.O. Box 7785, Amarillo, Texas 79114-7785 or calling (806) 353-6688. The Association's annual stockholder report is available on its website at www.panhandle-plainsflba.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 by contacting the Association directly at the address and phone number listed above. Copies of the Association's quarterly and annual stockholder reports can also be requested by e-mailing cathy.scribner@farmcreditbank.com.

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
Larry Fairchild	Director	1988	2009
Wayne Garrett	Director	1999	2010
Ronnie N. Hopper	Director	1991	2009
Dennis Babcock	Chairman	1998	2010
Randy Darnell	Director	2002	2011
Steve Rader	Director	2002	2011
Steve Brown	Director-Elected Director	1998	2010
Daniel L. Krienke	Director	1999	2011
Walter Henson	Vice Chairman	2001	2009
Don James	Director	2004	2010
Robert R. Williams Jr.	President	1974	-
Greggory S. Lloyd	Executive VP/Credit	1983	-
Kenneth Hooper	Senior VP/Marketing	1988	-
Cathy D. Scribner	SVP/CFO/Administration	1985	-

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

Larry Fairchild, age 69, farms dryland wheat and grain sorghum in Oldham County. He has served as a director since 1988. He currently serves as a member of the Tenth District’s Benefits Administration Committee.

Wayne Garrett, age 66, farms and ranches in Hansford County. He holds a bachelor of science degree from Texas Tech University in agricultural economics. He is a past board member of Hansford County Appraisal District and Gruver Independent School District. He is a past committee member of Hansford County A.S.C.S.

Ronnie N. Hopper, age 62, farms in southwest Floyd and southeast Hale counties and was elected to the board in 1991. He is president of Hopper Farms, Inc. and currently serves as secretary/treasurer of Harmony Farms, Inc. He currently serves as a member of the executive committee of the board of Plains Cotton Growers.

Dennis Babcock, age 57, is a farmer/rancher in Carson and Gray counties and is experienced in both dryland and irrigated farming. Dennis has a bachelor of science degree in ag economics from West Texas University. He currently serves as a director of Groom Irrigation Gas, Inc. and is a past member of the Groom ISD Board of Trustees. He was elected to the board in 1998. Mr. Babcock presently serves as board chairman of the Association.

Randy Darnell, age 48, is a farmer/stockman in northeast Deaf Smith and northwest Randall counties. He graduated from Texas Tech University with a bachelor of science degree in ag economics. He is a member of the Randall County Crops Committee and a trustee of Canyon Independent School District. He is vice chairman of the Association compensation committee.

Steve Rader, age 55, manages a family farming ranch business in Hemphill, Lipscomb County, Texas, and Ellis County, Oklahoma. He has a bachelor of science degree from Oklahoma State University in general agriculture. He presently serves on ASCS committee in Lipscomb County. He is the chairman of the Association compensation committee.

Steve Brown, age 56, is the director-elected outside director. He is an agricultural equipment dealer with stores in Floydada and Tulia. He has an interest in a cotton gin in Silverton. Mr. Brown has an irrigation and dryland farming interest in Briscoe County. He is also a cattleman.

Daniel L. Krienke, age 58, is a farmer from Ochiltree County, experienced in both dryland and irrigated farming. He is presently a director of Texas Sorghum Association, National Sorghum Producer and North Plains Water Conservation District. Mr. Krienke serves as chairman of the Association audit committee.

Walter Henson, age 52, is a farmer/rancher from Briscoe County. He has an irrigation and dryland farming interest in Briscoe County and cattle operations in Randall, Deaf Smith and Castro counties. He was first appointed by the board to fill an unexpired board term in October 2000. He was elected to the board in 2001. He is a vice chairman of the Caprock Soil & Water Conservation District. Mr. Henson serves as the Association audit committee vice chairman and vice chairman of the Association board.

Don James, age 57, farms in Hale County and was elected to the board in 2004. He attended Wayland Baptist University and Texas Tech University. He currently serves on the board for United Farms Industries, Plainview, Texas. He is a member of the Llano Estacada Regional Water Planning Group.

Robert R. Williams Jr., age 64, was employed by the Federal Land Bank in 1972 and by this Association in 1974. He holds a bachelor of science and a master of science degree from Texas Tech University. He has a total of 36 years of experience with the Farm Credit System and is the CEO of this Association.

Greggory S. Lloyd, age 50, has been employed with the Farm Credit System for the past 25 years. He holds a bachelor of science degree and a master of science degree in agricultural economics from Texas Tech University. He previously served as a vice president of the High Plains Federal Land Bank Association of Pampa and president of the Federal Land Bank Association of Amarillo. He currently serves as executive vice president and chief credit officer of the Association.

Kenneth Hooper, age 50, was employed with the Association in June 1988. He holds a bachelor of science degree from Texas A&M University. Mr. Hooper oversees lending operations in Hale, Motley, Briscoe, Floyd and Hall counties. He currently serves as senior vice president and oversees Association-wide marketing responsibilities.

Cathy D. Scribner, age 56, has been employed with the Farm Credit System for the past 23 years. She previously served as office manager of the High Plains Federal Land Bank Association of Pampa and secretary/treasurer of the Panhandle-Plains FLBA, FLCA. She currently serves as senior vice president of administration and chief financial officer of the Association.

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 \$592 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 rates of 50.5 cents per mile for January through June 2008, and 58.5 cents per mile for July through December 2008. A copy of the travel policy is available to stockholders of the Association upon request.

<u>Director</u>	<u>Number of Days Served Associated With</u>		<u>Total Compensation in 2008</u>
	<u>Board Meetings</u>	<u>Other Official Activities</u>	
Daniel L. Krienke	11	11	\$ 13,024
Wayne Garrett	11	4	8,880
Randy Darnell	10	6	9,472
Larry Fairchild	10	6	9,472
Walter Henson	12	7	11,248
Steve Rader	11	3	8,288
Ronnie N. Hopper	11	7	10,656
Steve Brown	12	3	8,880
Dennis Babcock	11	7	10,656
Don James	12	6	10,656
			<u>\$ 101,232</u>

The aggregate compensation paid to directors in 2008, 2007 and 2006 was \$101,232, \$85,860 and \$80,550 respectively.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$46,464, \$41,944 and \$50,827 in 2008, 2007 and 2006, respectively.

Name of Individual or Group	Year	Salary	Bonus	Deferred/ Perquisite	Other	Total
Robert R. Williams, Jr.	2008	\$ 154,006	\$ 22,929	\$ 6,091	\$ -	\$ 183,026
	2007	140,000	23,630	3,949	-	167,579
	2006	128,780	20,570	2,607	-	151,957
Aggregate No. of Senior Officers in Year						
(5)	2008	\$ 508,244	\$ 118,184	\$ 19,960	-	\$ 646,388
(5)	2007	468,775	117,493	17,178	-	603,446
(5)	2006	438,841	102,850	15,474	-	557,165

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 (including the CEO) of the Association, including bonuses and perquisites, was \$646,388, \$603,446 and \$557,165 in 2008, 2007 and 2006, respectively. Bonuses paid to such officers for 2008, 2007 and 2006 were \$118,184, \$117,493 and \$102,850 respectively.

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

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 six 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, 2009, 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 during 2008 were \$24,703. There were no fees paid for other non-audit services. All such services were approved by the Audit Committee.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 4, 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 includes in its overall mission a duty to encourage and facilitate entry into agricultural operations. Individuals entering agriculture are diverse in their intent; some seeking farming or ranching as a primary vocation and income source; others seeking to supplement income from off-farm vocations; others pursuing agricultural interests for lifestyle and/or recreational purposes.

The Association, having provided financing to agricultural interests in the Texas Panhandle for many years, recognizes the importance of agriculture to the national and state economies, and has a keen desire to promote agriculture as both a vocation and income source in order to ensure the nation’s steady and uninterrupted supply of food and fiber.

Accordingly, the Association encourages entry into agriculture by providing reasonably priced financial products and services, tailored to fit the needs of present-day operators. In addition to providing reasonably priced credit, the Association strives to ease entry for those new to agriculture by providing less stringent loan underwriting criteria in certain instances. Such efforts are intended to help individuals who plan to make agriculture their primary source of income.

The following represents an evaluation of the Association’s achievement of its quantitative goals during 2008:

	<u>Goals</u>	<u>Actual</u>	<u>Demographics</u>
Young Farmer:			
Outstanding number of Loans.....	15%	14.26%	7.01%
Beginning Farmer:			
Outstanding number of Loans.....	24%	24.21%	29.62%
Small Farmer:			
Outstanding number of Loans.....	52%	48.90%	83.97%

The demographics information was compiled from the USDA 2002 Ag Census.

The Association also has qualitative goals, which include specialized loan programs, coordination with other lenders and educational outreach. The Association offers specialized loan programs, which include relaxed underwriting standards; interest rate conversions and differing payment structures to facilitate ease of borrowing for Young, Beginning and Small borrowers.

A Young Farmer or Rancher is defined as a farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

A Beginning Farmer or Rancher is defined as a farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching, or producing or harvesting aquatic products as of the date the loan was originally made.

A Small Farmer or Rancher is defined as a farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The Association also coordinates with other lenders to make constructive use of programs offered through governmental entities.

Lastly, the Association supports young adult leadership ventures such as the Texas Agricultural Lifetime Leadership program (TALL).