U.S. AgBank DISTRICT

2008
ANNUAL REPORT







U.S. AGBANK, FCB

BOARD OF DIRECTORS

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Chairman
Turlock, California

Kenneth Shaw
Vice Chairman
Mountainair, New Mexico

Wayne Allen
Nevada City, California

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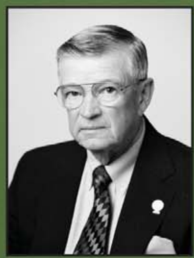
Ada, Oklahoma

Robert Bray
Redvale, Colorado

John J. “Jack” Breen
Middletown, New Jersey

Oghi A. “Tony” DeGiusti, Jr.
Tuttle, Oklahoma



Lyle H. Gray
Leon, Kansas

J. “Less” Guthrie
Porterville, California

David S. Phippin
Ripon, California

Glen A. “Andy” Rector
Agate, Colorado

Sheldon D. Richins
Henefer, Utah

Edward L. Schenk
Chickasha, Oklahoma

Donnell Spencer
Richfield, Utah

David Vanni
Gilroy, California

Robert J. “Bob” Wietharn
Clay Center, Kansas

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EXECUTIVE OFFICERS

Darryl W. Rhodes, President & Chief Executive Officer

David D. Janish, Senior Vice President – Finance

James L. Grauerholz, Senior Vice President – Administration

Dennis E. Grizzell, Senior Vice President – Credit

Gregory J. Buehne, Senior Vice President – Legal and Legislative Services

Thomas R. Kruse, Senior Vice President – Internal Audit and Quality Assurance

CORPORATE ADDRESS

Headquarters Office
U.S. AgBank, FCB
245 N. Waco
P.O. Box 2940
Wichita, KS 67201-2940
(316) 266-5100

Field Office
U.S. AgBank, FCB
3636 American River Dr.
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Sacramento, CA 95864-5901
(916) 973-3014

U.S. AgBank Website
www.usagbank.com

U.S. AGBANK DISTRICT
2008 ANNUAL REPORT

Message from the Chairman of the Board and the Chief Executive Officer

To Our Shareholder Customers:

We are pleased to provide the 2008 U.S. AgBank District Annual Report. As you may know, 2008 was a very challenging year for many financial institutions. In spite of our own challenges, we recorded solid earnings and maintained a sound capital position and risk profile. In summary, District institutions performed very well in 2008. Loans grew nearly $3.4 billion, a 17% increase, to $23.1 billion. Net earnings were $349.6 million though this was a decrease of $70.9 million from 2007 record earnings. Association Boards of Directors approved payment of $118.4 million in cash patronage refunds to our customers in 2008.

Volatility in commodity prices, instability in financial markets, and a slow down in the domestic and global economies have increased the risk profile of some borrowers. Credit quality declined from 98.3% Acceptable to 97.7%, and nonaccrual loans increased to levels closer to historical averages. Deteriorating conditions in the housing credit markets resulted in less liquidity and widening spreads as well as the U.S. government takeover of Fannie Mae and Freddie Mac. This, together with significant problems in other large U.S. and foreign financial institutions, has impacted our funding costs and our ability to issue debt freely in the capital markets. This debt issuance is our primary source of funding for our loans. In the face of these challenges in 2008, the Farm Credit System continued to fully maintain available funds for financing our farmer and rancher customers.

We expect 2009 will continue to offer many challenges to Farm Credit and to agriculture in general. As a cooperative lender to our agricultural customers, we will continue to work hard to assist you with your financing needs. Our employees are knowledgeable professionals committed to providing financial services to our loyal and growing customer base.

If you have any questions about this annual report, please contact your local Association office. A list of Association locations and their websites is included at the back of this report. You can also find the locations and other information on the AgBank website at www.usagbank.com under the "Location" link. If you would like to access the combined Farm Credit System's financial information, the System's Annual Information Statement is available at www.farmcredit-ffcb.com.

Thank you for your business and we wish you a productive and prosperous year in 2009.

John Eisenhut	Darryl W. Rhodes
Chairman of the Board	President and Chief Executive Officer
U.S. AgBank, FCB	U.S. AgBank, FCB

Corporate Profile

The U.S. AgBank District (District) is made up of U.S. AgBank, FCB (AgBank), 27 affiliated Associations (Associations), and AgVantis, Inc., which is primarily a technology service corporation owned by AgBank and 18 Associations. Each of these institutions, along with nearly 70 other institutions, comprise the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States.

The Farm Credit Administration is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions. The System is a government-sponsored enterprise (GSE) and its institutions are instrumentalities of the United States.

As a cooperative, AgBank is owned by its 27 customer Associations. This structure provides the Associations a vested interest and a voice in the business affairs of AgBank. The Associations benefit from their ownership of AgBank in two important ways. Through the delivery of funding to all Associations, AgBank achieves economies of scale that could not be achieved by the Associations individually. In addition, AgBank shares its profits with the Associations through patronage refunds. The patronage refunds paid to Associations reduce the cost of borrowing and benefit the farmer and rancher customers of the Associations.

AgBank along with the four other System Banks are the owners of the Federal Farm Credit Banks Funding Corporation which sells Systemwide Debt Securities in the nation's capital markets on behalf of the System Banks. Because the System issues large volumes of securities with GSE status, the System has generally benefited from a dependable and competitively priced source of funding. Systemwide Debt Securities are the general unsecured joint and several obligations of the System Banks. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be directly available to satisfy any principal or interest payments on Systemwide Debt Securities.

AgBank meets the funding needs of Associations with products and pricing methodologies that provide "match funding" of loans in the Association portfolios. The wholesale funding AgBank provides typically matches the terms and embedded options of the retail loans held by Associations. Therefore, the main sources of interest rate risk are incurred and managed at AgBank, and Associations are substantially protected from interest rate risk.

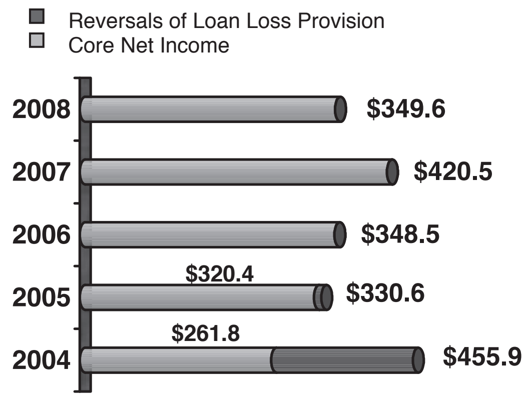
The District's chartered territory is comprised of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. AgBank provides loan funds and other services to Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and other financing institutions that serve these eleven states. Each Association offers a wide range of loan products and financial services to farmers and ranchers in its chartered territory.

This annual report does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the System Banks, pursuant to offering circulars for each type of debt offering.

Financial Performance Highlights

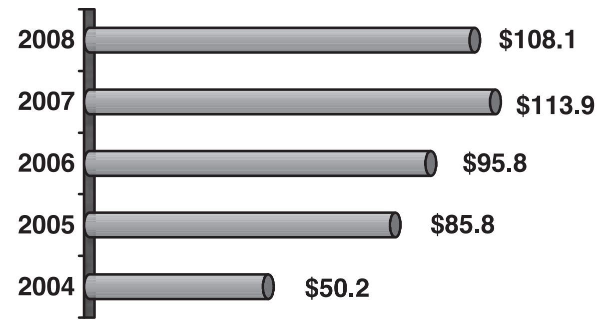
Net Income

$ in millions



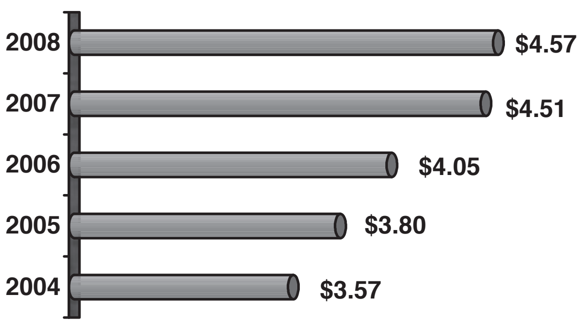
Patronage Refunds

$ in millions



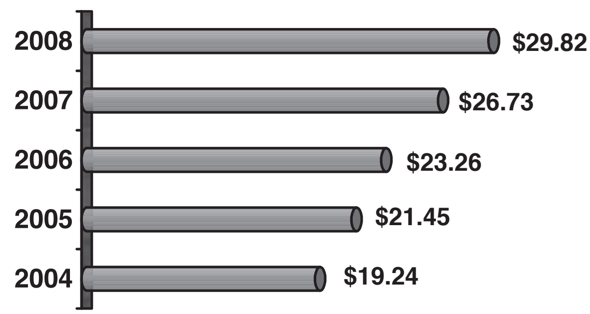
Total Risk Funds

$ in billions

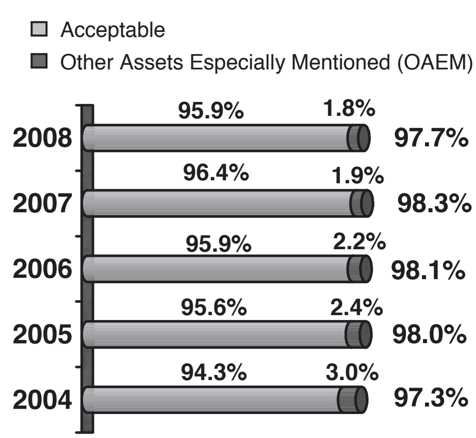


Total Assets

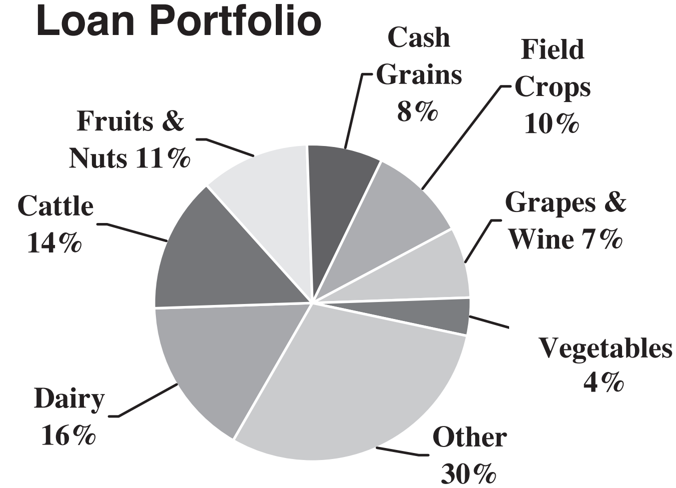
$ in billions



Credit Quality



Loan Portfolio



Five-Year Summary of Selected Combined Financial Data

U.S. AgBank District

(Dollars in thousands)

	December 31				
	2008	2007	2006	2005	2004
Combined Statement of Condition Data					
Loans	**$ 23,125,415**	$ 19,755,680	$ 17,625,736	$ 16,781,194	$ 15,536,421
Less: Allowance for loan losses	**86,655**	66,164	64,637	65,309	81,018
Net loans	**23,038,760**	19,689,516	17,561,099	16,715,885	15,455,403
Cash and federal funds	**277,881**	274,540	217,465	246,785	307,931
Investment securities	**5,841,494**	6,152,316	4,913,848	4,015,006	3,093,881
Other property owned	**3,870**	3,974	6,793	2,331	4,299
Other	**654,176**	608,187	558,488	470,694	383,174
Total assets	**$ 29,816,181**	$ 26,728,533	$ 23,257,693	$ 21,450,701	$ 19,244,688
Obligations with maturities of one year or less	**$ 9,430,200**	$ 9,008,995	$ 7,101,415	$ 6,389,415	$ 5,931,663
Obligations with maturities greater than one year	**15,899,796**	13,274,953	12,174,431	11,329,280	9,824,113
Total liabilities	**25,329,996**	22,283,948	19,275,846	17,718,695	15,755,776
Stock and participation certificates	**510,684**	473,380	219,291	240,136	229,285
Retained earnings	**4,316,386**	4,098,753	3,817,841	3,573,829	3,334,883
Accumulated other comprehensive income/(loss), net of tax	**(340,885)**	(127,548)	(55,285)	(81,959)	(75,256)
Total shareholders' equity	**4,486,185**	4,444,585	3,981,847	3,732,006	3,488,912
Total liabilities and shareholders' equity	**$ 29,816,181**	$ 26,728,533	$ 23,257,693	$ 21,450,701	$ 19,244,688

	For the Year Ended December 31				
	2008	2007	2006	2005	2004
Combined Statement of Income Data					
Net interest income	**$ 634,056**	$ 663,833	$ 592,031	$ 529,864	$ 480,146
(Provision for loan losses)/Loan loss reversals	**(22,601)**	(3,583)	(7,516)	10,165	194,096
Noninterest expenses, net	**(266,139)**	(236,199)	(236,430)	(206,427)	(204,066)
Benefit from/(Provision for) income taxes	**4,244**	(3,552)	427	(2,994)	(14,231)
Net income	**$ 349,560**	$ 420,499	$ 348,512	$ 330,608	$ 455,945
Combined Key Financial Ratios					
Return on average assets	**1.24%**	1.69%	1.58%	1.67%	2.50%*
Return on average total shareholders' equity	**7.56%**	9.51%	8.87%	9.00%	13.75%*
Net interest income as a percentage of average earning assets	**2.31%**	2.74%	2.76%	2.73%	2.67%
Net charge offs as a percentage of average net loans	**0.01%**	0.01%	0.05%	0.04%	0.11%
Shareholders' equity as a percentage of assets	**15.05%**	16.63%	17.12%	17.40%	18.13%
Debt to shareholders' equity	**5.65:1**	5.01:1	4.84:1	4.75:1	4.52:1
Allowance for loan losses as a percentage of gross loans	**0.37%**	0.33%	0.37%	0.39%	0.52%
Operating expense as a percentage of net interest income	**49.34%**	42.42%	45.20%	44.41%	47.72%
Operating expense as a percentage of average loans	**1.47%**	1.54%	1.59%	1.50%	1.54%
Operating expense as a percentage of average assets	**1.11%**	1.13%	1.22%	1.19%	1.26%
Permanent capital ratio (Bank only)	**18.94%**	20.68%	20.42%	21.93%	22.53%
Total surplus ratio (Bank only)	**15.92%**	17.52%	17.00%	18.70%	19.33%
Core surplus ratio (Bank only)	**10.97%**	14.17%	11.56%	12.96%	13.89%
Net collateral ratio (Bank only)	**104.90%**	105.03%	105.06%	105.03%	105.14%
Net Income Distribution					
Patronage refunds to borrowers	**$ 108,122**	$ 113,907	$ 95,810	$ 85,835	$ 50,208
Dividends	**$ 21,076**	$ 21,782	$ 8,690	$ 5,827	$ 4,280

* Included in the calculation of 2004 returns on average assets and average shareholders' equity were one-time reversals of the allowance for loan losses of $186.1 million. Excluding the one-time reversals of the allowance for loan losses, the return on average assets would have been 1.48 percent and the return on average shareholders' equity would have been 8.14 percent.

MANAGEMENT'S DISCUSSION AND ANALYSIS

U.S. AgBank District

(Dollars in thousands, except as noted)

INTRODUCTION/ORGANIZATION

The following discussion summarizes the combined financial position and results of operations of U.S. AgBank, FCB (AgBank), the affiliated Associations and AgVantis, Inc. (AgVantis) for the year ended December 31, 2008. Comparisons with prior years are included. The affiliated Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and Production Credit Associations (PCAs) are collectively known as "Associations," and AgBank, the Associations and AgVantis are collectively referred to as the "District."

We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact the financial condition and results of operations of the District. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The Management's Discussion and Analysis includes the following sections:

- Basis of Presentation
- District Overview
- Results of Operations
- Agricultural Overview
- Loan Portfolio
- Credit Risk Management
- Liquidity
- Capital Resources
- Interest Rate Risk Management
- Other Risks
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

BASIS OF PRESENTATION

The combined financial statements and related financial information in this Annual Report include the accounts of AgBank, the Associations and AgVantis. The financial statements are presented on a combined basis due to the financial and operational interdependence of the District entities. This interdependence results, in part, from AgBank serving as a financial intermediary between the capital markets and the retail lending activities of the Associations. As a result, the loans made by Associations to their borrowers are substantially funded by AgBank with the issuance of Systemwide Debt Securities. Although only AgBank, along with the other four System Banks, are jointly and severally liable for the repayment of Systemwide Debt Securities, the repayment is dependent upon the ability of the borrowers to repay their loans from the Associations and the Associations to repay their loans from AgBank. Under this presentation, the accounts of the District entities are combined, with all intra-District transactions and balances eliminated in combination. Certain amounts in prior years' financial statements have been reclassified to conform to current financial statement presentation.

DISTRICT OVERVIEW

There are 27 Associations in the District. Twenty-five Associations are ACAs and two are FLCAs. Each Association operates within a chartered territory. Each ACA has an FLCA subsidiary and a PCA subsidiary. Stand-alone FLCAs and FLCA subsidiaries of ACAs make mortgage loans to members. Funds for these loans are borrowed from AgBank. AgBank also loans funds directly to ACAs, PCA subsidiaries and other financing institutions (OFIs) which, in turn, provide operating and intermediate-term credit to farmers and ranchers. The Associations serve territories in Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho and the far western edge of Wyoming. At December 31, AgBank loans to Associations in total were $18.50 billion for 2008, $15.74 billion for 2007 and $14.13 billion for 2006. Loans to the Associations have been eliminated in combination.

Effective after the close of business on April 30, 2008, Sacramento Valley Farm Credit, ACA headquartered in Woodland, California merged into Farm Credit West, ACA headquartered in Visalia, California. The new headquarters is in Roseville, California. Effective December 31, 2008, Farm Credit Services of Central Kansas, ACA and Federal Land Bank of Ponca City, FLBA in Oklahoma merged to form Farm Credit of the Heartland, ACA. The new headquarters is located in Wichita, Kansas. As of December 31, 2008, there were 27 Associations in the District, as compared with 29 Associations at year-end 2007 and 2006.

Each Association serves a unique marketplace and must address its own competitive lending environment. The degree of competition varies, depending on the appetite for agricultural loans by local and regional banks, large commercial banks, and insurance companies in any given area. In most areas, we have been successful in gaining market share due to our loan products, image, and reputation in the agricultural community. We offer a variety of loan products, provide high quality service, offer attractive interest rates, and most Associations pay patronage refunds. The payment of patronage refunds to borrowers is a sharing of operating profits. This is unique in the marketplace due to our cooperative structure and is a significant financial benefit to our borrowers.

AgVantis is a service corporation owned by AgBank and 18 Associations. AgVantis provides technology and other operational services to certain Associations and AgBank. Financial activity between AgVantis and AgBank or AgVantis and Associations has been eliminated in combination.

RESULTS OF OPERATIONS

Earnings Summary

In 2008, we recorded net income of $349.6 million compared with $420.5 million for 2007 and $348.5 million for 2006. The decrease in 2008 is due to a decrease in net interest income, an increase in provision for loan losses and an increase in noninterest expense. The increase in 2007 was primarily due to an increase in net interest income. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2008 versus 2007**	2007 versus 2006
Net income, prior year	**$ 420,499**	$ 348,512
Increase/(Decrease) from changes in:		
Net interest income	**(29,777)**	71,802
Provision for loan losses	**(19,018)**	3,933
Noninterest income	**18,308**	8,916
Noninterest expense	**(48,248)**	(8,685)
Provision for income taxes	**7,796**	(3,979)
Total (decrease)/increase in net income	**(70,939)**	71,987
Net income, current year	**$ 349,560**	$ 420,499

As a result of asset growth and lower earnings in 2008, return on average assets decreased to 1.24% from 1.69% in 2007, and return on average shareholders' equity decreased to 7.56% from 9.51% in 2007.

Net Interest Income

Net interest income for 2008 was $634.0 million compared with $663.8 million for 2007 and $592.0 million for 2006. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The decrease in net interest income was largely due to lower market interest rates although this was partially offset by strong growth in average interest earning assets. The effects of changes in average volumes and interest rates on net interest income for these periods are reflected in the following table.

	2008 vs. 2007 Increase/(Decrease) due to			2007 vs. 2006 Increase due to		
(dollars in millions)	**Rate**	**Volume**	**Total**	Rate	Volume	Total
Interest income:						
Loans	**$ (286.8)**	**$ 175.8**	**$ (111.0)**	$ 20.4	$ 111.0	$ 131.4
Investments	**(81.2)**	**11.2**	**(70.0)**	23.2	70.9	94.1
Total interest income	**(368.0)**	**187.0**	**(181.0)**	43.6	181.9	225.5
Interest expense	**(268.9)**	**117.7**	**(151.2)**	34.0	119.7	153.7
Change in net interest income	**$ (99.1)**	**$ 69.3**	**$ (29.8)**	$ 9.6	$ 62.2	$ 71.8

Components of net interest income for the past three years are presented in the following table. Interest income, interest expense, and interest rates include the effect of related derivative financial instruments used for hedging and/or risk management.

(dollars in millions)	**2008 Income/ Expense**	**2008 Average Balance**	**2008 Rate**	2007 Income/ Expense	2007 Average Balance	2007 Rate	2006 Income/ Expense	2006 Average Balance	2006 Rate
Interest earning assets									
Loans by type									
Real estate mortgage	**$ 764.4**	**$ 12,508.5**	**6.11%**	$ 800.3	$ 10,934.6	7.32%	$ 752.2	$ 10,395.4	7.24%
Production and intermediate-term	**266.1**	**4,929.8**	**5.40**	331.4	4,361.1	7.60	287.4	3,853.0	7.46
Agribusiness	**173.3**	**3,296.7**	**5.26**	179.2	2,489.4	7.20	143.9	2,043.4	7.04
Communication	**4.9**	**93.2**	**5.23**	7.0	98.1	7.16	7.5	106.1	7.11
Energy	**9.7**	**168.8**	**5.73**	9.5	132.6	7.17	8.8	127.4	6.93
Water and waste disposal	**1.0**	**16.9**	**5.82**	0.8	14.5	5.78	–	–	–
Rural residential real estate	**3.8**	**54.3**	**7.02**	3.8	50.9	7.36	3.6	50.7	7.15
Lease receivables	**10.2**	**153.4**	**6.62**	10.3	149.4	6.87	9.2	128.4	7.18
OFI (other financing institutions)	**0.6**	**17.1**	**3.61**	0.9	15.2	5.99	1.4	25.1	5.69
Mission related	–	**1.2**	**3.95**	–	–	–	–	–	–
Nonaccrual	**7.2**	**101.5**	**7.13**	9.0	73.3	12.26	6.8	86.2	7.85
Total loans	**1,241.2**	**21,341.4**	**5.82**	1,352.2	18,319.1	7.38	1,220.8	16,815.7	7.26
Investments	**263.2**	**6,141.7**	**4.29**	333.1	5,880.7	5.67	239.1	4,629.0	5.17
Total interest bearing assets	**1,504.4**	**27,483.1**	**5.47**	1,685.3	24,199.8	6.96	1,459.9	21,444.7	6.81
Interest bearing liabilities	**870.3**	**23,174.5**	**3.76**	1,021.5	20,041.7	5.10	867.9	17,693.8	4.91
Net interest income	**$ 634.1**			$ 663.8			$ 592.0		
Interest rate spread			**1.71%**			1.86%			1.90%
Impact of equity financing		**$ 4,308.6**	**0.60%**		$ 4,158.1	0.88%		$ 3,750.9	0.86%
Net interest margin			**2.31%**			2.74%			2.76%

The 2008 interest rate spread between interest earning assets and interest bearing liabilities decreased 15 basis points to 1.71%, compared with 1.86% in 2007. The decrease in interest rate spread resulted from a 149 basis point decrease in interest income offset by a 134 basis point decrease in interest expense. The spread compression was caused by several factors. During the first half of 2008, there was a shift in the loan portfolio from administered variable rate products to prime and, to a lesser extent, fixed rate products by borrowers. Prime tends to be the benchmark for most administered rate loans, but our variable rate debt is weighted more towards LIBOR. Also, our spreads on LIBOR and Prime funding widened during 2008 and Prime funding was less available. Fixed rate products typically do not have as high a spread as variable rate products. Of the 15 basis point decline in spread, 2 basis points were due to the immediate write-off of remaining debt concessions on debt that was called during 2008 due to lower interest rates and another 2 basis points negative impact due to a reduction of the discount amortization on investments related to slower prepayment speeds. Additionally, as the Federal Reserve lowered rates in 2008, Associations typically lowered their rates; however our cost of funds did not decline as much due to spreads widening on debt. Further, net interest income was negatively impacted by a dilution of capital as a percentage of average earning assets.

Net interest margin (net interest income to average earning assets) decreased 43 basis points to 2.31% compared with 2.74% in 2007. The net interest margin decrease was due to a decrease in the impact of equity financing of 28 basis points. Income earned on earning assets funded by non-interest bearing sources (primarily capital) decreased as yields on average earning assets declined in this lower interest rate environment.

Provision for Loan Losses

AgBank and Association managements regularly monitor their respective loan portfolios to determine if an increase or a decrease to the allowance for loan losses is warranted based on each entity's assessment of the probable losses in its loan portfolio. In aggregate, we recorded net provisions for loan losses of $22.6 million for the year ended December 31, 2008, compared with $3.6 million in 2007 and $7.5 million in 2006. Nineteen Associations and AgBank recorded provisions for loan losses of $29.5 million during 2008 with six Associations recording loan loss reversals of $6.9 million. The provisions for loan losses recorded in 2008 were primarily due to deteriorating economic conditions, commodity market volatility, earnings performance in the meat protein and ethanol sectors, larger loan portfolios and general market instability. The provisions for loan losses recorded in 2007 were primarily due to specific reserves, larger loan portfolios and decreased credit quality of certain accounts. The provisions for loan losses recorded in 2006 were primarily due to charge-offs and increased risk on certain loans in the loan portfolios.

Noninterest Income

Noninterest income for each of the three years ended December 31 is detailed in the following table:

(dollars in thousands)	**2008**	2007	2006	**Percent Increase/(Decrease) 2008/2007**	Percent Increase/(Decrease) 2007/2006
Loan and prepayment fee income	**$ 29,162**	$ 21,139	$ 16,400	**38.0%**	28.9%
Fees for financially related services	**11,401**	7,362	4,706	**54.9%**	56.4%
Mineral income	**12,529**	10,316	11,200	**21.5%**	(7.9%)
Net gains on other assets	**4,021**	191	1,052	**2,005.2%**	(81.9%)
Other noninterest income	**10,182**	9,979	6,713	**2.0%**	48.7%
Noninterest income	**$ 67,295**	$ 48,987	$ 40,071	**37.4%**	22.3%

For the year ended December 31, 2008, we recorded noninterest income of $67.3 million compared with $49.0 million in 2007 and $40.1 million in 2006. Loan and prepayment fee income increased $8.0 million primarily due to borrowers prepaying on loans as a result of responding to declining rates in 2008. Fees for financially related services increased $4.0 million primarily due to increased multi-peril and crop-hail insurance sales, resulting in increased commissions. Net gains on other assets increased $3.8 million primarily due to the sale of a few Association office buildings. Other noninterest income increased $203 thousand primarily due to an increase in patronage received from another System Bank. This was offset by losses recorded on nonqualified retirement plan investment assets.

We own mineral rights in the states of Arizona, California, Colorado, Kansas, Nevada, New Mexico, Oklahoma and Utah. These mineral rights are held at an historic cost of nominal value. Mineral income is primarily generated from royalties on natural gas and crude oil production, leasing bonuses and rental payments. This income may vary from year to year based on fluctuations in energy demand, prices and production. In 2008, mineral income increased $2.2 million due to increases in prices of both oil and natural gas, and increased oil production during the first part of the year. Approximately 70% of our mineral income in 2008 was from natural gas.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is summarized below:

(dollars in thousands)	**2008**	2007	2006	**Percent Increase/(Decrease) 2008/2007**	Percent Increase/(Decrease) 2007/2006
Salaries & employee benefits	**$ 179,345**	$ 169,207	$ 157,322	**6.0%**	7.6%
Occupancy & equipment	**18,816**	16,930	15,920	**11.1%**	6.3%
Insurance fund premium	**32,990**	27,176	24,976	**21.4%**	8.8%
Supervisory expense	**8,188**	8,088	8,011	**1.2%**	1.0%
Other operating expense	**68,506**	60,214	61,390	**13.8%**	(1.9%)
Merger-implementation costs	**4,970**	–	–	**100.0%**	–
Operating expense	**$ 312,815**	$ 281,615	$ 267,619	**11.1%**	5.2%
Losses on other property owned	**899**	966	354	**(6.9%)**	172.9%
Loss on investment impairment	**16,483**	–	–	**100.0%**	–
Loss on discontinuance of derivatives	**3,237**	1,180	8,528	**174.3%**	(86.2%)
Loss on early extinguishment of debt	**–**	1,425	–	**(100.0%)**	100.0%
Noninterest expense	**$ 333,434**	$ 285,186	$ 276,501	**16.9%**	3.1%

Noninterest expense for the year ended December 31, 2008, increased $48.2 million, or 16.9%, to $333.4 million, compared with the same period in 2007. During 2008, salaries and employee benefits expense increased $10.1 million, or 6.0%, due to merit and incentive compensation necessary to attract and retain employees with market-based compensation and an increase in the number of employees. At December 31, 2008, our workforce increased to approximately 1,600 employees from approximately 1,550 employees at December 31, 2007 as a result of overall growth.

Insurance fund premiums paid to the Farm Credit System Insurance Corporation (FCSIC) increased $5.8 million, compared with 2007, due to an increase in volume growth and an increase in premiums. In June 2008, the basis for assessing premiums was changed effective July 1, 2008, to reflect each Bank's pro rata share of outstanding insured debt. Premiums were charged on outstanding insured debt at 15 basis points for the third quarter of 2008 and 18 basis points for the fourth quarter of 2008. Previously, premiums were charged on accrual loan volume at 15 basis points for the first half of 2008, and for 2007 and 2006. Refer to Note 1C of the Notes to Financial Statements for further information on the FCSIC. Merger implementation costs of $5.0 million were recorded due to two Association mergers occurring in the District during 2008.

During December 2008, we recorded an other-than-temporary impairment of $16.5 million on one security collateralized by subprime home equity mortgages. The security had a book value of $35.0 million and a fair value of $18.5 million. Due to the probability of expected future losses in the security, GAAP accounting requires that we recognize a loss equal to the difference between book value and fair value. We believe the realizable value we will receive from this security will be significantly more than current fair value and thus this loss will be at least partially recovered over time.

During September 2008, derivatives with a notional amount of $805.0 million that we held with Lehman Brothers as our counterparty were impacted by Lehman's declaration of bankruptcy. We recognized an immediate loss in fair value of the interest rate swaps and related accrued interest of $3.2 million in the third quarter as a loss on discontinuance of derivatives. This is discussed in more detail in the Derivative Instruments section. In 2007, we closed out two interest rate cap derivatives. These caps were three-month LIBOR caps originally purchased as hedges against rising interest rates on three-month discount notes. During 2006, we closed out eight interest rate cap derivatives. These caps were either three-month LIBOR caps or six-month LIBOR caps originally purchased as hedges against rising interest rates on debt. By discontinuing these caps the remaining unamortized premiums were immediately recognized as a loss. The loss in 2007 was $1.2 million, and in 2006 was $8.5 million. In both 2007 and 2006, these caps were replaced with interest rate caps indexed to 1-month LIBOR to better match the portfolio of liabilities being hedged. Premium amortization included in interest expense in future periods will be reduced by an amount similar to the recognized cap-related losses discussed above.

Benefit from/Provision for Income Taxes

We recorded $4.2 million in benefit from income taxes in 2008 compared with a provision for income taxes of $3.6 million in 2007 and a $427 thousand benefit from income taxes in 2006. The change in income tax was primarily due to one Association eliminating a deferred tax liability related to prior years' patronage that was paid to borrowers as a result of its merger. The increase in 2007 was primarily due to a reduction in deferred tax assets relating to the change in the allowance for loan losses. Tax expense was impacted by patronage refund programs in certain District Associations. Most of the District Associations operate as Subchapter T cooperatives for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 9 for additional details.

AGRICULTURAL OVERVIEW

Our financial condition can be directly impacted by factors affecting the agricultural, rural and general economies. These factors impact the ability of farmers and ranchers to repay loans to our Associations and consequently the ability of the Associations to repay their loans with us. Factors include but are not limited to the following:

- commodity prices;
- weather, disease, or other adverse climatic or biological conditions that impact the production of agricultural products;
- availability and cost of agricultural workers;
- changes in fuel and fertilizer costs, rent and other production expenses;
- water availability, cost and environmental standards;
- significant reductions in land value;
- the relationship of demand relative to supply of agricultural commodities produced including access to domestic and export markets;
- the demand for agricultural commodities for alternative uses including ethanol and other biofuel production and the resulting impact on commodity prices and increased production costs for livestock, poultry and dairy producers;
- changes in the United States government support of the agricultural sector, including expenditures on agricultural and conservation programs;
- major international events, changes in foreign economies, and trade barriers which affect the demand for agricultural products sold or the cost of production as well as changes in the relative value of the U.S. dollar;
- access to technology and the successful implementation of production technologies; and,
- changes in the general economy that can affect interest rates and/or availability of off-farm employment for some farm households.

In general, agriculture has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the District's financial results have remained favorable as a result of these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the District's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economy have become less favorable and more volatile with the recent instability in the global financial markets and increased production costs. The negative impact from these less favorable conditions should be lessened by geographic and commodity diversification across the District and the overall financial condition of our agricultural borrowers. However, borrowers who are more reliant on off-farm income sources may be more adversely impacted from the weakened general economy.

U.S. Agricultural Outlook

The February 2009 United States Department of Agriculture (USDA) forecast estimates that 2009 farmers' net cash income (a measure of the cash income after payment of business expenses) will decrease to $77.3 billion, down $16.1 billion from 2008 but up $5.5 billion from the 10-year average. Contributing to this decrease in farmers' net cash income are decreases in cash receipts for crops of $18.7 billion, livestock of $10.9 billion and a decrease in direct government payments of $1.0 billion, offset in part by a decrease in cash expenses of $14.1 billion.

In general, 2008 was an excellent year for U.S. crop producers, particularly for feed crops, oil-seeds and food grains. The high level of farmers' net cash income was primarily the result of high commodity prices during the first half of the year. Prices for corn, soybeans, and wheat peaked at levels close to $8.00, $16.50 and $12.50 per bushel, respectively, during 2008. These higher prices were principally due to strong demand from foreign buyers and the domestic biofuel industry. Corn producers were the primary beneficiaries of the increased demand and prices. Other crop prices increased due to more acreage devoted to plant corn, which decreased the acreage available for other crops, and due to other consumers of corn seeking lower cost alternatives. In addition, the U.S. dollar depreciated against major foreign currencies resulting in more affordable U.S. agricultural exports.

However, during the latter half of 2008, many of these economic factors have shifted. A dramatic downturn in the U.S. and global economy has decreased domestic and international consumption. Oil prices dropped dramatically which dampened the profitability of ethanol, but helped most agricultural producers. Crop production outlook improved in certain regions of the world. Further, the dollar strengthened in the latter half of 2008. The combination of these events resulted in a dramatic drop in commodity prices in late 2008 to levels closer to commodity prices at the end of 2006 and 2007. The following table, which is based on information published by the USDA, sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2005 to December 31, 2008:

	December 31			
Commodity	**2008**	2007	2006	2005
Corn	**$ 4.10**	$ 3.76	$ 3.01	$ 1.92
Soybeans	**$ 9.24**	$ 10.00	$ 6.18	$ 5.77
Wheat	**$ 5.97**	$ 7.74	$ 4.52	$ 3.54
Beef cattle	**$ 79.80**	$ 88.90	$ 83.10	$ 93.30

Elevated crop prices during 2008 and the resulting volatility due to a dramatic drop in crop prices in the latter half of 2008 had both positive and negative impacts on the District, as a lender to the agricultural and rural sectors. Elevated commodity prices and increased prices and demand for farm inputs resulted in an increase in average agribusiness loans outstanding during 2008, as compared with 2007. While higher commodity prices positively impacted grain farmers through the first nine months of 2008, a continuation of recent declines in grain prices could have an unfavorable impact in the near future. The volatility of these prices has resulted in higher risk profiles for some District borrowers.

According to the USDA February 2009 forecast, farm business balance sheets continued to strengthen in the last few years, as measured by debt relative to assets and equity levels. Farmers' equity (farm business assets less farm business debt) is expected to continue to rise by 1.7% in 2009, after increasing 6.8 % in 2008. One measure of the financial health of the agricultural sector used by the USDA is farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. Since 1970, debt repayment capacity utilization has ranged from a low of 35.8% in 1973 to a high of 104.1% in 1981, and has remained relatively stable since 1987, averaging about 50%. USDA predictions suggest an increase in the use of debt repayment capacity from 44.1% in 2008 to 50.2% in 2009.

District Agricultural Overview

Agriculture in the District is very diverse. California is significantly different from the other areas of the District and produces a vast number of agricultural products. Of all the agricultural products produced in the United States, California can produce all of them with only a few exceptions. The eastern portion of the District is more concentrated in small grains. Livestock production is predominant in the center part of the District, but occurs throughout the District.

In the western part of the District, significantly higher input costs impacted all operations and some areas of California and Arizona were faced with limited water supplies. For the most part, planting, growing, and harvest conditions were satisfactory, and favorable prices for most commodities helped mitigate the higher costs of production. Results for most operations were positive, while results for tree fruit and vegetable operations were mixed, depending on the timing and quality of the product being marketed. Recent price declines for almonds, walnuts, and milk have been attributed to large supplies and weakening economies at home and abroad, and will likely lead to tighter operating margins and/or losses in 2009. Below average rainfall and snow pack for California during late 2008 and early 2009, along with low reservoir levels and increased water demands for environmental purposes, may significantly reduce the flow of water to agriculture in 2009, particularly on the west side of the San Joaquin Valley. Affected growers have drilled wells, altered crop planting decisions, fallowed ground, or relied on water purchases from other land owners. While most of California had adequate water supplies for 2008, the need for short and long-term solutions for the state's water supply and distribution is an increasing concern.

Production challenges also exist in the central portion of the District. Irrigation water supplies continue to be challenges in parts of Colorado and New Mexico. Annual winter snowfall is critical to many agricultural producers in these areas.

In the eastern part of the District, there were minimal delays in completing the 2008 fall crop harvest, with corn and soybean yields being above average in most areas. Crop insurance continued to be utilized by most producers and provided protection to producers that encountered below normal crop yields. The recent decline in the grain markets may present challenges to producers given existing product costs. The decline in the grain market appears to be more a function of the downturn in the overall world economy versus supply and demand factors as reports continue to reflect modest grain inventories globally. Lower grain prices have translated into lower feed costs for livestock producers. Fed cattle prices have moved higher throughout the last quarter; however, losses for cattle feeders continue. Market prices for feeder cattle as well as stocker calves have softened. Hog and poultry producers are small segments in the portfolio, but continue to struggle even with the reduction in grain prices.

Agricultural real estate values in the District are generally stable, depending on the type of land and local market conditions. Development potential, 1031 tax exchanges, recreational uses and lifestyle ownership are expected to have reduced influence on land values in future years based on the current economic environment.

LOAN PORTFOLIO

Total loan volume was $23.13 billion at December 31, 2008, an increase of $3.37 billion, or 17.1%, from December 2007, and a $5.50 billion, or 31.2%, increase over December 31, 2006. Strong demand, effective business development strategies, and strong reputation and image in the marketplace have all contributed to loan growth. Associations continue to meet customer borrowing needs even as some lenders have less available credit. AgBank loans to District Associations have been eliminated in the combined financial statements. The types of loans outstanding at December 31 are reflected in the following table.

(dollars in millions)	**2008**		2007		2006	
Type of Loan	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Real estate mortgage loans	**$ 13,583.5**	**58.8%**	$ 11,679.4	59.0%	$ 10,586.8	60.0%
Production and intermediate-term loans	**5,675.8**	**24.5**	4,794.2	24.3	4,300.2	24.4
Agribusiness loans to:						
Cooperatives	**394.3**	**1.7**	455.1	2.3	353.3	2.0
Processing and marketing operations	**2,358.9**	**10.2**	1,794.4	9.1	1,368.4	7.7
Farm related businesses	**576.7**	**2.5**	567.9	2.9	539.2	3.1
Communication loans	**100.6**	**0.4**	95.9	0.5	123.1	0.7
Energy loans	**193.7**	**0.8**	139.3	0.7	133.7	0.8
Water and waste disposal loans	**18.0**	**0.1**	15.0	0.1	8.5	–
Rural residential real estate loans	**59.1**	**0.3**	52.4	0.3	51.0	0.3
Lease receivables	**136.6**	**0.6**	136.7	0.7	134.2	0.8
Mission-related loans	**3.3**	–	–	–	–	–
OFI loans	**24.9**	**0.1**	25.4	0.1	27.3	0.2
Total	**$ 23,125.4**	**100.0%**	$ 19,755.7	100.0%	$ 17,625.7	100.0%

Real estate mortgage loan volume increased 16.3% to $13.58 billion, compared with $11.68 billion at year-end 2007. These long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. An upward trend continues in the part-time or lifestyle type farming operations across the District which has impacted real estate mortgage loan growth. By law, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies.

The production and intermediate-term loan volume increased 18.4% to $5.68 billion, compared with 2007 loan volume of $4.79 billion. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Loan volume in AgBank's correspondent lending portfolio is included throughout the previous table. This portfolio increased 6.8% to $1.04 billion, compared with $976.3 million at December 31, 2007. This volume is primarily comprised of participations purchased and other multi-lender transactions in large Energy, Agribusiness, and Production and intermediate-term loans with lead lenders who demonstrate high quality servicing and credit administration practices.

As a District, we continue to be a significant net purchaser of loan volume from non-System institutions in 2008. Through transactions with non-System institutions, we have purchased loan volume of $701.9 million and sold loan volume of $115.1 million as of December 31, 2008. As of year-end 2007, we had purchased loan volume of $891.0 million and sold loan volume of $152.3 million. The trend for financing large agribusiness companies has been to utilize multi-lender transactions. AgBank provides funding to Associations for these various large and complex financing arrangements. In addition, AgBank purchases interests in loans from Associations, commercial banks and other Farm Credit institutions in loan transactions through its correspondent lending business line.

Approximately 48% of the loans in our portfolios are variable rate loans and 48% are fixed rate loans. Adjustable rate loans comprise 4%. The following table indicates the type of variable and fixed rate loans in the portfolio. While administered variable rate loans are not tied to an external index, the Prime, LIBOR and adjustable rate loans are indexed to an external rate.

	2008	2007	2006
Variable rate loans			
Administered variable	**28%**	36%	44%
Variable indexed to LIBOR	**2%**	2%	2%
Variable indexed to Prime	**18%**	11%	7%
Fixed rate loans			
Fixed rate to maturity	**24%**	23%	23%
Fixed rate to conversion	**24%**	22%	17%
Adjustable rate loans	**4%**	6%	7%
Total	**100%**	100%	100%

Portfolio Diversification

The underlying collateral in our District portfolio is diversified by the variety of commodities financed and the large and diverse geographic area served. However, due to the territory structure and cooperative nature of the System, some geographic and commodity concentrations do exist.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically include more than one commodity. There are over 400 commodities produced in our District. Our largest commodity concentration is in dairy loans, which are geographically dispersed across ten states, but with a concentration in California. Our second largest commodity, cattle, has further industry segmentation including feedlots, cow/calf operations, and stocker cattle. We have limited exposure to the biofuel industry as shown in the following table. In each of the other concentrations above 3.5%, there is further commodity diversification or industry segmentation within the primary Standard Industrial Code (SIC) category. Some additional diversification is also achieved from the loans to rural home owners and part-time farmers, who typically derive most of their earnings from non-agricultural sources, are less subject to agriculture cycles and would likely be more affected by weaknesses in the general economy. Loans to rural home owners are segregated in the following table as their own SIC category. Loans to part-time farmers are included throughout the commodities produced.

SIC Category	December 31 **2008**	2007	2006
Dairy farms	**15.62%**	15.84%	17.00%
Cattle	**14.23**	15.71	15.42
Grapes	**6.92**	6.69	6.94
Tree nuts	**6.88**	6.54	6.42
Food products	**5.82**	5.66	4.97
Field crops	**5.76**	5.54	5.53
Fruits	**4.05**	4.36	4.41
Farm related business services	**3.92**	3.90	3.58
Vegetables	**3.59**	3.78	3.73
Other livestock	**3.55**	3.52	3.73
Wheat	**2.77**	3.01	3.48
Rural homes	**2.70**	2.16	1.80
Corn	**2.61**	2.82	3.20
Horticulture specialties	**2.13**	2.09	2.19
Cash grains	**2.01**	1.75	1.51
Forestry	**1.96**	1.63	1.09
Logging and wood products	**1.75**	2.07	1.77
General farm	**1.41**	1.65	1.81
Rural utilities	**1.37**	1.29	1.60
Cotton	**1.15**	1.38	1.74
Sugarcane, sugar beets and potatoes	**1.07**	1.25	0.94
Citrus fruits	**1.06**	1.09	1.13
Rice	**1.05**	1.15	1.30
Farm supplies	**0.96**	0.57	0.71
Biofuel	**0.79**	0.60	0.19
Soybeans	**0.47**	0.54	0.60
Other	**4.40**	3.41	3.21
Total	**100.00%**	100.00%	100.00%

As of December 31, 2008, 27 Associations serve our chartered territory, which includes the states of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. The following table illustrates the geographic distribution of the loan volume in our aggregate portfolio at December 31.

	Number of Associations	2008	2007	2006
California	**7**	**49.8%**	48.9%	46.8%
Kansas	**6**	**12.2**	12.6	13.1
Colorado	**3**	**7.4**	8.3	8.6
Oklahoma	**6**	**5.5**	5.9	5.7
New Mexico	**1**	**4.4**	4.6	4.7
Arizona	**1**	**3.8**	3.5	4.1
Oregon	**–**	**1.8**	2.3	3.0
Utah	**1**	**1.8**	1.8	1.9
Texas	**–**	**1.8**	1.2	1.4
Idaho	**1**	**1.6**	1.4	1.3
Washington	**–**	**1.3**	1.0	1.4
Nevada	**–**	**0.8**	0.9	0.8
Hawaii	**1**	**0.3**	0.4	0.5
Wyoming	**–**	**0.3**	0.3	0.2
Other states	**–**	**7.2**	6.9	6.5
Total	**27**	**100.0%**	100.0%	100.0%

Only the states of California and Kansas have volume representing more than 10% of our total portfolio with California representing 49.8% of the total District loan volume. The significant geographic and commodity diversification of California agriculture helps mitigate this concentration. California agriculture ranks first in the nation in agricultural production, with over $36 billion in cash receipts from 75,000 farms and ranches and more than 400 different commodities raised. California produces about half of the U.S. total fruit, nuts and vegetable crops, is the leading dairy producer in the nation, and is the sole producer of a large number of specialty crops. Total agricultural cash receipts in California represent 13% of the U.S. total. California's unmatched commodity diversification, from a number of different geographic locations throughout the state, provides an attractive agricultural lending environment. The Other states category, as well as Texas and Washington increased due to participations purchased outside the District Association territories.

Loans originated for less than $250 thousand make up 10.4% of loan volume and 78.8% of the number of loans. Loans that were originated for more than $5 million are 22.9% of the portfolio and 0.7% of the number of loans. The table below details the loan principal by loan size category. Our ten largest loan complexes based on total outstanding commitments were $1.08 billion with $589.4 million in outstanding volume at December 31, 2008.

	December 31, 2008		December 31, 2007		December 31, 2006	
(Range in thousands)	**Amount outstanding ($ in millions)**	**Number of loans**	Amount outstanding ($ in millions)	Number of loans	Amount outstanding ($ in millions)	Number of loans
$1 - $250	**$ 2,401.6**	**57,991**	$ 3,743.9	58,467	$ 3,673.4	58,258
$251 - $500	**2,472.8**	**6,613**	2,218.9	5,986	2,080.3	5,935
$501 - $1,000	**3,346.2**	**4,346**	2,789.2	3,723	2,471.3	3,521
$1,001 - $5,000	**9,601.9**	**4,105**	7,479.8	3,409	6,364.8	3,216
$5,001 - $25,000	**5,029.7**	**527**	3,250.5	376	2,736.2	347
$25,001 - $100,000	**273.2**	**7**	273.4	7	299.7	19
Total	**$ 23,125.4**	**73,589**	$ 19,755.7	71,968	$ 17,625.7	71,296

Credit Commitments

AgBank and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our combined 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2008, $7.50 billion of commitments to extend 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 combined statement of condition 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. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

AgBank and Associations may also participate in standby letters of credit to satisfy the financing needs of their borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2008, the District had $157.3 million of standby letters of credit.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

	December 31		
(dollars in thousands)	**2008**	2007	2006
Nonaccrual loans			
Real estate mortgage	**$ 39,210**	$ 36,693	$ 48,039
Production and intermediate-term	**172,529**	38,319	31,141
Agribusiness	**30,006**	2,364	3,962
Communication	**542**	–	–
Rural residential real estate	**137**	54	108
Lease receivables	**79**	52	189
Total nonaccrual loans	**242,503**	77,482	83,439
Accruing restructured loans			
Real estate mortgage	**2,362**	3,594	4,316
Production and intermediate-term	–	584	–
Rural residential real estate	**15**	18	21
Total accruing restructured loans	**2,377**	4,196	4,337
Accruing loans 90 days past due			
Real estate mortgage	**6,816**	1,072	536
Production and intermediate-term	**1,648**	2,566	688
Agribusiness	**–**	83	–
Rural residential real estate	**6**	–	–
Total accruing loans 90 days past due	**8,470**	3,721	1,224
Total impaired loans	**253,350**	85,399	89,000
Other property owned	**3,870**	3,974	6,793
Total high risk assets	**$ 257,220**	$ 89,373	$ 95,793
Nonaccrual loans to total loans	**1.05%**	0.39%	0.47%
Impaired loans to total loans	**1.10%**	0.43%	0.50%
High risk assets to total loans	**1.11%**	0.45%	0.54%
High risk assets to total shareholders' equity	**5.73%**	2.01%	2.41%

Total high risk assets increased $167.8 million to $257.2 million compared with year-end 2007. Nonaccrual volume increased $165.0 million to $242.5 million at December 31, 2008 primarily due to the transfer during the fourth quarter of one large participation loan for a processor of poultry food products. As a result of higher corn prices and reduced demand for poultry, the large poultry processor filed for bankruptcy protection during the fourth quarter of 2008. Due to the collateralization on this loan, we did not record a specific provision for loan losses on this loan. Further contributing to the deterioration in our credit quality were loans to other borrowers adversely impacted by commodity price volatility and higher farm input costs in the current agricultural environment and loans to borrowers who were adversely impacted due to the deterioration in the general economy. Nonaccrual loans current with respect to principal and interest represented 77.6% of total nonaccrual volume at December 31, 2008, compared with 39.3% at year-end 2007 and 41.3% at year-end 2006. Although current, these loans did not meet all requirements for accrual status. Other property owned decreased slightly to $3.9 million, compared with $4.0 million at year-end 2007. In 2007, the decrease in other property owned was due to the sale of property and the write-down in value of a property that was a participation purchased by two District Associations. While credit quality indicators declined in 2008, they remained at generally favorable levels. Overall, high risk assets remain low relative to the size of our loan portfolio.

The following tables present further information on outstanding impaired loans as of December 31, 2008, by year of loan origination and by state.

(dollars in thousands)

By year of origination:		By state:	
Before 1998	$ 12,573	Arizona	$ 2,959
1998	345	California	64,428
1999	2,061	Colorado	30,128
2000	1,904	Hawaii	1,159
2001	1,936	Idaho	380
2002	10,815	Iowa	865
2003	6,325	Kansas	12,660
2004	26,408	Minnesota	1,491
2005	12,507	Nebraska	4,113
2006	45,116	Nevada	410
2007	72,763	New Mexico	7,241
2008	60,597	Oklahoma	9,512
		Oregon	8,638
		Texas	108,726
		Utah	640
Total	$ 253,350	Total	$ 253,350

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution. Although aggregated in the combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the respective loan portfolios. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses.

	December 31		
(dollars in thousands)	**2008**	2007	2006
Balance at beginning of year	**$ 66,164**	$ 64,637	$ 65,309
Charge-offs:			
Real estate mortgage	**1,634**	101	510
Production and intermediate-term	**9,084**	1,915	8,210
Agribusiness	**2,575**	1,071	1,693
Communication	**221**	21	–
Lease receivables	**9**	–	–
Total charge-offs	**$ 13,523**	$ 3,108	$ 10,413
Recoveries:			
Real estate mortgage	**65**	33	88
Production and intermediate-term	**496**	535	694
Agribusiness	**10,852**	484	1,424
Rural residential real estate	**–**	–	19
Total recoveries	**$ 11,413**	$ 1,052	$ 2,225
Net charge-offs	**$ 2,110**	$ 2,056	$ 8,188
Provision for loan losses	**22,601**	3,583	7,516
Balance at December 31	**$ 86,655**	$ 66,164	$ 64,637
Net charge-offs to average net loans	**0.01%**	0.01%	0.05%

The following table presents the allowance for loan losses by loan type as of December 31.

(dollars in thousands)	**2008**	2007	2006
Real estate mortgage	**$ 20,805**	$ 18,396	$ 21,552
Production and intermediate-term	**42,037**	33,858	30,521
Agribusiness	**22,133**	12,330	9,937
Communication	**245**	192	804
Energy	**537**	229	325
Water and waste disposal	**4**	3	2
Rural residential real estate	**88**	80	119
Lease receivables	**798**	1,076	1,377
Mission-related	**8**	–	–
Total	**$ 86,655**	$ 66,164	$ 64,637

The allowance for loan losses increased $20.5 million from December 31, 2007, to $86.7 million at December 31, 2008. The primary factors impacting the increase in allowance for loan losses were the provision for loan losses of $22.6 million offset by net charge-offs of $2.1 million. Charge-offs during 2008 were recorded on a few specific loans in several Associations throughout the District. During 2008, two Associations recorded a recovery on one participation loan for a deficiency judgment related to a real estate foreclosure and another Association recorded a recovery for full settlement on one loan. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators are presented in the following table.

		December 31	
	2008	2007	2006
Allowance as a percentage of:			
Gross loans	**0.37%**	0.33%	0.37%
Total impaired loans	**34.20%**	77.48%	72.64%
Nonaccrual loans	**35.73%**	85.39%	77.47%

The allowance for loan losses as a percent of gross loans increased slightly to 0.37% at December 31, 2008, from 0.33% at 2007. The allowance as a percentage of total impaired loans and of nonaccrual loans decreased since December 31, 2007, due to the increase in the nonaccrual loans and total impaired loans as a result of the fourth quarter transfer of one large loan participation with a borrower in the poultry industry. See Note 3 to the accompanying combined financial statements for detailed information regarding the allowance for loan losses.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolios and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized by each institution to determine an applicant's operational, financial, and managerial resources available for repaying debt within the term of the note and loan agreement. Underwriting standards include, among other things, an evaluation of:

- character - borrower integrity and credit history;
- capacity - repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral - to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital - ability of the operation to survive unanticipated risks; and,
- conditions - intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, institutions cannot have loan commitments to one borrower for more than 25.0% of the institution's permanent capital. Through lending delegations AgBank further restricts individual loan size limits to 15.0% of an Association's permanent capital. Within these parameters, each Association in the District sets its own lending limits to manage loan concentration risk. Lending limits can be established for individual loan size, commodity type, special lending programs and geographic concentrations. Several Associations have further limited their exposure by adopting an individual loan size limit less than 15.0% of permanent capital. The District has also implemented a voluntary hold limit for large loan exposures on a District-wide basis. The hold limit for the lowest risk exposure is $350 million and is reduced as risk increases.

Internal lending delegations are established within AgBank and each Association to properly control the loan approval process. Delegations to staff are based on each institution's risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex or risky loans are typically approved by loan committees with the most experienced and knowledgeable credit staff serving as members.

AgBank and most Associations have participation programs with other System and non-System institutions. For each institution, buying and selling loan volume, within and outside the System, can help reduce its concentrations and manage growth and capital position. Concentrations and credit risk are also managed through the utilization of government guarantee programs. Volume in the government guarantee programs was $206.4 million at December 31, 2008, $205.1 million at December 31, 2007 and $196.7 million at December 31, 2006.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by the Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac guarantees was $681.0 million at December 31, 2008, $465.8 million at December 31, 2007 and $672.9 million at December 31, 2006. Included in other operating expenses were fees paid for Farmer Mac guarantees totaling $2.3 million in 2008, $2.2 million in 2007 and $4.1 million in 2006. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolios, and we pay guarantee fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event that the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the guarantee remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. In addition, the District holds $889.1 billion in Farmer Mac securities, which are guaranteed by Farmer Mac and backed by agricultural mortgage loans. We held $1.16 billion as of December 31, 2007 and $1.08 billion at December 31, 2006. We have counterparty risk with Farmer Mac on all of these transactions. Other than the contractual obligations arising from these business transactions between Farmer Mac and entities in the District, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Each institution in the District has internal control programs that evaluate the accuracy of credit quality reporting and effectiveness of credit administration. Furthermore, AgBank has loan covenant provisions in the General Financing Agreement that require Associations to maintain accurate credit quality reporting and satisfactory credit administration management. All Associations were in compliance with these covenants as of December 31, 2008.

Approximately 59% of our loan volume is first mortgage real estate loans which must be secured by first liens on real estate. Production and intermediate-term lending accounts for most of the remaining loan volume and is also typically secured. Collateral evaluations are completed in compliance with Farm Credit Administration (FCA) and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

District institutions use a Combined System Risk Rating Model (Model) which is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model is utilized in loan and portfolio management processes. It is also used in the allowance for loan losses estimates, as it contains much more portfolio granularity, particularly related to acceptable loan classification under the Uniform Loan Classification System (UCS). The Model's 14-point scale provides for nine acceptable categories, one other assets especially mentioned (OAEM) category, two substandard categories, one doubtful category and one loss category. In addition, this Model serves as the basis for economic capital modeling.

We also continue to classify our loans based on the UCS. These classifications are as follows:

Classification	Description
Acceptable	Assets are expected to be fully collectible and represent the highest quality.
Other Assets Especially Mentioned (OAEM or Special Mention)	Assets are currently collectible but exhibit some potential weakness.
Substandard	Assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
Doubtful	Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
Loss	Assets are not considered collectible.

The following table presents statistics based on UCS related to credit quality of the loan portfolio, including accrued interest.

	December 31					
(dollars in millions)	**2008**		2007		2006	
Acceptable	**$ 22,431.4**	**95.90%**	$ 19,318.0	96.36%	$ 17,160.6	95.84%
OAEM	**424.5**	**1.81**	391.0	1.95	395.2	2.21
Total acceptable	**$ 22,855.9**	**97.71%**	$ 19,709.0	98.31%	$ 17,555.8	98.05%
Substandard	**534.2**	**2.28**	330.4	1.65	350.5	1.95
Doubtful	**1.6**	**0.01**	8.2	0.04	0.3	–
Total	**$ 23,391.7**	**100.00%**	$ 20,047.6	100.00%	$ 17,906.6	100.00%

Acceptable and OAEM loan volume decreased to 97.71% at December 31, 2008 compared with 98.31% at December 31, 2007. There were no loans classified as Loss at the end of any of the three years presented. The financial position of most agricultural producers strengthened during the past decade. With our borrowers' strong financial positions and favorable net cash income in agriculture our credit quality remained sound. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Although recent economic conditions have created challenges for some borrowers, credit quality is anticipated to remain sound throughout 2009. We expect that less favorable economic conditions will lead to a weakening in the loan portfolios.

LIQUIDITY

Liquidity is necessary to meet the District's financial obligations. For AgBank and the Associations, liquidity is needed to pay Systemwide Debt Securities as they mature, fund loans and other commitments and for business operations. Our primary source of liquidity is AgBank's ability to issue Federal Farm Credit Banks Consolidated Systemwide bonds and discount notes. The System is a government-sponsored enterprise (GSE) and generally we have had access to domestic and global capital markets. This access has traditionally provided us with a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. We rely on System funding as we do not have access to funding through deposits. Moody's Investors Service, Standard and Poor's, and Fitch Ratings have rated the System's long-term debt as Aaa, AAA and AAA, respectively, and short-term debt as P-1, A-1+, and F-1, respectively. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's GSE status. Material changes to the factors considered could result in a different debt rating. Although financial markets have experienced significant volatility, we have been able to obtain sufficient funding to meet the needs of our customer base. At times this funding has been in shorter maturities due to a lack of investor interest in longer dated debt maturities. We anticipate continued access to the funding necessary to support our lending and business operations. The U.S. government does not guarantee, directly or indirectly, the Systemwide Debt Securities.

A primary objective of liquidity risk management is to plan and prepare for unanticipated changes in the capital markets. The System Banks and Funding Corporation have established a Contingency Funding Program. The program provides for contingency financing mechanisms and procedures to address potential disruptions in our communications, operations, and payments systems. Under this program, in addition to directly issuing Systemwide Debt Securities to certain select institutional investors, the Banks may also incur other obligations, such as purchases of Federal Funds, that would be the joint and several obligations of the Banks and would be insured by FCSIC to the extent funds are available in the Insurance Fund.

AgBank serves as the primary source of liquidity for the District. AgBank's liquid assets are comprised of cash, federal funds, and eligible investment securities. Liquid assets decreased $101.4 million during 2008 to $5.06 billion, primarily due to the decrease in the value of these investments. Liquid assets were 19.9% of AgBank's total assets at December 31, 2008 and 22.8% at December 31, 2007.

FCA regulations require that AgBank's cash (including the proceeds of debt newly issued but not settled) and eligible investments be maintained in amounts sufficient to meet 90 days of maturing debt obligations on a continuous basis assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing debt obligations with the total amount of cash and eligible investments maintained.

As of December 31, 2008, AgBank held liquid assets comprised of cash and eligible marketable investments to be able to fund 147 days of debt maturities. On average during 2008, AgBank held liquid assets to be able to cover funding for an estimated 172 days. Our days coverage typically declines at year end due to year-end short-term loan volume advances that are typically repaid early in the next year. Further AgBank has its contingency plans in place in the event that ready access to traditional debt markets is not available. These plans identify other possible avenues for funding or liquidity generation such as borrowing overnight via federal funds, selling investments, or pledging investments as collateral for securitized borrowings.

Information regarding cumulative debt maturities of bonds and notes with maturities within one year as of December 31 is outlined below:

	Cumulative volume *(in millions)*		
Debt maturing in:	**2008**	2007	2006
1 day	**$ 325.7**	$ 376.5	$ 276.1
7 days	**$ 660.7**	$ 786.6	$ 581.1
90 days	**$ 3,818.5**	$ 4,254.2	$ 2,931.4
180 days	**$ 5,215.0**	$ 5,552.0	$ 3,882.0
365 days	**$ 8,104.4**	$ 7,847.6	$ 6,030.5

Funding Sources

As previously discussed, AgBank raises funds in the capital markets. All System debt is the joint and several obligation of all System Banks. The debt shown throughout this report represents AgBank's portion of Systemwide bonds and notes. AgBank is primarily responsible for this debt. This debt is senior to the claims of general creditors by FCA regulation and does not carry any covenants, events of default, trustee or indenture and is not subject to acceleration in the event of default. In 2008, AgBank issued a total of $73.66 billion in new and replacement debt to support its business activities. The debt issuances occurred through the Systemwide funding programs. This included designated and term bonds for longer maturity financing, and discount notes or floating rate obligations, for shorter maturity or floating rate financing.

AgBank had the following Systemwide Debt Securities outstanding as of December 31.

	2008			2007			2006		
(dollars in thousands)	**Amount**	**Weighted Interest Rate**	**Weighted Maturity**	Amount	Weighted Interest Rate	Weighted Maturity	Amount	Weighted Interest Rate	Weighted Maturity
Bonds	**$ 20,956,676**	**3.10%**	**3.59 years**	$ 17,518,547	4.88%	3.75 years	$ 15,795,488	5.03%	3.44 years
Discount notes	**2,913,211**	**0.70**	**31 days**	3,240,389	4.16	32 days	2,019,253	5.23	21 days
Medium-term notes	**135,564**	**6.07**	**1.89 years**	344,794	5.61	1.42 years	366,356	5.50	2.33 years
Total	**$ 24,005,451**	**2.83%**	**3.16 years**	$ 21,103,730	4.78%	3.15 years	$ 18,181,097	5.06%	3.05 years

AgBank's Systemwide debt obligations were $24.01 billion at December 31, 2008, up $2.91 billion from $21.10 billion at December 31, 2007. The increase in debt obligations reflects the funding for the increase in our loans during 2008. Funding is actively managed and new loans and investments are funded as close as possible to when the assets are priced. The funding mix is comprised of various amounts of floating rate or fixed rate debt, which may be callable, and is distributed across the maturity spectrum depending on the terms and the optionality of the assets being funded.

AgBank has various credit arrangements with other financial institutions for liquidity purposes, although at December 31, 2008, none are formally committed facilities. See Note 7 in the accompanying combined financial statements for additional details related to our bonds and notes.

Many banks and financial institutions have been able to access funds for their lending operations through the various programs created or recently expanded by the U.S. government in response to the current credit crisis. Our lack of current access to such programs may put us at a competitive disadvantage to those entities participating in such programs. However, to date the System has not required or requested access to these programs.

Investments

As a means of mitigating the risk of short-term disruptions in our ability to obtain funding for business operations, AgBank maintains an investment portfolio. Liquidity is an essential characteristic for the investments purchased for this portfolio. A secondary objective of our investment portfolio is to generate earnings. Additionally, we are authorized to hold mission-related investments and other investments to support rural America. As a general rule, our investments for liquidity purposes are classified as available-for-sale, but typically we hold investments to their maturity. We do not actively trade this portfolio. See Note 4 for additional details related to our investment securities.

Eligible Investments

Under FCA regulations, AgBank is authorized to hold eligible investments for purposes of maintaining a diverse source of liquidity, managing short-term surplus funds, and managing interest rate risk. The eligible investment portfolio, which excludes mission-related and other investments, serves as AgBank's liquidity portfolio. As of December 31, 2008, our eligible portfolio included 87.5% of government and agency guaranteed securities. The eligible investment portfolio, including the securities that have become ineligible due to rating agency downgrades, are subject to a regulatory limit of 35% of average loans. As of December 31, 2008, these investments were 27.6% of average outstanding loans for the previous quarter. To be considered eligible, mortgage-backed securities (MBS) and asset-backed securities (ABS) must be in the highest rated category of a nationally recognized credit rating service. AgBank may be required by FCA to divest of any investment within six months should it become ineligible under the regulations. As of year-end 2008, AgBank held eight investments at a fair value of $84.3 million that were ineligible and could require divestiture at some point in time. AgBank submitted plans to FCA to continue to hold these securities and FCA has approved AgBank holding all eight securities subject to meeting certain specified conditions. These ineligible investments are included with mission related and other investments for reporting purposes only. At December 31, 2008, four ABS home equity securities with a fair value of $54.4 million and five non-agency MBS with a fair value of $120.7 million were on negative credit watch or have been downgraded by at least one rating agency but each remains as an eligible investment with at least one AAA rating.

In accordance with AgBank's board approved investment policy, we purchase only AAA rated investments. Short-term securities (including federal funds), along with corporate securities, must be rated in either the top rating category (A1, P1 or F1) or in the top two highest rated categories (AA- or higher) by a nationally recognized credit rating service for these securities. All MBS and ABS must be in the highest rated category (AAA).

All of our investment securities held for liquidity are classified available-for-sale and are reported at their estimated fair value on the Combined Statement of Condition. As of December 31, the composition of the District's federal funds and investment portfolio held for liquidity was as follows:

	2008		2007		2006	
(dollars in thousands) Eligible Investments	**Carrying Value**	**Percent of Total**	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Available-for-sale:						
Federal funds	**–**	**–**	$ 113,363	2.2%	$ 102,833	2.6%
Mortgage-backed securities (MBS)						
Government guaranteed	**$ 1,998,201**	**41.1%**	1,612,827	31.6	767,284	19.5
Agency guaranteed	**2,253,324**	**46.4**	2,378,092	46.7	1,880,277	47.8
Non-agency	**380,303**	**7.8**	637,519	12.5	576,414	14.7
Total MBS	**$ 4,631,828**	**95.3%**	$ 4,628,438	90.8%	$ 3,223,975	82.0%
Asset-backed securities (ABS)						
Home equity	**$ 109,298**	**2.2%**	$ 225,903	4.4%	$ 605,131	15.4%
Credit cards	**119,448**	**2.5**	129,145	2.6	–	–
Total ABS	**$ 228,746**	**4.7%**	$ 355,048	7.0%	$ 605,131	15.4%
Total eligible investment securities	**$ 4,860,574**	**100.0%**	$ 5,096,849	100.0%	$ 3,931,939	100.0%

Mission-related Investments and Other Investments

To further the System's mission to serve rural America, the District has mission-related programs and other mission-related investments which have been approved by the FCA. The FCA determines limitations on mission-related investments. Additionally, we are authorized to hold Farmer Mac securities which are included in other investments. Ineligible investments are also included in the following table along with these other investments. Mission-related and other investments are not included in the liquidity calculations as they do not have the same liquidity characteristics as eligible investments. As of December 31, the composition of our mission-related and other investments portfolio was as follows:

	2008		2007		2006	
(dollars in thousands) Mission-Related and Other Investments	**Carrying Value**	**Percent of Total**	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Available-for-sale:						
Farmer Mac securities	**$ 557,935**	**56.9%**	$ 644,893	55.2%	$ 771,268	71.1%
Ineligible securities	**84,280**	**8.6**	–	–	–	–
Total available-for-sale	**$ 642,215**	**65.5%**	$ 644,893	55.2%	$ 771,268	71.1%
Held-to-maturity:						
Farmer Mac securities	**$ 331,211**	**33.8%**	$ 515,504	44.1%	$ 313,474	28.9%
Mission-related investments	**7,494**	**0.7**	8,433	0.7	–	–
Total held-to-maturity	**$ 338,705**	**34.5%**	$ 523,937	44.8%	$ 313,474	28.9%
Total mission-related and other investments	**$ 980,920**	**100.0%**	$ 1,168,830	100.0%	$ 1,084,742	100.0%

Under Board approved policies, we may hold Farmer Mac securities which are pools of agricultural loans that have been securitized and guaranteed by Farmer Mac. At year-end, we held $889.1 million of Farmer Mac securities, compared with $1.16 billion at year-end 2007. (See the Credit Risk Management section for more discussion about Farmer Mac.) All of these Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under Farmer Mac standby purchase commitments.

Additional Investment Information

AgBank's home equity asset-backed securities, at December 31, 2008, were primarily first lien securities collateralized by subprime home equity mortgages. These securities had a fair value of $140.0 million and an unrealized loss of $43.7 million compared with $225.9 million of fair value held at December 31, 2007 with an unrealized loss of $20.7 million. Rating agencies downgraded certain large insurers, which resulted in certain asset-backed securities with insurance guarantees also being downgraded. As of December 31, 2008, three asset-backed securities with insurance guarantees and a fair value of $1.3 million along with two other asset-backed securities with a fair value of $29.4 million have been downgraded below AAA by all rating agencies.

Additionally, AgBank has three non-agency mortgage-backed securities with a fair value of $53.6 million and an unrealized loss of $45.4 million that were downgraded below AAA by all rating agencies. At December 31, 2007, these securities had a fair value of $116.1 million with a small gain. These mortgage-backed securities are supported by underlying fixed-rate mortgages that were originated with limited documentation and are considered Alt-A.

These eight downgraded securities at a combined fair value of $84.3 million are not eligible under FCA regulations and are not included in the liquidity portfolio or the liquidity calculations. Additionally, AgBank recorded a $16.5 million other-than-temporary impairment on one of the home equity asset-backed securities with a book value of $35.0 million and a fair value of $18.5 million. The remaining seven ineligible securities will continue to be monitored for other-than-temporary impairment. AgBank has the ability and intent to hold these securities to their maturity. Because the securities are ineligible and cannot be used for liquidity purposes, they are reported with mission-related and other investments.

Unrealized Investment Losses

Total investments included net unrealized losses of $176.4 million at year-end 2008, $44.8 million at year-end 2007 and $23.6 million at year-end 2006. Total investment securities which were in a gross unrealized loss position at December 31, 2008 consisted of MBS and ABS with unrealized losses of $240.3 million. The length of time that these individual securities have been valued below book value ranges from one month to over twelve months with unrealized losses ranging from less than $1 thousand to over $19.3 million. The total unrealized loss for these investments is 4.11% of the fair value of total investment securities. The unrealized loss position at December 31, 2008 is primarily due to market volatility and reduced liquidity which has led to a widening of spreads demanded by market participants across all sectors. The wider market spreads will likely persist for some time. We have the ability and intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments. The losses are not considered to be other-than-temporary valuation impairments at December 31, 2008. We continue to monitor these losses closely and subsequent changes in market or credit conditions could change our evaluation. For more information see Note 4.

Farmer Mac Investment

On September 30, 2008, the five System Banks purchased $60.0 million of senior cumulative perpetual preferred stock of Farmer Mac. AgBank's share of the preferred stock purchase was $9.0 million. This is reported in Other assets on the Combined Statement of Condition and is accounted for under the cost method. Dividends on the preferred stock are cumulative and will be payable quarterly, in cash, at an annual interest rate of 10%, increasing 2% in each of the first three years, up to a maximum of 16%. The preferred stock is callable at par value after nine months, and on any quarterly dividend date thereafter.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through retained net income after patronage. Shareholders' equity at December 31, 2008 totaled $4.49 billion, compared with $4.44 billion at year-end 2007 and $3.98 billion at year-end 2006. The $41.6 million increase in shareholders' equity reflects net income, net stock and participation certificate issuances, and preferred stock issuances partially offset by patronage refunds, dividends paid and increases in accumulated other comprehensive losses. Our strong capital position is reflected in the following ratio comparisons.

	December 31		
	2008	2007	2006
Shareholders' equity as a percent of total assets	**15.05%**	16.63%	17.12%
Retained earnings as a percent of shareholders' equity	**96.22%**	92.22%	95.88%

Shareholders' equity as a percent of total assets decreased during 2008, as assets grew proportionately faster than equity.

Retained Earnings

Our retained earnings increased $217.6 million to $4.32 billion at December 31, 2008 from $4.10 billion at December 31, 2007. The increase was a result of net income of $349.6 million, partially offset by $108.1 million of patronage refunds and $20.8 million of preferred stock cash dividends.

Stock and Participation Certificates

Stock and participation certificates decreased $8.7 million to $38.9 million at December 31, 2008, from $47.6 million at December 31, 2007. The decrease was due to $15.7 million of stock and participation certificate retirements, partially offset by issuances of $6.9 million. Certain Associations require stock for each borrower loan, while other Associations require stock for each borrower. The initial investment requirement varies by Association and ranges from the statutory minimum of two percent of the loan amount or one thousand dollars, whichever is less, to three percent of the loan. Stock is discussed further in Note 8 of the Notes to the Combined Financial Statements.

Preferred Stock

Three Associations and AgBank have FCA approved preferred stock programs. Association preferred stock programs are limited to investments made by Association members. Retirement of Association preferred stock requires Association board approval. Preferred stock totaled $471.3 million at December 31, 2008, compared with $425.1 million at December 31, 2007. The increase is due to Associations' net stock issuances of $46.0 million.

On March 20, 2007, AgBank issued $225.0 million of perpetual non-cumulative fixed-to-floating preferred stock at a par value of $1 thousand per share. Dividends are non-cumulative and declared at the sole discretion of the Board of Directors. The dividends will be paid as follows:

- semi-annually on the 10th day of January and July beginning July 10, 2007 and ending on July 10, 2012, at an annual rate of 6.11% during the fixed period; and
- quarterly on the 10th day of January, April, July and October beginning October 10, 2012 at an annual rate equal to 3-Month USD LIBOR plus 1.18%.

On the payment date in July 2012 or on each fifth anniversary thereafter, AgBank may, at its option, redeem the preferred stock in whole or in part at the redemption price of $1 thousand per share, plus accrued and unpaid dividends for the then current dividend period to the redemption date. Upon the occurrence of a regulatory event which would eliminate AgBank's ability to use the preferred stock to satisfy applicable minimum capital adequacy, surplus or collateral requirements, AgBank may redeem the preferred stock in whole, but not in part. The funds were used for general corporate purposes and to reduce the Associations' required investment in AgBank by 1.25%.

Accumulated Other Comprehensive Income and Losses

Accumulated other comprehensive losses totaled $340.9 million at December 31, 2008, an increase of $213.3 million compared with year-end 2007. Our accumulated other comprehensive losses are comprised of unrealized losses in our investment portfolio and derivative portfolio, and an unfunded defined benefit pension liability of unamortized actuarial losses and prior service costs.

As our investment portfolio is held primarily for liquidity purposes, the majority of the portfolio is considered available-for-sale and is carried at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity. During 2008, our net unrealized loss on available-for-sale investments increased $127.4 million to $188.2 million at December 31, 2008. Approximately 38.9% of the available-for-sale investments are fixed rate securities. The increased unrealized loss is primarily due to continued widening spreads and reduced market liquidity.

Our derivative portfolio includes certain derivatives designated as cash flow hedges. Unrealized gains or losses on the effective portion of cash flow hedges are reported as a separate component of shareholders' equity. Our unrealized loss on cash flow derivatives decreased $3.1 million to $9.7 million at December 31, 2008. The decrease was due in part to increased values in our interest rate cap contracts. In September, there was an increase of $4.7 million for a total $7.1 million loss recorded to OCI due to the loss in value of the caps in which Lehman Brothers was the counterparty. As of December 31, 2008, we have $4.2 million of remaining loss in OCI related to these caps that will be amortized to interest expense over the weighted average life of the hedged debt, approximately 1.2 years. The loss due to the Lehman Brothers bankruptcy is discussed in more detail in the Derivative Instruments section.

Certain District employees participate in the Eleventh Retirement Plan or the Ninth Retirement Plan. On December 31, 2007, we adopted SFAS No. 158 - Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158) which requires recognition of the Plans' underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/(loss). The balance of the unfunded defined benefit pension liability recognized as an other comprehensive loss was $143.0 million at December 31, 2008 and $53.9 million at December 31, 2007. Employee benefit plans are discussed further in Note 10 of the Notes to Combined Financial Statements.

Capital Plan and Regulatory Requirements

Each Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plans assess the capital level necessary for financial viability and to provide for growth. Each plan is updated at least annually and approved by the institution's Board of Directors. FCA regulations require Boards of Directors to consider certain factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relevant risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Additionally, all System Banks are required to maintain a minimum net collateral ratio of 103%. The net collateral ratio is basically a leverage ratio and is not risk-based. A net collateral ratio below 104% triggers provisions of the System's Market Access Agreement (MAA) that could restrict or prohibit AgBank's issuance of Systemwide Debt Securities. AgBank closely monitors the level of the net collateral ratio and targets a ratio of 104.75% to 105.25%. AgBank's capital ratios and net collateral ratio as of December 31 and the FCA minimum requirements are as follows:

	Regulatory Minimum	**2008**	2007	2006
Permanent Capital Ratio	7.00%	**18.94%**	20.68%	20.42%
Total Surplus Ratio	7.00%	**15.92%**	17.52%	17.00%
Core Surplus Ratio	3.50%	**10.97%**	14.17%	11.56%
Net Collateral Ratio	103.00%	**104.90%**	105.03%	105.06%

AgBank's regulatory capital ratios remained very sound, although the ratios decreased during 2008. The ratios were significantly impacted by an increase in risk-adjusted assets. Risk-adjusted assets were higher as a result of the growth in wholesale loans to Associations and investments, which are risk weighted at 20% for regulatory capital purposes. Also, as certain investments were downgraded, this negatively impacted AgBank's capital ratios.

Information on the Association capital ratios is detailed below.

		2008			2007			2006		
	Regulatory Minimum	**High**	**Low**	**Weighted Average**	High	Low	Weighted Average	High	Low	Weighted Average
Permanent Capital Ratio	7.00%	**27.51%**	**11.02%**	**15.80%**	30.90%	11.56%	17.30%	31.40%	11.18%	17.32%
Total Surplus Ratio	7.00%	**27.09%**	**10.54%**	**14.55%**	30.18%	11.32%	15.97%	30.61%	11.00%	15.94%
Core Surplus Ratio	3.50%	**25.62%**	**10.27%**	**14.19%**	29.20%	10.69%	15.02%	29.61%	10.46%	15.42%

All District Associations and AgBank exceeded the regulatory requirements at December 31, 2008, and are expected to do so throughout 2009.

For a complete discussion of the changes in shareholder's equity, you should refer to the Combined Statement of Changes in Shareholders' Equity and Note 8 of Notes to Combined Financial Statements.

Economic Capital

The District's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of its business activities, exceed all regulatory and System capital requirements, and achieve certain capital adequacy objectives. We began our economic capital project in 2004 and have implemented economic capital software, methodologies, and assumptions to quantify the capital requirements related to the primary areas of risk. We periodically determine our economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in our operations. Due to the evolving nature of economic capital, we anticipate the methodologies and assumptions will continue to be refined.

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential unexpected losses resulting from extremely severe events over a one-year time period.

- "Unexpected losses" are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period.
- The amount of economic capital required is based on our risk profile and a targeted solvency standard. For economic capital modeling purposes, we, in conjunction with the other System Banks, have targeted a "AA" solvency standard, which equates to a 99.97% confidence level. This means the likelihood of incurring losses in excess of the required economic capital amount is estimated to be similar to the likelihood of a "AA" rated bond defaulting (0.03% probability).

There are four major types of risk which are considered in attributing economic capital:

- Credit Risk - The risk that borrowers or counterparties default on their financial obligations.
- Interest Rate Risk - The risk generated from changes in interest rates.
- Operational Risk - The risk of loss resulting from inadequate or failed internal processes or systems, human factors, or changes in the competitive environment.
- Market Risk - Exposures related to asset residual values affiliated with leasing activity.

These risks are measured and aggregated to estimate the exposure to potential extremely severe events and any impact to our level or composition of capital.

Methodologies and assumptions used in measuring economic capital were jointly developed by our risk management and financial management personnel, in consultation with industry experts. The modeling considers the economic capital requirements of Associations, through the evaluation of the Associations' retail credit risk, operational risk, and interest rate risk. An economic capital shortfall (which is the difference between available capital and required economic capital) at any Association is included in AgBank's economic capital requirements. All models are calibrated to achieve a standard of default protection equivalent to a "AA" rated institution. At December 31, 2008, AgBank and total District Associations held capital in excess of economic capital requirements.

INTEREST RATE RISK (IRR) MANAGEMENT

Our overall IRR management objective is to maintain a sound level of capital, earnings, market value of equity, and liquidity, regardless of the interest rate environment. IRR is the variability in earnings or long-term value that may result from changes in interest rates. Because AgBank match funds most of the Association loans, AgBank incurs and manages the majority of IRR for the District. Our primary sources of IRR include:

- Yield curve risk - results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Repricing risk - caused by the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk - results from "embedded options" that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce a risk exposure for the lender. For example, the cash flows on some of our fixed-rate agricultural loans and most of our mortgage-related investment securities are sensitive to changes in interest rates because borrowers may have the flexibility to partially or completely repay the loan ahead of schedule. If interest rates have fallen, we may be forced to reinvest prepaid principal at a lower rate, which may reduce our interest rate spread unless the underlying debt can be similarly refinanced. Interest rate caps are another form of embedded option risk that may be present in certain investments and adjustable rate loans. Interest rate caps typically prevent the rate on the loan or investment from increasing above a defined limit. In a rising rate environment, our spread may be reduced if caps limit upward adjustments to loan rates while debt costs continue to increase.
- Basis risk - results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating rate index tied to a loan or investment differs from the index on the debt issued to fund the loan or investment.

The process for managing IRR is based on the policies and guidelines established by our Boards of Directors and Asset/Liability Management Committees. These policies address measuring and managing IRR and establish limits for IRR exposure. IRR retained by the Associations is predominately related to the change in earnings on capital.

One of the primary benefits of our status as a GSE has been flexible access to the debt markets and a considerable amount of structural flexibility in the maturity and types of debt securities issued. Structural flexibility enables us to issue System Debt Securities that offset some of the primary IRR exposure embedded in our loans. For example, by issuing LIBOR and/or prime indexed, floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by our LIBOR-indexed, variable-rate and prime rate loans. As previously discussed, some of our fixed-rate loans provide borrowers with the option to prepay their loans. In most interest rate environments, we can issue callable debt to help manage this risk exposure. Callable debt provides us with the option to call and retire debt early in order to maintain a better match between the duration of our assets and our liabilities.

While some of our fixed-rate loans provide the borrower with the option to prepay the loan at any time, a significant portion of our fixed-rate loan portfolio contains provisions requiring a reinvestment fee to partially or fully compensate us for the cost of retiring the debt that is associated with the loan asset.

The techniques utilized to measure and manage our IRR exposure on a monthly and quarterly basis are:

- Interest Rate Gap Analysis - compares the amount of interest sensitive assets to interest sensitive liabilities in defined time periods.
- Duration Gap Analysis - measures the difference between the estimated durations of assets and liabilities.
- Net Interest Income Sensitivity Analysis - projects the impact of changes in the level of interest rates on net interest income for the next year.
- Market Value of Equity Sensitivity Analysis - estimates the market value of assets, liabilities and equity, given various interest rate scenarios.

The assumptions used in these analyses are monitored routinely and adjusted as necessary.

Interest Rate Gap Analysis

The difference between the amount of interest earning assets and interest bearing liabilities repricing or maturing in a given time period is referred to as a "gap." A positive gap denotes asset sensitivity, whereby more assets would be repricing than liabilities. A negative gap denotes liability sensitivity or a greater amount of liabilities repricing than assets, over a given period of time. Within the gap analysis, gaps are also created when capital is used to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. When interest rates are falling, our capital is invested in loans and investment securities that are repricing to lower yields. When interest rates are rising, our capital is invested in assets that are being repriced to higher yields. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of the balance sheet (including rate and spread changes), and may not necessarily indicate the sensitivity of net interest income in a changing rate environment. The following analysis reflects the District's gap position in defined time segments, including the impact of derivatives.

INTEREST RATE GAP ANALYSIS
As of December 31, 2008

(dollars in millions)	0-6 Months	7-12 Months	1 year – 5 years	Over 5 Years	Total
INTEREST EARNING ASSETS					
Loans and notes receivable, net	$ 14,754.0	$ 1,156.6	$ 4,595.6	$ 2,628.2	$ 23,134.4
Investment securities	5,034.6	334.4	367.0	105.5	5,841.5
Total interest earning assets	$ 19,788.6	$ 1,491.0	$ 4,962.6	$ 2,733.7	$ 28,975.9
INTEREST BEARING LIABILITIES					
Systemwide debt securities	$ 14,580.7	$ 1,193.5	$ 4,597.5	$ 3,633.8	$ 24,005.5
Other bonds and notes	756.3	1.0	0.5	–	757.8
Total interest bearing liabilities	$ 15,337.0	$ 1,194.5	$ 4,598.0	$ 3,633.8	$ 24,763.3
Static Gap	$ 4,451.6	$ 296.5	$ 364.6	$ (900.1)	$ 4,212.6
Cumulative Gap	$ 4,451.6	$ 4,748.1	$ 5,112.7	$ 4,212.6	$ –

We had a positive cumulative gap through 1 year of $4.75 billion as of December 31, 2008. Given our asset sensitivity, earnings would generally increase in the short-term from a market characterized by rising interest rates and decrease in a declining interest rate environment.

Duration Gap Analysis

Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. Duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time. A positive duration gap indicates the duration of assets exceeds the duration of liabilities. A negative duration gap indicates the duration of assets is less than the duration of liabilities. A duration gap within the range of a positive three months to a negative three months generally indicates a small exposure to changes in interest rates. The duration gap provides a relatively concise and simple measure of the IRR inherent in the balance sheet, but it is not directly linked to expected future earnings performance. At December 31, 2008, our duration of assets was 17.7 months and duration of liabilities was 19.2 months, resulting in a negative duration gap of 1.5 months. At December 31, 2007, the duration gap was a negative 0.5 months.

Interest Rate Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by interest rate gap and duration gap analysis, we conduct simulations of net interest income and market value of equity. Our net interest income (NII) reflects the difference between the interest income earned on loans and investments (interest earning assets) and the interest expense paid on debt, typically Systemwide bonds and notes (interest bearing liabilities). A common method utilized to measure NII sensitivity is rate shock analysis. Rate shock analysis simulates the impact of an immediate parallel change in interest rates, typically plus and minus 2.00% (200 basis points). A 200 basis point shock is a general standard considered by the Basel Committee on Banking Supervision. We also model NII exposure to other types of interest rate changes, such as rate ramp and yield curve slope changes.

Market Value of Equity (MVE) represents the market value of our assets less the market value of our liabilities. MVE approximates the value that could be received, in theory, through the liquidation of our assets and liabilities at a given period in time. Rate shock analysis is also utilized to measure MVE sensitivity.

The following table reflects our NII and MVE sensitivity to interest rate changes as of December 31.

	Net Interest Income Sensitivity Analysis					**Market Value of Equity Sensitivity Analysis**				
	-200 b.p.	**-100 b.p.**	**-6 b.p.***	**+100 b.p.**	**+200 b.p.**	**-200 b.p.**	**-100 b.p.**	**-6 b.p.***	**+100 b.p.**	**+200 b.p.**
December 31, 2008	**(9.7%)**	**(4.4%)**	**(0.3%)**	**7.3%**	**14.7%**	**(1.3%)**	**(0.2%)**	**0.0%**	**(1.6%)**	**(3.4%)**
December 31, 2007	N/A	(4.0%)	(6.4%)	6.2%	13.6%	1.0%	1.3%	1.2%	(1.3%)	(2.2%)
CIPA Limit **			(14.7%)		(14.7%)			(14.7%)		(14.7%)

* *Consistent with regulatory reporting requirements, the -6 basis point interest rate shock scenario reflects one-half of the 3-month Treasury rate at December 31, 2008. Based on Treasury rates at December 31, 2007, this interest rate shock scenario was -169 basis points.*

** *12/31/08 Limit established in System Contractual Interbank Performance Agreement (CIPA).*

Based on these sensitivity results, our NII would generally benefit, in the short-term, from a market characterized by rising interest rates. However, an increase in interest rates would result in a negative impact to our MVE. In contrast, our NII would generally deteriorate in a declining interest rate environment while the impact to MVE would decline slightly.

Derivative Instruments

Derivative instruments are used as hedges against interest rate and liquidity risks and to lower the overall cost of funds. Derivative transactions are not entered into or held for trading or speculative purposes. The ability to issue various types of debt securities, or modify the debt securities by using derivative instruments, provides greater and necessary flexibility to manage interest rate risk. The aggregate notional amount of derivative financial instruments, most of which consisted of interest rate swaps (swaps) and interest rate caps, decreased to $2.66 billion at December 31, 2008, compared with $4.45 billion at December 31, 2007.

During September, derivatives with a notional amount of $805.0 million that AgBank held with Lehman Brothers as the counterparty were impacted by Lehman's declaration of bankruptcy. As a result, AgBank recognized a loss in value of the fair value interest rate swaps and related accrued interest of $3.2 million in the third quarter. This will be partially offset as the adjustment to the value of hedged debt of $2.4 million related to the discontinued swaps will be recognized as a reduction to interest expense over an average weighted life of 1.7 years. AgBank also held interest rate caps with Lehman that were treated as cash flow hedges. AgBank recorded an increase of $4.7 million for a total $7.1 million loss in other comprehensive income as a result of the loss in value of the Lehman caps. Approximately $2.9 million of that loss has been recognized in 2008. The remaining unamortized cost of interest rate caps of $4.2 million will be recognized over the life of the applicable hedged debt which has an average weighted life of 1.2 years. The economic loss associated with the Lehman Brothers derivatives was approximately $7.9 million which was the cost of the interest rate caps and accrued interest receivable on the interest rate swaps.

The derivative information below represents the types of derivatives and their notional amounts outstanding for the periods indicated. The fair values of these derivatives were recognized in the Combined Statement of Condition.

(dollars in millions)	**2008**	2007	2006
Pay floating interest rate swaps	**$ 1,655.0**	$ 3,080.0	$ 4,105.0
Pay fixed interest rate swaps	**5.9**	17.4	34.2
Interest rate caps	**900.0**	1,255.0	1,425.0
Interest rate floors	**100.0**	100.0	400.0
Foreign exchange	**2.4**	–	–
Total notional amount	**$ 2,663.3**	$ 4,452.4	$ 5,964.2

In managing our interest rate and liquidity risks, different derivative types are used to achieve a variety of objectives. Pay floating swaps are used to improve liquidity by extending the term of the debt. The pay floating swaps are used to change the repricing characteristics of certain liabilities from a fixed rate to a floating rate matching the floating rate repricing characteristics of the assets they fund over the life of the fixed rate debt. Pay fixed swaps are used primarily to change the repricing characteristics of liabilities from floating rate to fixed rate. The pay fixed swaps are generally utilized to lock in the cost of future debt issuance. Interest rate caps are used to protect interest income by offsetting caps that are present in certain adjustable rate loans we make and floating rate investments we hold. Interest rate caps are also used to synthetically place a ceiling on the interest rates on issuances of debt thereby helping to manage interest expense. Interest rate floors are useful to synthetically offset the declines in interest income on variable or floating rate assets which occur when interest rates fall. Foreign exchange derivatives are used to protect us from changes in foreign currency values between a borrower advance and borrower payment.

By using derivative instruments, AgBank is exposed to the credit risk of the counterparty. We manage this counterparty credit risk by:

- Diversifying our derivative positions among various counterparties;
- Selecting highly rated counterparties;
- Using master agreements that provide for the "netting" of payments and the "right of offset" with the counterparty; and,
- Executing collateral support agreements which require the receipt of collateral at a certain threshold and thus limits the unsecured exposure to the counterparty.

Notional amounts of these instruments, which are not reflected on the Combined Statement of Condition, are indicative of the derivative activities, but are not indicative of the level of credit risk associated with the derivatives as the risk exposure is the difference in the value of the applicable cash flows. The following table summarizes derivative notional amounts outstanding by credit rating of the derivative counterparty.

(dollars in millions)	**December 31, 2008**			December 31, 2007		
S&P Credit Rating	**Number of Counterparties**	**Notional Amounts**	**Percent of Notional**	Number of Counterparties	Notional Amounts	Percent of Notional
AA+	**–**	**–**	**–**	1	$ 400.0	9.0%
AA	**2**	**$ 360.0**	**13.5%**	4	1,660.0	37.3
AA-	**4**	**1,022.4**	**38.4**	2	955.0	21.4
A+	**1**	**225.0**	**8.5**	2	1,107.4	24.9
A	**3**	**1,055.9**	**39.6**	1	330.0	7.4
Total	**10**	**$ 2,663.3**	**100.0%**	10	$ 4,452.4	100.0%

The credit risk exposure is a small percentage of the notional amounts and represents the replacement cost of the derivative in the marketplace in the event of non-performance by the counterparty. To the extent that the derivative has a positive fair value, the counterparty would owe AgBank on early termination of the derivative and therefore AgBank is exposed to credit risk from the counterparty. The following table shows AgBank's exposure to credit risk from counterparties at December 31, 2008. Credit exposure to counterparties on derivatives is shown by the counterparty credit rating and maturity.

(dollars in millions)			Years to Maturity (1)						
S & P Credit Rating	Number of Counterparties	Notional Principal	Less than 1 year	1 – 5 Years	Over 5 Years	Maturity Distribution Netting (2)	Exposure	Collateral Held (3)	Exposure Net of Collateral
AA	2	$ 360.0	$ 0.6	$ 7.6	$ 24.8	$ -	$ 33.0	$ 13.4	$ 19.6
AA-	4	1,022.4	3.7	18.2	10.7	-	32.6	17.5	15.1
A+	1	225.0	2.4	7.1	-	-	9.5	7.4	2.1
A	3	1,055.9	4.5	11.9	14.5	-	30.9	13.9	17.0
Total	10	$ 2,663.3	$ 11.2	$ 44.8	$ 50.0	$ -	$ 106.0	$ 52.2	$ 53.8

(1) Dollar amounts represent gain positions on derivative instruments with individual counterparties. Net gains represent the exposure to credit loss estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts within a maturity category. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty. If the net position within a maturity category with a particular counterparty is a loss, no amount is reported.

(2) Represents the cumulative impact of netting gains and losses where the result of the netting is negative within a maturity category with the same counterparty.

(3) Collateral held consisted of $22.2 million in cash and $30.0 million in investment securities.

In cases where we would owe the counterparty on early termination of the derivative, credit risk is not created and therefore is excluded from the table. As of December 31, 2008, AgBank does not owe any counterparties, so no counterparties have exposure to us. No collateral was required to be posted at December 31, 2008, 2007 or 2006 by us.

OTHER RISKS

Structural Risk

Structural risk exists from the fact that AgBank, along with our affiliated Associations are part of the Farm Credit System. The System is comprised of five Banks and 90 Associations that are cooperatively owned, directly or indirectly, by their borrowers. As System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the System Banks are jointly and severally liable for payments of Systemwide Debt Securities. If a System Bank defaults on payments on Systemwide debt obligations, the assets of the Farm Credit System Insurance Corporation (FCSIC) would be utilized until depleted. Then, under joint and several liability, the non-defaulting System Banks would be called upon to fulfill those remaining obligations. Total Systemwide debt at December 31, 2008 was $178.37 billion. The assets of FCSIC were $2.92 billion. Refer to Note 1C of the Notes to Combined Financial Statements for further information on the FCSIC. Although capital at the Association level reduces a Bank's credit exposure with respect to its direct loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

Several levels of discipline and protection are in place to mitigate this risk of joint and several liability, including two integrated contractual agreements - the Amended and Restated Contractual Interbank Performance Agreement (CIPA), and the Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each District using various ratios that take into account capital, asset quality, earnings, interest rate risk and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each District must achieve and maintain.

Periodically, the ratios in the CIPA model are reviewed, with the assistance of an independent party, to take into consideration current performance standards in the financial services industry. The CIPA also prescribes monetary penalties which are applied if the minimum performance standard is not met. These penalties will occur at the same point at which a Bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the Banks to provide certain additional information and, under specified circumstances, for restricting or prohibiting an individual Bank's participation in issuances of System Debt Securities. AgBank must maintain sufficient collateral and other financial performance ratios as a condition for participation in those issuances. The MAA was designed for the early identification and resolution of individual Bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions of participation for each Bank's participation in each issuance of Systemwide Debt Securities.

During the three years ended December 31, 2008, AgBank significantly exceeded the minimum standards required by the CIPA, and was in compliance with all aspects of the MAA.

Operational Risk

Operational risk relates to the risk of loss resulting from inadequate or failed processes or systems, human error or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the District. The Bank and Associations are required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over, and accountability for, operations, programs and resources.

By FCA regulation, all District institutions are required to develop, maintain, and annually test a business continuity plan. These plans enable mission critical systems and functions to be resumed in the event of a disruption. Effective business continuity planning should minimize disruptions of service to the institution and its customers, ensure timely resumption of operations, and limit financial loss.

Political Risk

We are an instrumentality of the federal government and are intended to further governmental policy concerning the extension of credit to agriculture and rural America. We may be directly affected by federal legislation through changes to the Farm Credit Act, or indirectly, through such legislation as agricultural appropriations bills. Political risk to the System is the risk of reduction or loss of support for the System or agriculture by the U.S. government.

The System manages political risk through The Farm Credit Council (Council), which is a full-service, federated trade association. The Council represents the System before Congress, the Executive Branch, and others. The Council involves System directors and executives to develop System positions and policies and works to provide input on federal legislation and other government actions that impact the System. In addition to the Council, our District has its own District Council, which is a member of the Council. Our District Council represents the interests of AgBank and the 27 Associations on a local and state level, as well as participating with the Council on a federal level.

REGULATORY MATTERS

During 2008, the Farm Credit Administration took no enforcement actions against System institutions. There were no enforcement actions in effect for the Banks or Associations at December 31, 2008.

On October 31, 2007, the Farm Credit Administration published an advance notice of proposed rulemaking in the Federal Register with respect to the consideration of possible modifications to the Farm Credit Administration's risk-based capital rules for Farm Credit System institutions that are similar to the standardized approach delineated in the Basel II Framework. The Farm Credit Administration requested comments to facilitate the development of a proposed rule that would enhance its regulatory capital framework and more closely align minimum capital requirements with risks taken by System institutions. Comments on the advance notice of proposed rulemaking were due no later than December 31, 2008.

On June 16, 2008, the Farm Credit Administration published a proposed rule in the Federal Register that would authorize Banks, Associations or service corporations to invest in rural communities, i.e., communities that have fewer than 50,000 residents and are outside of an urbanized area, under certain conditions. The proposed rule would authorize two types of rural community investments: (1) investment in debt securities that would involve projects or programs that benefit the public in rural communities, and (2) equity investment in venture capital funds, which funds create economic opportunities and jobs in rural communities by providing capital to small or start-up businesses. Under the proposed rule, these investments would be limited to 150% of the institution's total surplus. The comment period closed August 15, 2008.

GOVERNANCE

Board of Directors

AgBank, AgVantis and each Association have a separate board of directors that provides direction and oversees the management of the institution. Each board of directors is comprised of directors elected by the stockholders and at least one non-affiliated director appointed by the stockholder elected directors. Each board of directors represents the interests of the stockholders of their particular institution. Each board performs the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- advises and counsels management on significant issues; and,
- oversees the financial reporting process, communications with stockholders and the institution's legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in the entity's best interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require that elected directors have a loan relationship with an Association. No AgBank directors have a loan relationship with AgBank.

The elected directors have a vested interest in ensuring their Association remains strong and successful. However, an Association borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, some Boards have established independence criteria to ensure that an Association loan relationship does not compromise the independence. In addition, FCA regulations require AgBank approval of all Association loan actions or loan servicing actions that involve an Association or AgBank director or the immediate family member of an Association or AgBank director.

Audit Committee

The Boards of Directors of AgBank, AgVantis and each Association have established audit committees. Each audit committee reports to its respective board of directors. The audit committee responsibilities generally include, but are not limited to:

- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholders reports;
- the review and assessment of the impact of accounting and auditing developments on the financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.

Compensation Committee

In accordance with FCA regulations, the Boards of Directors of each of the District entities have established compensation committees. Each compensation committee reports to its respective board of directors. The compensation committee responsibilities include reviewing the compensation policies and plans for senior officers and employees and approving the overall compensation program for senior officers.

Code of Ethics

All directors and employees of the various institutions are responsible for maintaining the highest of standards in conducting our business. In that regard, each institution has established a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and certain other senior financial professionals who are involved, directly or indirectly, with the preparation of financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement each institution's Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, the Chief Executive Officer, Chief Financial Officer and certain other senior financial professionals certify compliance with the institution's Code of Ethics on an annual basis.

Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

Programs are maintained for employee complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. These programs allow employees to submit concerns regarding accounting, financial reporting, internal accounting controls, fraud, or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

FORWARD-LOOKING INFORMATION

Our discussion 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," and "will" or other variations of these terms are intended to identify 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, 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/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our combined financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying combined financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed with the Audit Committee of AgBank's Board of Directors. A summary of critical policies relating to determination of the allowance for loan losses, valuation of certain financial instruments, accounting for hedging activities and assumptions regarding pension expense follows.

Allowance for Loan Losses

The allowance for loan losses is management's best estimate of the amount of probable loan losses existing in and inherent in the loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of each loan portfolio, which generally considers recent historic charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolios could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Note 3 to the accompanying combined financial statements for detailed information regarding the allowance for loan losses.

Valuation of Certain Financial Instruments

We apply various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the items being valued.

Our investment securities that are classified as "available-for-sale" are reported at their fair value based on estimated market prices. Valuing certain investments requires the use of cash flow models which are sensitive to the timing and amount of cash flow.

The fair values of derivatives are an estimate based on the value at which each financial instrument could be currently exchanged or settled between willing parties. Changes in the fair value of derivatives are recorded in accumulated other comprehensive income or current period earnings depending on the type of derivative and whether it qualifies for hedge accounting.

We utilize significant estimates and assumptions to value financial instruments for which an observable liquid market does not exist. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on market values and on our results of operations. See Notes 15 and 16 to the accompanying combined financial statements for detailed information regarding valuation of certain financial instruments.

Accounting for Hedging Activity

We use derivatives in our hedging strategies. Accounting for hedging activities requires significant judgment and interpretation in the application of very complex and evolving accounting principles. Judgments involve, but are not limited to, the determination of whether a financial instrument or other contract meets the definition of a derivative in accordance with Statement of Financial Accounting Standard Nos. 133/138, as amended, and the applicable hedge criteria, including whether the derivatives used in hedging transactions have been, and are expected to be, highly effective as hedges. See Note 14 to the accompanying combined financial statements for detailed information regarding derivatives.

Pension Plans

We currently have employees and retirees covered by two separate defined benefit retirement plans. A significant number of our employees are covered under one or the other of these pension plans. These plans are non-contributory and benefits are based on compensation and years of service. We also have certain employees covered by a District-wide nonqualified pension restoration defined benefit plan. We include pension expense for all plans as part of employee benefits expense. We recognize an adjustment to accumulated other comprehensive loss for the under funded status and the unamortized actuarial losses and prior service costs related to the plans, in addition to a liability for obligations related to the plans. The accumulated other comprehensive loss, pension liability and pension expense are determined by actuarial evaluations based on assumptions that are evaluated annually as of December 31, the measurement date for our defined benefit pension plans. The most significant assumptions are the expected long-term rate of return on the plans' assets and the discount rate used to determine the present value of pension obligations. We have established current year assumptions related to the accounting for the defined benefit plans based on our review of current market conditions and our view of anticipated longer-term market conditions. Pension expense and the assumptions used in the calculation are presented in Note 10 to the accompanying combined financial statements.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

REPORT OF MANAGEMENT

The combined financial statements of U.S. AgBank, FCB (AgBank), affiliated Associations and AgVantis, Inc. (AgVantis) are prepared by management, who are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The combined financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and in the opinion of management, fairly present the combined financial condition of AgBank, the affiliated Associations, and AgVantis. Other financial information included in the 2008 Annual Report is consistent with that in the combined financial statements.

To meet its responsibility for reliable financial information, management depends on AgBank's, Associations' and AgVantis' accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The combined financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. AgBank, Associations, and AgVantis are also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has overall responsibility for AgBank's system of internal control and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

The undersigned certify that the U.S. AgBank District 2008 Annual Report has been 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 our knowledge and belief.

John Eisenhut
Chairman of the Board
U.S. AgBank, FCB

Darryl W. Rhodes
President and Chief Executive Officer
U.S. AgBank, FCB

David D. Janish
Senior Vice President-Finance
U.S. AgBank, FCB

February 27, 2009

U.S. AGBANK, FCB

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes eight members from the Board of Directors of U.S. AgBank, FCB (AgBank). In 2008, twelve Committee meetings were held. The Committee oversees the scope of AgBank's internal audit program, the independence of the outside auditors, the adequacy of AgBank'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 responsibilities are described more fully in the Audit Committee Charter as found on AgBank's website. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as AgBank's independent auditor for 2008.

The following table sets forth the aggregate fees for professional services rendered for the District by its independent auditor PricewaterhouseCoopers LLP for the years ended December 31, 2008, 2007 and 2006:

(dollars in thousands)	**2008**	2007	2006
Audit	**$ 1,303**	$ 1,305	$ 1,126
Tax	**142**	146	127
All Other	**22**	–	27
Total	**$ 1,467**	$ 1,451	$ 1,280

The Audit fees were for professional services rendered for the audits of District entities. Tax fees for most Associations were for services related to tax compliance, including the preparation of tax returns and claims for refunds, and tax planning and tax advice. The All Other fees in 2008 were for proxy tabulation and in 2006 they were for services rendered for information technology services.

Management is responsible for AgBank's internal controls and the preparation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the District's combined 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 these processes.

In this context, the Committee reviewed and discussed the District's Quarterly Reports and the District's Annual Report including audited combined financial statements for the year ended December 31, 2008 (the "Audited Financial Statements") with management and PwC. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, (The Auditor's Communication with Those Charged with Governance), and both PwC and AgBank's internal auditors directly provide reports on significant matters to the Committee.

The Committee received the written disclosures and the letter from PwC in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discussed with PwC its independence from AgBank District entities. The Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence. The Committee has discussed with management and PwC 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 AgBank District Annual Report to Shareholders for the year ended December 31, 2008.

Robert J. Wietharn
Chairman of the Audit Committee

February 27, 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Two Warren Place
6120 South Yale Avenue, Suite 1850
Tulsa, OK 74136
Telephone (918) 524 1200
Facsimile (918) 524 1300

Report of Independent Auditors

To the Boards of Directors and Shareholders
of U.S. AgBank, FCB, District Associations,
and AgVantis

In our opinion, the accompanying combined statement of condition and the related combined statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of U.S. AgBank District (the District) 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 District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 27, 2009

COMBINED STATEMENT OF CONDITION

U.S. AgBank District
(Dollars in thousands)

	December 31		
	2008	2007	2006
ASSETS			
Loans	**$ 23,125,415**	$ 19,755,680	$ 17,625,736
Less: Allowance for loan losses	**86,655**	66,164	64,637
Net loans	**23,038,760**	19,689,516	17,561,099
Cash	**277,881**	161,177	114,632
Federal funds	**–**	113,363	102,833
Investment securities	**5,841,494**	6,152,316	4,913,848
Accrued interest receivable	**308,564**	362,248	345,912
Other property owned	**3,870**	3,974	6,793
Premises and equipment, net	**121,687**	105,990	91,176
Derivative assets	**106,352**	39,988	13,277
Other assets	**117,573**	99,961	108,123
Total assets	**$ 29,816,181**	$ 26,728,533	$ 23,257,693
LIABILITIES			
Systemwide debt securities	**$ 24,005,451**	$ 21,103,730	$ 18,181,097
Other bonds and notes	**756,889**	639,493	569,514
Accrued interest payable	**168,397**	212,910	207,093
Patronage refunds payable	**95,225**	105,513	88,171
Derivative liabilities	**256**	6,086	53,897
Other liabilities	**303,778**	216,216	176,074
Total liabilities	**25,329,996**	22,283,948	19,275,846
Commitments and Contingencies (Note 13)			
SHAREHOLDERS' EQUITY			
Protected stock	**$ 536**	$ 708	$ 872
Preferred stock	**471,293**	425,054	153,125
Stock and participation certificates	**38,855**	47,618	65,294
Allocated retained earnings	**–**	–	3,008
Unallocated retained earnings	**4,316,386**	4,098,753	3,814,833
Accumulated other comprehensive income/(losses), net of tax	**(340,885)**	(127,548)	(55,285)
Total shareholders' equity	**4,486,185**	4,444,585	3,981,847
Total liabilities and shareholders' equity	**$ 29,816,181**	$ 26,728,533	$ 23,257,693

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

Combined Statement of Income

U.S. AgBank District

(Dollars in thousands)

	For the Year Ended December 31		
	2008	2007	2006
INTEREST INCOME			
Loans	**$ 1,241,178**	$ 1,352,191	$ 1,220,814
Investment securities	**263,177**	333,184	239,115
Total interest income	**1,504,355**	1,685,375	1,459,929
INTEREST EXPENSE	**870,299**	1,021,542	867,898
Net interest income	**634,056**	663,833	592,031
Provision for loan losses	**22,601**	3,583	7,516
Net interest income after provision for loan losses	**611,455**	660,250	584,515
NONINTEREST INCOME			
Loan and prepayment fee income	**29,162**	21,139	16,400
Financially related services income	**11,401**	7,362	4,706
Mineral income	**12,529**	10,316	11,200
Other noninterest income	**14,203**	10,170	7,765
Total noninterest income	**67,295**	48,987	40,071
NONINTEREST EXPENSE			
Salaries and employee benefits	**179,345**	169,207	157,322
Occupancy and equipment	**18,816**	16,930	15,920
Other operating expenses	**68,506**	60,214	61,390
Supervisory expense	**8,188**	8,088	8,011
Merger implementation costs	**4,970**	–	–
Losses on other property owned, net	**899**	966	354
Insurance fund premium expense	**32,990**	27,176	24,976
Loss on investment impairment	**16,483**	–	–
Loss on discontinuance of derivatives	**3,237**	1,180	8,528
Loss on early extinguishment of debt	**–**	1,425	–
Total noninterest expense	**333,434**	285,186	276,501
Income before income taxes	**345,316**	424,051	348,085
(Benefit from)/Provision for income taxes	**(4,244)**	3,552	(427)
Net income	**$ 349,560**	$ 420,499	$ 348,512

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

COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. AgBank District

(Dollars in thousands)

	Protected Stock	Preferred Stock	Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2005	$ 1,201	$ 166,892	$ 72,043	$ 5,997	$ 3,567,832	$ (81,959)	$ 3,732,006
Comprehensive Income							
Net income					348,512		
Change in unrealized losses on investments available-for-sale, net						6,928	
Change in unrealized losses on derivatives						9,109	
Minimum pension liability adjustment						11,458	
Income tax benefit related to other comprehensive income						(821)	
Total comprehensive income							375,186
Stock and participation certificates issued		376,680	22,651				399,331
Stock and participation certificates retired	(329)	(390,729)	(29,400)				(420,458)
Cash patronage refunds				(2,989)	(92,821)		(95,810)
Preferred stock cash dividends					(8,408)		(8,408)
Stock dividends		282			(282)		–
Balance at December 31, 2006	872	153,125	65,294	3,008	3,814,833	(55,285)	3,981,847
Comprehensive Income							
Net income					420,499		
Change in unrealized losses on investments available-for-sale, net						(34,308)	
Change in unrealized losses on derivatives						1,656	
Minimum pension liability adjustment						5,533	
Total comprehensive income							393,380
Adjustment to initially apply SFAS No. 158						(45,144)	(45,144)
Stock and participation certificates issued		381,272	13,065				394,337
Stock and participation certificates retired	(164)	(334,648)	(30,741)				(365,553)
AgBank preferred stock issued		225,000					225,000
Cash patronage refunds				(3,008)	(110,899)		(113,907)
Preferred stock cash dividends					(21,477)		(21,477)
Stock dividends		305			(305)		–
Issuance costs of preferred stock					(3,898)		(3,898)
Balance at December 31, 2007	708	425,054	47,618	–	4,098,753	(127,548)	4,444,585
Adjustment to beginning balance due to SFAS No. 158 accounting change					(2,729)		(2,729)
Balance at January 1, 2008	708	425,054	47,618	–	4,096,024	(127,548)	4,441,856
Comprehensive Income							
Net income					349,560		
Change in unrealized losses on investments available-for-sale, net						(127,366)	
Change in unrealized losses on derivatives						3,141	
Change in retirement obligation						(89,112)	
Total comprehensive income							136,223
Stock and participation certificates issued		431,835	6,939				438,774
Stock and participation certificates retired	(172)	(385,827)	(15,702)				(401,701)
Cash patronage refunds				–	(108,122)		(108,122)
Preferred stock cash dividends					(20,845)		(20,845)
Stock dividends		231			(231)		–
Balance at December 31, 2008	**$ 536**	**$ 471,293**	**$ 38,855**	**$ –**	**$ 4,316,386**	**$ (340,885)**	**$ 4,486,185**

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

COMBINED STATEMENT OF CASH FLOWS

U.S. AgBank District
(Dollars in thousands)

	For the Year Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 349,560**	$ 420,499	$ 348,512
Adjustments to reconcile net income to cash provided by/(used in) operating activities:			
Depreciation on premises and equipment	**9,164**	8,699	8,248
Provision for loan losses	**22,601**	3,583	7,516
Amortization of discount on debt instruments	**2,322**	3,034	256
Amortization of discount on investments	**(10,140)**	(16,200)	(2,275)
(Gains)/Losses on other property owned	**(53)**	297	292
Loss on investment impairment	**16,483**	–	–
Gains on the sale of premises and equipment	**(3,480)**	(1,791)	(470)
Derivative hedging activities	**(5,240)**	(3,245)	21,722
Change in assets and liabilities			
Decrease/(Increase) in accrued interest receivable	**38,508**	(23,147)	(63,933)
Increase in other assets	**(8,612)**	(5,628)	(15,301)
(Decrease)/Increase in accrued interest payable	**(15,343)**	21,410	35,311
(Decrease)/Increase in other liabilities	**(4,280)**	7,448	61,257
Total adjustments	**41,930**	(5,540)	52,623
Net cash provided by operating activities	**391,490**	414,959	401,135
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loan principal disbursed, net	**(3,261,295)**	(2,414,754)	(1,537,029)
Net decrease/(increase) in federal funds	**113,363**	(10,530)	35,488
Investments available-for-sale			
Purchases	**(976,889)**	(2,386,878)	(1,447,622)
Proceeds from maturities and principal payments	**968,912**	1,340,847	1,213,369
Investments held-to-maturity			
Purchases	**–**	(9,091)	–
Proceeds from maturities and principal payments	**69,501**	80,994	23,639
Increase in investment in Farmer Mac	**(9,000)**	–	–
Expenditures on premises and equipment, net	**(21,381)**	(21,722)	(16,544)
Proceeds from sales of other property owned	**5,101**	2,776	255
Net cash used in investment activities	**(3,111,688)**	(3,418,358)	(1,728,444)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Systemwide debt issued, net	**2,821,688**	2,841,248	1,268,097
Increase in other bonds and notes	**117,396**	69,979	175,848
Patronage distributions paid	**(118,410)**	(100,766)	(80,933)
Cash dividends paid	**(20,845)**	(10,403)	(8,408)
Protected stock retired	**(172)**	(164)	(329)
Stock issued	**438,774**	619,337	399,331
Stock retired	**(401,529)**	(365,389)	(420,129)
Issuance costs of preferred stock	**–**	(3,898)	–
Net cash provided by financing activities	**2,836,902**	3,049,944	1,333,477
Net increase in cash	**116,704**	46,545	6,168
Cash at beginning of period	**161,177**	114,632	108,464
Cash at end of period	**$ 277,881**	$ 161,177	$ 114,632

(continued)

COMBINED STATEMENT OF CASH FLOWS (continued from previous page)

U.S. AgBank District
(Dollars in thousands)

	For the Year Ended December 31		
	2008	2007	2006
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Financed sales of other property owned	**$ 190**	$ –	$ –
Loan amounts transferred to other property owned	**5,135**	254	5,009
Loan exchanged for investment securities	**–**	282,500	679,290
Investment securitization terminated and returned to loan status	**(115,494)**	–	–
Loan amounts charged off	**13,523**	3,108	10,413
Write down of other property owned	**30**	1,112	–
Patronage refunds transferred to other liabilities from:			
Unallocated retained earnings	**108,122**	110,899	92,821
Allocated retained earnings	**–**	3,008	2,989
Preferred stock cash dividends declared	**20,845**	21,477	8,408
Stock dividends declared	**231**	305	282
Change in unrealized losses in other comprehensive income	**(213,337)**	(72,263)	26,674
SUPPLEMENTAL INFORMATION			
Interest paid	**912,655**	1,011,830	815,709
Income taxes paid	**2,262**	758	1,726

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

U.S. AgBank District

(Dollars in thousands, except as noted)

NOTE 1 - ORGANIZATION AND OPERATIONS

A. System and District Organization

The Farm Credit System (the System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The System 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 (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987.

As required by the Farm Credit Act, the System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes. Through a nationwide network of locally owned cooperatives, the System makes credit available in all 50 states and the Commonwealth of Puerto Rico, which allows for both geographic and agricultural sector diversification.

The System institutions may also provide a variety of services to their borrowers, including credit and mortgage life or disability insurance, various types of crop insurance, estate planning, record keeping services, tax planning and preparation, and consulting. In addition, some System institutions provide leasing and related services to their customers.

The nation is currently served by four Farm Credit Banks (FCBs), each of which has specific lending authorities within its chartered territory, and one Agricultural Credit Bank (ACB) which has nationwide lending authorities. The ACB also has lending authorities of an FCB within a limited chartered territory. Each FCB and the ACB provides funding for Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs), which are collectively referred to as "Associations."

U.S. AgBank, FCB (AgBank) is one of the banks of the System. AgBank is chartered to provide credit and credit related services in the states of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. AgBank, its related Associations, and AgVantis, Inc. (AgVantis) are referred to as the "District." As of December 31, 2008, the District has 2 FLCAs and 25 ACA parent associations. Each ACA has two wholly owned subsidiaries (a FLCA subsidiary and a Production Credit Association (PCA) subsidiary). The Associations and an other financing institution (OFI) jointly own AgBank.

AgBank and/or certain of its affiliated Associations jointly own service organizations created to provide technology services.

- AgVantis is owned by and provides technology and other operational services to eighteen Associations. In addition, technical and systems support for AgBank has been outsourced to AgVantis. AgVantis financial information is included in the District data; however, activity occurring between AgVantis and AgBank or the Associations has been eliminated in combination.
- Financial Partners Inc. is a technology service provider jointly owned by two Associations in conjunction with other System entities that are not part of the District. This investment is accounted for using the cost method.

AgBank, in conjunction with other System Banks, jointly owns several service organizations which were created to provide a variety of services for the System. These may be accounted for using the cost or equity method. These service organizations are dependent on the Banks for financial support and include:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) - provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association - leases premises and other fixed assets to the Farm Credit Administration, (FCA), as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company - provides insurance services to its member organizations as a reciprocal insurer.

In addition the Farm Credit Council, a full-service federated trade association, represents the System before Congress, the Executive Branch and others.

B. Farm Credit Administration

The FCA is delegated authority by Congress to regulate System institutions. FCA examines the activities of System institutions and certain actions by these entities are subject to the FCA's prior approval.

C. Farm Credit System Insurance Corporation

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used prior to invoking the joint and several liability of the Banks (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on District annual average loan principal outstanding until the assets 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 Debt or such other percentage of the Insured Debt 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 Insurance Corporation 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. Financial responsibility for the AgBank premium assessments is allocated among AgBank and all District Associations based on average adjusted note payable to AgBank.

D. Intra-District Restructurings

Effective December 31, 2008, Federal Land Bank Association of Ponca City, FLCA headquartered in Ponca City, Oklahoma merged with Farm Credit Services of Central Kansas, ACA headquartered in Wichita, Kansas and adopted the name Farm Credit of the Heartland, ACA. Effective after the close of business on April 30, 2008, Sacramento Valley Farm Credit, ACA headquartered in Woodland, California merged into Farm Credit West, ACA headquartered in Visalia, California. Both mergers were accounted for on a historical cost basis with the associations combined at their respective book values. The accounting for the mergers had no impact on the District's combined financial statements.

E. Operations

Although the System Banks (Banks) and Associations are not commonly owned or controlled, they are financially and operationally interdependent. The financial interdependence of the Banks is a result of the statutory joint and several liability of the Banks for all Systemwide debt. The interdependence between the Banks and Associations results, in part, from the Banks serving as the intermediary between the financial markets and the retail lending activities of their affiliated Associations. The Banks are the primary source of funding and have some oversight responsibilities related to certain activities of their affiliated Associations. Banks raise funds principally through the sale of consolidated Systemwide bonds and notes to the public, through the Funding Corporation. District Associations borrow the majority of their funds from their related Bank. Banks and Associations are not authorized to accept deposits and cannot borrow from other financial institutions without the approval of their affiliated Bank. As a result, loans made by the Associations to agricultural borrowers are substantially funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of the Systemwide Debt Securities is dependent upon the ability of System borrowers to repay their loans. The Banks may also obtain a portion of their funds from internally generated earnings, from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by AgBank and the affiliated Associations. AgBank and/or Associations are 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, their cooperatives, rural residents and farm-related businesses. AgBank may also lend to financial institutions engaged in lending to eligible borrowers. The Associations also serve as intermediaries in offering term life insurance, disability income insurance and multi-peril crop insurance. In addition, certain Associations provide fee-based services to eligible borrowers in areas such as estate planning, financial management and fee appraisals.

ACAs borrow from AgBank to originate long-term real estate mortgage loans through the FLCA subsidiary and short- and intermediate-term loans through the PCA subsidiary. FLCAs borrow from AgBank to originate long-term real estate mortgage loans. OFIs borrow from AgBank to originate and service short- and intermediate-term loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying combined financial statements include the accounts of AgBank, the Associations and AgVantis and reflect the investments in, and allocated earnings of, the service organizations in which AgBank and the Associations have partial ownership interests. All significant transactions and balances among AgBank, Associations, and AgVantis have been eliminated in combination.

Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161 (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 District is currently evaluating the impact of adoption on its financial statement disclosures.

In February 2008, the FASB issued Staff Interpretation (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of the Statement for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The District is currently evaluating the impact of adoption on its financial condition and results of operations.

On October 10, 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 was effective upon issuance. The District has considered the interpretation in determining the fair value of its financial assets at December 31, 2008.

A. Loans and Allowance for Loan Losses

Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Loan origination fees and direct loan origination costs are generally capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Impaired loans are loans for which it is probable that all principal and interest will not 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 contract 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 is collected in full or otherwise discharged.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when 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 reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, prior charge-offs have been recovered in full, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified Doubtful or Loss under the Uniform Classification System (UCS).

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. Managements consider the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

A specific allowance may be established for impaired loans under SFAS No. 114. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, by the loan's observable market price, or fair value of the collateral, if the loan is collateral dependent.

B. Cash

Cash, as included in the combined financial statements, represents cash on hand and on deposit at financial institutions.

C. Investment Securities and Federal Funds

AgBank and Associations, as permitted under FCA regulations, hold eligible investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. Investments for which the District has the intent and ability to hold to maturity are classified as investments held-to-maturity (HTM) and are carried at cost, adjusted for unamortized premiums and discounts. The majority of the District's investments are available for liquidity or for the management of short-term funds and have been classified as available-for-sale (AFS). These investments are reported at fair value and any unrealized gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of shareholders' equity (accumulated other comprehensive income (losses). Changes in the fair value of investments are reflected as direct charges or credits to other comprehensive income. If an investment is deemed to be other-than-temporarily impaired, the cost basis of the investment is written down to its fair value and an impairment loss is recorded in earnings in the period of impairment. Subsequent changes with the value of those securities that were impaired would be recorded as unrealized gains or losses unless such losses are deemed to be other-than-temporarily impaired. Premiums and discounts on purchases are amortized or accreted using the effective interest method over the term of the respective security. Realized gains and losses on sales of investments available-for-sale are recognized in current operations using the specific identification method for determining the cost basis to be used. All or a portion of the unrealized gain or loss of an available-for-sale security that is designated as a fair value hedged item must be recognized in earnings during the period of the hedge. The District does not hold investments for trading purposes.

AgBank and Associations may also hold additional investments in accordance with mission-related investment and other investment programs, approved by the FCA. These programs allow Banks and Associations to make investments that further the System's mission to serve rural America. Mortgage-backed securities issued by Farmer Mac are considered other investments. Mission-related and other investments are not included in AgBank's liquidity calculations and are not covered by the eligible investment limitations specified by FCA regulations. Mission-related investments for which AgBank and/or an Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on AgBank's and/or Association's ability and intent to hold to maturity.

D. Other Property Owned

Other property owned, consisting of real and personal property acquired through collection actions, 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 net gains/(losses) on other property owned in the combined statement of income.

E. Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is generally provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

F. Other Assets and Other Liabilities

Other assets are comprised primarily of investments in other System institutions, accounts receivable, deferred tax assets, trust assets for nonqualified retirement plans, and unamortized debt issuance costs. Significant components of other liabilities include pension and postretirement benefits liabilities, accounts payable and FCSIC premiums payable. The deferred tax assets and liabilities involve various management estimates and assumptions as to future taxable earnings. As of December 31, 2008, all differences net to an asset and are included in other assets.

G. Advanced Conditional Payments

AgBank and Associations are authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Unrestricted advanced conditional payments are included in other interest bearing liabilities. Restricted advanced conditional payments are primarily associated with mortgage loans, while nonrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advanced conditional payments are not insured. The Association generally pays interest on such accounts.

H. Employee Benefit Plans

The District currently has two defined benefit retirement plans and participates with Farm Credit System employers from other districts in a defined contribution retirement plan. Most District employees are covered under at least one of these plans.

Certain AgBank, Association, and AgVantis employees participate in the Ninth Farm Credit District Pension Plan (Ninth Pension Plan). The Ninth Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Ninth Pension Plan was closed to new participants beginning January 1, 2007. During 2007, those participants who were entitled to benefits only under the Account Balance Provisions of the Ninth Pension Plan were spun off into a separate pension plan, the Ninth Farm Credit District Spinoff Pension Plan (Spinoff Pension Plan), which was then terminated. The accrued benefits for these participants were distributed from the Spinoff Pension Plan and were rolled over to the 401(k) Plan or to a qualified retirement plan or individual retirement account of the participant's choice.

Certain AgBank and Association employees participate in the Eleventh Farm Credit District Employees' Retirement Plan (Eleventh Retirement Plan). The Eleventh Retirement Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Eleventh Retirement Plan was closed to employees hired after December 31, 1997.

Additionally, employees are generally eligible to participate in the Farm Credit Foundations 401(k) Plan (Foundations 401(k) Plan). The Foundations 401(k) Plan has two components. First, eligible employees may receive benefits through the employer contributions to the Plan. The amount of employer contributions is based on the employee's compensation and varies depending on whether the employee is eligible to accrue benefits in either the Ninth Pension Plan or the Eleventh Retirement Plan. Second, eligible employees may elect to defer the receipt of a portion of their compensation by making a deferral election in accordance with the provisions of Section 401(k) of the Internal Revenue Code. AgBank, AgVantis and certain Associations match a certain percentage of employee contributions. All costs for the Foundations 401(k) Plan are expensed as funded.

AgBank, AgVantis and certain Associations also participate in the Farm Credit Foundations Retiree Medical Plan (Retiree Medical Plan). These postretirement benefits (other than pension) are provided to eligible retired employees of AgBank, AgVantis and certain Associations. The anticipated costs of these benefits were accrued during the period of the employee's active service. Prior to 2007, employees of the former Ninth District who were hired before 2004 could become eligible for employer subsidies under a predecessor plan to the Retiree Medical Plan. Beginning in 2007, the Retiree Medical Plan was amended to continue employer subsidized benefits only for current retirees. Accrued balances as of September 30 for eligible employees were converted to present value and an equivalent amount was contributed to the Ninth Pension Plan and/or Spinoff Pension Plan as an additional pension benefit.

I. Income Taxes

AgBank, FLCAs and FLCA subsidiaries of ACA parent companies are exempt from Federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for Federal and certain other income taxes and are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code.

Associations operating as cooperatives under Subchapter T of the Internal Revenue Code can exclude from taxable income amounts distributed as qualified patronage distributions in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent it is more likely than not (over 50 percent probability), based on management's estimate, the deferred tax asset will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of expected patronage programs which reduce taxable earnings.

Deferred income taxes have not been recorded by the taxable Associations on stock patronage distributions received from AgBank prior to January 1, 1993, the adoption date of SFAS No. 109. Association managements' intent is to permanently invest these and other undistributed earnings in AgBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

Deferred income taxes have not been provided on AgBank's post-1992 earnings allocated to ACAs and their PCA subsidiaries to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. AgBank currently has no plans to distribute unallocated earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

J. Derivative Instruments and Hedging Activity

AgBank is party to derivative financial instruments which are used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded at fair value and included in the combined statement of condition as derivative assets and derivative liabilities.

Changes in the fair value of derivatives are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions in which AgBank is hedging changes in the value of assets, liabilities, or firm commitments, changes in the fair value of the derivative are recorded in earnings and will generally be offset by changes in the hedged item's fair value. For cash flow hedge transactions, in which AgBank is hedging the variability of future cash flows or repricing of a variable-rate asset, liability or forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in accumulated other comprehensive income (loss). Gains and losses on derivative instruments, that are deferred and reported in accumulated other comprehensive income (loss), will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current-period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current-period earnings.

AgBank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the combined statement of condition or (2) firm commitments or forecasted transactions. AgBank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions have been highly effective in offsetting changes in interest rates or in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. AgBank uses regression analysis or other statistical analysis to assess the effectiveness of its hedges.

AgBank discontinues hedge accounting prospectively when it is determined that:

- a derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item;
- the derivative expires or is sold, terminated, or exercised;

- it is no longer probable that the forecasted transaction will occur;
- a hedged firm commitment no longer meets the definition of a firm commitment; or
- management determines that designating the derivative as a hedging instrument is no longer appropriate.

When AgBank discontinues hedge accounting for cash flow hedges, any remaining accumulated other comprehensive income (loss) is amortized into earnings over the remaining life of the original hedged item unless the hedged item is gone in which case, any remaining other comprehensive income (loss) is immediately recognized in current earnings. When AgBank discontinues hedge accounting for fair value hedges, changes in the fair value of the derivative are recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, AgBank carries the derivative at its fair value on the combined statement of condition, recognizing changes in fair value in current-period earnings.

AgBank occasionally purchases a financial instrument in which a derivative instrument is “embedded.” Upon purchase of the financial instrument, AgBank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value and designated as either a fair value or cash flow hedge. However, if the entire contract is required to be measured at fair value, with changes in fair value reported in current earnings, or if AgBank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

K. Fair Value Measurements

Effective January 1, 2008, the District 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 asset and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Assets held in trust funds relate to deferred compensation and supplemental retirement plans. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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. 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, certain non-agency mortgage-backed debt 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 15.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

	December 31		
	2008	2007	2006
Real estate mortgage	**$ 13,583,503**	$ 11,679,404	$ 10,586,849
Production and intermediate-term	**5,675,810**	4,794,165	4,300,217
Agribusiness:			
Loans to cooperatives	**394,268**	455,047	353,274
Processing and marketing	**2,358,886**	1,794,363	1,368,390
Farm related business	**576,699**	567,918	539,171
Communication	**100,617**	95,944	123,100
Energy	**193,716**	139,334	133,697
Water and waste disposal	**18,000**	15,000	8,489
Rural residential real estate	**59,127**	52,421	51,064
Lease receivables	**136,610**	136,684	134,184
Mission-related	**3,279**	–	–
OFI	**24,900**	25,400	27,301
Total loans	**$ 23,125,415**	$ 19,755,680	$ 17,625,736

The significant sources of liquidity for the District are the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2008. Approximately 19 percent of these loans had maturities of one year or less.

	Due in 1 year or less	Due in 1 through 5 years	Due after 5 years	Total
Real estate mortgage	$ –	$ –	$ 13,583,503	$ 13,583,503
Production and intermediate-term	2,743,454	2,222,595	709,761	5,675,810
Agribusiness:				
Loans to cooperatives	235,477	59,039	99,752	394,268
Processing and marketing	873,662	551,536	933,688	2,358,886
Farm related business	131,413	159,590	285,696	576,699
Communication	94,874	612	5,131	100,617
Energy	117,607	16,665	59,444	193,716
Water and waste disposal	–	–	18,000	18,000
Rural residential real estate	–	–	59,127	59,127
Lease receivables	132,946	3,558	106	136,610
Mission-related	–	–	3,279	3,279
OFI	24,900	–	–	24,900
Total	$ 4,354,333	$ 3,013,595	$ 15,757,487	$ 23,125,415

The District's concentration of credit risk in various agricultural commodities is presented in the following table.

	December 31					
	2008		2007		2006	
Commodity/Primary Business	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Dairy farms	**$ 3,614,083**	**15.62%**	$ 3,129,267	15.84%	$ 2,995,831	17.00%
Cattle	**3,291,284**	**14.23**	3,104,456	15.71	2,718,742	15.42
Grapes	**1,600,788**	**6.92**	1,322,493	6.69	1,223,032	6.94
Tree nuts	**1,591,061**	**6.88**	1,292,130	6.54	1,131,762	6.42
Food products	**1,344,844**	**5.82**	1,118,769	5.66	876,094	4.97
Field crops	**1,333,133**	**5.76**	1,094,410	5.54	974,496	5.53
Fruits	**937,520**	**4.05**	862,253	4.36	777,286	4.41
Farm related business services	**906,367**	**3.92**	769,817	3.90	630,417	3.58
Vegetables	**829,423**	**3.59**	747,005	3.78	656,918	3.73
Other livestock	**821,935**	**3.55**	695,169	3.52	656,795	3.73
Wheat	**639,506**	**2.77**	593,705	3.01	613,451	3.48
Rural homes	**623,672**	**2.70**	425,858	2.16	316,682	1.80
Corn	**603,176**	**2.61**	556,564	2.82	564,897	3.20
Horticulture specialties	**492,526**	**2.13**	413,530	2.09	385,371	2.19
Cash grains	**464,725**	**2.01**	346,356	1.75	265,760	1.51
Forestry	**453,924**	**1.96**	322,565	1.63	192,361	1.09
Logging and wood products	**404,550**	**1.75**	408,133	2.07	312,366	1.77
General farm	**325,481**	**1.41**	325,708	1.65	318,760	1.81
Rural utilities	**315,688**	**1.37**	254,242	1.29	282,018	1.60
Cotton	**265,950**	**1.15**	273,600	1.38	306,928	1.74
Sugarcane, sugar beets and potatoes	**248,379**	**1.07**	247,361	1.25	165,541	0.94
Citrus fruits	**245,232**	**1.06**	215,499	1.09	199,475	1.13
Rice	**241,916**	**1.05**	226,825	1.15	229,013	1.30
Farm supplies	**222,714**	**0.96**	112,657	0.57	124,226	0.71
Biofuel	**182,819**	**0.79**	117,995	0.60	33,596	0.19
Soybeans	**107,832**	**0.47**	107,223	0.54	105,815	0.60
Other	**1,016,887**	**4.40**	672,090	3.41	568,103	3.21
Total	**$ 23,125,415**	**100.00%**	$ 19,755,680	100.00%	$ 17,625,736	100.00%

While the percentages shown in the previous table represent the relative amounts of the District's potential credit risk as it relates to recorded loan principal, a substantial portion of the District's loans are collateralized. Accordingly, the District's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the current loss exposure is indicated in the combined financial statements in the allowance for loan losses.

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% (97% 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 loan value ratios in excess of the regulatory maximum.

Certain District Associations have obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with the Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $681.0 million, $465.8 million and $672.9 million at December 31, 2008, 2007 and 2006, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Associations in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Associations pay Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $2.3 million for 2008, $2.2 million for 2007 and $4.1 million for 2006 are reflected in noninterest expense. Loans covered under these Agreements are considered non-adversely classified for purposes of reporting credit quality and receive favorable regulatory capital treatment.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2008.

The following table presents information relating to impaired loans.

	December 31		
	2008	2007	2006
Nonaccrual Loans:			
Current as to principal and interest	**$ 188,070**	$ 30,467	$ 34,456
Past due	**54,433**	47,015	48,983
Total nonaccrual loans	**242,503**	77,482	83,439
Impaired Accrual Loans:			
Restructured accrual loans	**2,377**	4,196	4,337
Accrual loans 90 days or more past due	**8,470**	3,721	1,224
Total impaired accrual loans	**10,847**	7,917	5,561
Total impaired loans	**$ 253,350**	$ 85,399	$ 89,000

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	2008	2007	2006
Interest income recognized on:			
Nonaccrual loans	**$ 7,243**	$ 8,986	$ 6,772
Impaired accrual loans	**2,507**	3,721	3,515
Interest income recognized on impaired loans	**$ 9,750**	$ 12,707	$ 10,287

The following table presents additional information concerning impaired loans (including accrued interest) as of December 31.

	2008	2007	2006
Impaired loans with related allowance	**$ 21,458**	$ 9,905	$ 3,191
Impaired loans with no related allowance	**231,892**	75,494	85,809
Total impaired loans	**$ 253,350**	$ 85,399	$ 89,000
Allowance on impaired loans	**$ 7,793**	$ 4,163	$ 1,246
Average impaired loans	**$ 114,985**	$ 89,401	$ 97,978

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31, 2008 were as follows:

Interest income which would have been recognized under the original loan terms	**$ 16,665**
Less: interest income recognized	**9,097**
Foregone interest income	**$ 7,568**

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

	2008	2007	2006
Balance at beginning of year	**$ 66,164**	$ 64,637	$ 65,309
Charge-offs:			
Real estate mortgage	**1,634**	101	510
Production and intermediate-term	**9,084**	1,915	8,210
Agribusiness	**2,575**	1,071	1,693
Communication	**221**	21	–
Lease receivables	**9**	–	–
Total charge-offs	**$ 13,523**	$ 3,108	$ 10,413
Recoveries:			
Real estate mortgage	**65**	33	88
Production and intermediate-term	**496**	535	694
Agribusiness	**10,852**	484	1,424
Rural residential real estate	**–**	–	19
Total recoveries	**$ 11,413**	$ 1,052	$ 2,225
Net charge-offs	**2,110**	2,056	8,188
Provision for loan losses	**22,601**	3,583	7,516
Balance at end of year	**$ 86,655**	$ 66,164	$ 64,637
Ratio of net charge-offs during the period to average net loans outstanding during the period	**0.01%**	0.01%	0.05%

A breakdown of the amount of the allowance for loan losses by type of loan and the percent of total allowance as of December 31 for the last three fiscal years follows:

	2008		2007		2006	
	Amount	**Percent**	Amount	Percent	Amount	Percent
Real estate mortgage	**$ 20,805**	**24.02%**	$ 18,396	27.80%	$ 21,552	33.35%
Production and intermediate-term	**42,037**	**48.51**	33,858	51.17	30,521	47.22
Agribusiness	**22,133**	**25.54**	12,330	18.64	9,937	15.37
Communication	**245**	**0.28**	192	0.29	804	1.24
Energy	**537**	**0.62**	229	0.35	325	0.50
Water and waste disposal	**4**	**–**	3	–	2	–
Rural residential real estate	**88**	**0.10**	80	0.12	119	0.19
Lease receivables	**798**	**0.92**	1,076	1.63	1,377	2.13
Mission-related	**8**	**0.01**	–	–	–	–
Total	**$ 86,655**	**100.00%**	$ 66,164	100.00%	$ 64,637	100.00%

NOTE 4 - INVESTMENT SECURITIES

As discussed in Note 2, the investment portfolio consists of investments having two components: the available-for-sale portfolio and the held-to-maturity portfolio. A summary of the amortized cost, fair value and weighted yield at December 31 of available-for-sale investment securities, which excludes mission-related and Farmer Mac investments follows:

	December 31, 2008				
	Amortized	**Gross Unrealized**		**Fair**	**Weighted**
	Cost	**Gains**	**Losses**	**Value**	**Yield**
Mortgage-backed securities	**$ 4,832,810**	**$ 36,510**	**$ 183,910**	**$ 4,685,410**	**2.95%**
Asset-backed securities	**313,740**	**–**	**54,296**	**259,444**	**1.27%**
Total	**$ 5,146,550**	**$ 36,510**	**$ 238,206**	**$ 4,944,854**	**2.85%**

	December 31, 2007				
	Amortized	Gross Unrealized		Fair	Weighted
	Cost	Gains	Losses	Value	Yield
Mortgage-backed securities	$ 4,674,824	$ 12,660	$ 59,046	$ 4,628,438	5.35%
Asset-backed securities	376,572	–	21,524	355,048	5.13%
Total	$ 5,051,396	$ 12,660	$ 80,570	$ 4,983,486	5.34%

	December 31, 2006				
	Amortized	Gross Unrealized		Fair	Weighted
	Cost	Gains	Losses	Value	Yield
Mortgage-backed securities	$ 3,253,446	$ 4,561	$ 34,032	$ 3,223,975	5.08%
Asset-backed securities	604,741	411	21	605,131	5.63%
Total	$ 3,858,187	$ 4,972	$ 34,053	$ 3,829,106	5.17%

The following table is a summary by contractual maturity of the fair value, amortized cost and weighted yield of available-for-sale investments at December 31, 2008.

	Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-backed securities	$ 6,005	2.26%	$ 326,378	0.94%	$ 4,353,027	3.10%	$ 4,685,410	2.95%
Asset-backed securities	119,449	1.32%	–	–	139,995	1.22%	259,444	1.27%
Total fair value	$ 125,454	1.37%	$ 326,378	0.94%	$ 4,493,022	3.03%	$ 4,944,854	2.85%
Total amortized cost	$ 135,869		$ 332,661		$ 4,678,020		$ 5,146,550	

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, expected maturities for mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without reinvestment fees. Asset-backed securities can also perform similarly to mortgage-backed securities.

AgBank and its related Associations also hold mission-related and Farmer Mac investments. The FCA approves mission-related programs and mission-related investments. Farmer Mac securities are Agricultural Mortgage-Backed Securities which are pools of agricultural loans that have been securitized and guaranteed by Farmer Mac. The following is a summary of Farmer Mac investments that are available-for-sale:

	December 31, 2008				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Yield**
Mortgage-backed securities	**$ 544,294**	**$ 14,994**	**$ 1,353**	**$ 557,935**	**3.92%**

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
Mortgage-backed securities	$ 637,579	$ 7,314	$ –	$ 644,893	5.15%

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
Mortgage-backed securities	$ 768,422	$ 3,334	$ 488	$ 771,268	5.21%

The following is a summary of the mission-related and Farmer Mac investments which are held-to-maturity.

	December 31, 2008				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Yield**
Mortgage-backed securities	**$ 331,211**	**$ 12,308**	**$ 699**	**$ 342,820**	**4.42%**
Asset-backed securities	**7,494**	**41**	**–**	**7,535**	**5.34%**
Total	**$ 338,705**	**$ 12,349**	**$ 699**	**$ 350,355**	**4.44%**

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
Mortgage-backed securities	$ 515,504	$ 15,665	$ –	$ 531,169	5.35%
Asset-backed securities	8,433	92	–	8,525	9.29%
Total	$ 523,937	$ 15,757	$ –	$ 539,694	5.42%

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Yield
Mortgage-backed securities	$ 313,474	$ 2,636	$ –	$ 316,110	5.60%

All the mission-related and Farmer Mac investments have a contractual maturity greater than 10 years.

The following table shows the District's total investments by fair value and gross unrealized losses, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of December 31, 2008. The continuous loss position is based on the date when the unrealized loss was first identified.

	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 2,087,830	$ 76,708	$ 1,098,888	$ 109,253
Asset-backed securities	–	–	240,926	54,297
Total	$ 2,087,830	$ 76,708	$ 1,339,814	$ 163,550

AgBank and the Associations evaluate investment securities for other-than-temporary impairment on a quarterly basis. Factors considered in determining whether an impairment is other-than-temporary include: 1) the length of time and the extent to which the fair value is less than book value, 2) the financial condition and near-term prospects of the issuer, 3) the estimated cash flow projections compared to the contractual cash flows and 4) our ability and intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments. At December 31, 2008, one security with an amortized cost of $35.0 million was determined to be other-than-temporarily impaired resulting in a $16.5 million loss being recognized in 2008.

At December 31, 2008, AgBank and the Associations owned 250 available-for-sale securities with an amortized cost of $5.69 billion, as compared with fair value of $5.50 billion. These investments consisted predominantly of mortgage-backed securities classified as available-for-sale. The unrealized loss positions resulted principally from changes in interest rates and a lack of liquidity in the marketplace as well as some credit deterioration. AgBank and its related Associations have the ability and intent to hold these securities for a period of time sufficient to recover all gross unrealized losses. Currently, these securities are not considered to be other-than-temporarily impaired.

As of December 31, 2008, eight securities with a fair value of $84.3 million and amortized cost of $145.4 million were considered ineligible as the securities did not meet regulatory requirements. These securities were evaluated at period end and it was determined that AgBank had the ability and intent to hold these securities for a period of time sufficient to collect contractual principal and interest.

AgBank investments with an estimated fair value of $11.4 million, $12.0 million and $12.3 million at December 31, 2008, 2007 and 2006, respectively, were pledged as collateral for funding of the Kansas Agricultural Production Loan Deposit Program utilized by Associations.

During the years presented, there were no sales of investment securities.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31		
	2008	2007	2006
Land	**$ 19,057**	$ 19,451	$ 14,056
Buildings and improvements	**106,371**	93,476	83,560
Furniture and equipment	**55,791**	51,306	48,937
Construction in progress	**8,713**	7,831	6,391
	189,932	172,064	152,944
Less: accumulated depreciation	**68,245**	66,074	61,768
Balance at end of year	**$ 121,687**	$ 105,990	$ 91,176

AgBank and Associations own land and buildings throughout the District, in numerous headquarters and branch locations, with an aggregate net book value of $94.9 million. These properties are, for the most part, small and mid-sized office structures which are generally typical of property in the local area. The largest building owned in the District is AgBank's headquarters location in Wichita, Kansas, with a net book value of $6.8 million. This facility is occupied by management and staff of AgBank and AgVantis, with the majority of the space leased to various unrelated tenants. In addition to owned property, AgBank and Associations have certain office space leases.

NOTE 6 - OTHER ASSETS AND OTHER LIABILITIES

A summary of other assets and other liabilities follows:

	2008	2007	2006
Other assets:			
Deferred tax assets, net	**$ 6,330**	$ 538	$ 2,037
Investments in other System institutions	**28,391**	25,132	22,822
Investment in Farmer Mac	**9,000**	–	–
Prepaid benefit costs	–	–	19,688
Equipment held for lease	**6,146**	8,823	11,089
Accounts receivable	**15,492**	24,536	18,366
Prepaid income taxes	**559**	226	1,667
Prepaid expenses	**5,176**	4,567	5,230
Trust assets – nonqualified retirement plans	**22,084**	22,452	15,944
Unamortized debt issue costs	**13,788**	11,467	8,079
Other	**10,607**	2,220	3,201
Total	**$ 117,573**	$ 99,961	$ 108,123
Other liabilities:			
Accrued taxes payable	**$ 524**	$ 599	$ 647
Pension and other postretirement benefit liabilities	**138,146**	70,322	32,529
Minimum pension liability	–	–	14,483
FCSIC premium payable	**32,855**	27,119	24,962
Dividends payable	**6,874**	6,875	1
Accounts payable	**50,468**	57,289	61,160
Other	**74,911**	54,012	42,292
Total	**$ 303,778**	$ 216,216	$ 176,074

NOTE 7 - BONDS AND NOTES

The System, unlike commercial banks and other depository institutions, obtains funding for its lending operations primarily from the sale of Systemwide Debt Securities issued by System Banks through the Funding Corporation. Systemwide bonds, medium-term notes, master notes, discount notes and global debt securities (Systemwide Debt Securities) are the joint and several obligations of the System Banks.

Certain conditions must be met before AgBank can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgBank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the System Banks. The System Banks and the Funding Corporation have entered into the Market Access Agreement, which establishes criteria and procedures for the Banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide Debt issuances, thereby reducing other System Banks' exposure to statutory joint and several liability. At December 31, 2008, AgBank was and currently remains in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes, and
- any other debt securities that the System banks may jointly issue from time to time.

For a discussion of the various risks, tax and other considerations, and terms and conditions related to each of these types of securities, see the discussions in the following offering circulars (available on the Funding Corporation's Website located at www.farmcredit-ffcb.com), as applicable:

- Federal Farm Credit Banks Consolidated Systemwide Bonds, and Discount Notes Offering Circular dated June 18, 1999, as amended by the supplements dated August 20, 2001, November 26, 2003, and March 8, 2007, and
- Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001.

Each of these offering circulars may be further amended or supplemented from time to time. In addition, the Banks may in the future offer new types of Systemwide Debt Securities; the offering of any such securities will be pursuant to additional offering circulars.

AgBank's participation in Systemwide Debt Securities as of December 31, 2008 follows:

	Bonds		**Medium-term notes**		**Discount notes**		**Total**	
Year of maturity	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate
2009	$ 5,122,912	1.80%	$ 69,997	6.28%	$ 2,913,211	0.70%	$ 8,106,120	1.44%
2010	5,583,103	1.63%	15,000	7.04%	–	–	5,598,103	1.64%
2011	1,298,728	3.68%	10,252	5.54%	–	–	1,308,980	3.70%
2012	1,309,510	4.55%	–	–	–	–	1,309,510	4.55%
2013	2,439,723	4.24%	40,315	5.47%	–	–	2,480,038	4.26%
2014 and thereafter	5,202,700	4.95%	–	–	–	–	5,202,700	4.95%
Total	$ 20,956,676	3.10%	$ 135,564	6.07%	$ 2,913,211	0.70%	$ 24,005,451	2.83%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

The average balance of Systemwide Debt Securities was $22.41 billion in 2008, $19.39 billion in 2007 and $17.17 billion in 2006.

Discount notes are issued with maturities ranging from 1 day to 365 days. The average remaining maturity of discount notes held at December 31, 2008 was 31 days.

Systemwide Debt includes callable debt consisting of the following:

Year of Maturity	**Maturing Amount**	**Range of Call Dates**
2009	$ 3,853,463	01/01/09 – 12/30/09
2010	1,030,000	01/04/10 – 12/17/10
2011	100,000	01/18/11 – 12/30/11
2012	165,000	02/22/12 – 12/27/12
2013 and thereafter	135,000	01/18/13 – 09/05/13
Total	$ 5,283,463	

Callable debt may be called on the first call date and, generally, on each business day thereafter.

AgBank was party to interest rate cap and swap agreements with a total notional value of $2.56 billion at December 31, 2008, $4.35 billion at December 31, 2007 and $5.56 billion at December 31, 2006. The interest rate caps were purchased to minimize the impact of rising interest rates on short-term liabilities and correspondingly prevent a reduction in interest rate spread relative to certain loans. The effect of these caps is reflected in the weighted average interest rates in a previous table. In addition, interest rate swaps were executed to convert fixed rate debt to floating rate debt and are also reflected in the weighted average interest rates.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (insured debt) of System Banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities in the combined financial statements are uninsured. At December 31, 2008, the assets of the Insurance Fund aggregated $2.92 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal, or interest on, an insured debt obligation in the event of a default by any System bank having primary liability thereon.

Included in other bonds and notes, the District recorded a $400.0 million note payable to another System Bank for the sale by AgBank of a participation of wholesale loan volume. Funds held for borrowers of $295.2 million were also included in other bonds and notes.

NOTE 8 - SHAREHOLDERS' EQUITY

Descriptions of AgBank's and Associations' capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protected Stock

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

Stock and Participation Certificates

In accordance with the Farm Credit Act, each borrower is required to invest in their respective association as a condition of borrowing. The borrower normally acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. AgBank and Associations have a first lien on the stock or participation certificates owned by borrowers. 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 stock or participation certificates.

Certain Associations require stock for each borrower loan while other Associations require stock for each borrower. The initial investment requirement varies by Association and ranges from the statutory minimum of two percent of the loan amount or one thousand dollars, whichever is less, to three percent of the loan. Each Association's Board of Directors may modify the investment requirement, as permitted within its capitalization bylaws, to meet the Association's capital needs.

Preferred Stock

AgBank and certain Associations have approval to issue preferred stock. For AgBank, preferred stock is issued only to qualified investors outside District institutions; whereas for Associations, preferred stock is limited to existing common stock shareholders. Retirement of preferred stock requires that entity's Board approval.

Description of Equities

Provided below is a description of each class of Association and AgBank stock:

Associations: Sixteen Associations issue voting Class B Stock, non-voting Class C Stock, non-voting Class D Stock, and preferred Class H Stock in such amounts as may be necessary to conduct its business. Class F Stock and Class G Stock are protected classes of stock which are no longer issued. The following table includes further information related to the classes of stock outstanding for these Associations as of December 31, 2008.

	Par Value	Number of Shares	Aggregate Par Value ($ in thousands)
Class B	$ 5.00	4,613,364	$ 23,067
Class C	$ 5.00	109,935	$ 549
Class D	$ 5.00	600	$ 3
Class F	$ 5.00	86,885	$ 434
Class G	$ 5.00	20,370	$ 102
Class H	$ 0.01	1,087,651,058	$ 10,876

Eleven Associations issue voting Class A and Class C Stock for mortgage and agricultural loans, non-voting Class D Stock, non-voting Class F participation certificates for rural residence or farm-related business loans and preferred Class H Stock in such amounts as may be necessary to conduct business. The following table includes further information related to the classes of stock outstanding for these Associations.

	Par Value	Number of Shares	Aggregate Par Value ($ in thousands)
Class A	$ 5.00	87	$ –
Class C	$ 5.00	2,944,513	$ 14,722
Class D	$ 5.00	400	$ 2
Class F	$ 5.00	102,320	$ 511
Class H	$ 1.00	235,416,617	$ 235,417

All Associations have the authority to issue other classes of stock, no shares of which are outstanding as of December 31, 2008.

The bylaws of each Association permit stock and participation certificates to be retired at the discretion of the board of directors in accordance with the Association's capitalization plan. Each holder of voting common stock is entitled to a single vote in matters impacting the Association. The eligibility to exercise the right to vote is dependent upon factors such as the organizational structure of the borrower and interrelationships of borrowers with more than one loan.

As determined by the Associations' boards of directors, dividends may be declared in stock and/or cash; and patronage distributions may be made in the form of stock, cash, qualified and/or nonqualified notices of allocation. Under FCA regulations net income distributions may be made only when the Association meets capital adequacy standards and no class of stock is impaired.

Generally, in the event of liquidation or dissolution of an Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: first, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock and participation certificates; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former patrons on a patronage basis, to the extent practicable. Additional details and individual association differences may be found in the individual Association annual reports.

Losses which result in impairment of stock would first impair all classes of common stock and participation certificates, if any, on a pro rata basis until fully impaired, then all classes of preferred stock on a pro rata basis until fully impaired.

AgBank: Associations are required to invest in the capital stock of AgBank. In addition, AgBank has allocated, but not distributed, a portion of its retained earnings to the Associations. These intercompany balances and transactions are eliminated in combination.

AgBank is authorized to issue and have outstanding the following classes of capital stock:

Class A Common Stock	-	Par value of $5.00 per share, voting stock issued solely to and held solely by Associations;
Class B Common Stock	-	Par value of $5.00 per share, non-voting stock issued solely to and held solely by OFIs, in support of their borrowing relationship with AgBank;
Class C Common Stock	-	Par value of $5.00 per share, non-voting stock issued to System institutions in connection with loans or loan participations in which AgBank stock issuance is required;
Class A Preferred Stock	-	Par value of $1 thousand per share, non-voting Class A Perpetual Non-Cumulative Fixed-to-Floating Rate Preferred Stock, Series 1 issued to qualified institutional borrowers in minimum amounts of $250 thousand; and,
Class D Preferred Stock	-	Par value of $5.00 per share, non-voting stock issued in exchange for the Class A Common Stock of an Association that reaffiliates to another Farm Credit Bank or terminates its System status, or to any person or legal entity who purchases such stock as an at-risk equity investment in AgBank.

AgBank makes loans to Associations, which are generally referred to as wholesale loan volume. Each Association is required to own and maintain an investment in AgBank equities equal to 5.00 percent of its wholesale loan volume (the "Required Investment").

AgBank equities include stock, whether purchased or received in a patronage refund, and attributed surplus. Surplus may be attributed to Associations under provisions of the AgBank bylaws. Attributed surplus does not represent a class of stock or other ownership interest. The Required Investment is measured on the first day of each calendar quarter with reference to the Association's average prior quarter's wholesale loan volume, and after taking into account the prior quarter's patronage. On the first day of each calendar quarter, if, and to the extent an Association's investment in AgBank equities falls below the Required Investment (a "Shortfall"), then the Association is required to purchase additional Class A Common Stock in an amount necessary to eliminate the Shortfall.

If an Association has a Shortfall due to an AgBank loss that is not, in whole or in part, attributable to the Association's wholesale loan, then the Association's investment may be increased by up to 1.00 percent of the Association's average wholesale loan volume in any 12-month period. For purposes of clarification, references to wholesale loan volume means an Association's average daily outstanding loan balance owed to AgBank for the specified period, minus any average daily excess investment for such period.

On the first day of each calendar quarter, the amount by which an Association's investment in AgBank equities exceeds the Required Investment is referred to as an "Excess Investment." Except in specific instances, any excess patronage-based stock investment in AgBank will be counted by Associations as permanent capital, as per the Permanent Capital Counting Agreements with Associations. For purposes of clarification, references to Association include an ACA and its subsidiaries on a combined basis, which together shall represent one Association, or an FLCA.

At December 31, 2008, AgBank had $572.7 million (114,541,683 shares) of Class A Stock and $1 thousand (200 shares) of Class B Stock, $1 thousand (200 shares) of Class C Stock and $225.0 million (225,000 shares) of Class A Preferred Stock outstanding. No other classes or types of stock were outstanding for AgBank at year-end.

AgBank's patronage program continued during 2008. AgBank distributed a cash patronage of $66.3 million during 2008, $87.0 million during 2007 and $57.7 million during 2006, to all Associations. Beginning in 2007, all patronage was paid in cash. In 2006 certain Associations received a stock patronage which totaled $19.1 million. The patronage distributed to the Associations is eliminated in combination.

At the inception of each OFI loan, AgBank requires OFIs to make cash purchases of stock in AgBank. AgBank has a first lien on these equities for the repayment of any indebtedness to AgBank. At December 31, 2007, AgBank had $1 thousand (200 shares) of stock outstanding to an OFI at a par value of $5.00 per share.

In March 2007, AgBank issued $225.0 million of perpetual non-cumulative fixed-to-floating preferred stock at a par value of $1 thousand per share. Dividends are declared at the sole discretion of the Board of Directors. Dividends are non-cumulative and will be paid semi-annually on the 10th day of January and July commencing July 10, 2007 and ending on July 10, 2012, at an annual rate of 6.11 percent during the fixed period; and quarterly on the 10th day of January, April, July and October beginning October 10, 2012 at an annual rate equal to 3-Month USD LIBOR plus 1.18 percent. On the payment date in July 2012 or on each fifth anniversary thereafter, AgBank may, at its option, redeem the preferred stock in whole or in part at the redemption price of $1 thousand per share, plus accrued and unpaid dividends for the then current dividend period to the redemption date. Upon the occurrence of a regulatory event which would eliminate AgBank's ability to use the preferred stock to satisfy applicable minimum capital adequacy, surplus or collateral requirements, AgBank may redeem the preferred stock in whole, but not in part. The funds were used for general corporate purposes and to reduce the Associations' required investment in AgBank by 1.25 percent from 6.25 percent to 5.00 percent. During 2008, AgBank declared $13.7 million of preferred stock dividends and paid preferred stock dividends of $13.7 million.

Other Equity: Each customer of AgVantis is required to invest in stock of AgVantis. As of year-end 2008, AgVantis recorded $640 thousand in total stock outstanding, $540 thousand in Class A Stock from each of the eighteen Association customers and $100 thousand in Class B Stock from AgBank. The AgBank and Association stock is eliminated in combination.

During 2008, AgBank loaned funds to AgVantis. At December 31, 2008, AgBank had $1 thousand (200 shares) of stock outstanding to AgVantis at a par value of $5.00 per share. This is eliminated in combination.

Other Comprehensive Income/Loss

An additional component of shareholders' equity is accumulated other comprehensive income/(loss), which is reported net of taxes as follows:

	2008	2007	2006
Unrealized losses on investments held available-for-sale	**$ (188,216)**	$ (60,850)	$ (26,542)
Unrealized losses on cash flow hedges	**(9,658)**	(12,799)	(14,454)
Minimum pension liability	**–**	–	(14,483)
Minimum pension liability - tax	**–**	–	194
Pension adjustment related to SFAS No. 158	**(143,011)**	(53,899)	–
Total accumulated other comprehensive income/(loss)	**$ (340,885)**	$ (127,548)	$ (55,285)

The following table details activity in accumulated other comprehensive income/(loss).

	2008	2007	2006
Beginning Balance	**$ (127,548)**	$ (55,285)	$ (81,959)
Unrealized holding gain/(loss) on AFS investments	**(143,849)**	(34,308)	6,928
Realized loss on investment impairment	**16,483**	–	–
Unrealized losses on cash flow hedges	**(2,543)**	(2,698)	(2,435)
Reclassification to earnings related to cash flow hedges	**5,684**	4,354	11,544
Minimum pension liability	**–**	5,727	11,458
Minimum pension liability - tax	–	(194)	(821)
Pension adjustment related for current year actuarial loss	**(93,299)**	(45,144)	–
Pension amortization	**4,187**	–	–
Ending Balance	**$ (340,885)**	$ (127,548)	$ (55,285)

For further information on the minimum pension liability, pension adjustment for current year, and the adjustment related to SFAS No. 158 included in the previous table, refer to Note 10 Employee Benefit Plans.

Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require AgBank and Associations to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on AgBank's or Associations' financial statements. AgBank and Associations are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent.

The following table presents capital ratios for AgBank and the range of ratios and weighted averages for the District Associations at December 31, 2008.

	Permanent Capital Ratio	Core Surplus Ratio	Total Surplus Ratio
AgBank	18.94%	10.97%	15.92%
Associations	11.02% - 27.51%	10.27% - 25.62%	10.54% - 27.09%
Association weighted average	15.80%	14.19%	14.55%
Regulatory minimum	7.00%	3.50%	7.00%

In addition, AgBank is required by regulation to achieve and maintain a net collateral ratio of 103.00 percent of total liabilities. At December 31, 2008, AgBank's net collateral ratio was 104.90 percent. All District institutions exceed the regulatory minimum standards for capital and collateral at December 31, 2008.

An existing regulation empowers FCA to direct a transfer of funds or equities from one or more System institution to another System institution under specified circumstances. This regulation has not been utilized to date. AgBank and Associations have not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

NOTE 9 - INCOME TAXES

The provision for/(benefit from) income taxes follows:

	2008	2007	2006
Current:			
Federal	**$ 1,399**	$ 2,177	$ 1,219
State	**149**	70	27
Deferred:			
Federal	**(5,875)**	1,255	(1,756)
State	**83**	50	83
(Benefit from)/Provision for income taxes	**$ (4,244)**	$ 3,552	$ (427)

The difference in the statutory tax rate and the effective tax rate is primarily due to the tax exemption of AgBank and FLCA earnings. The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income presented as follows:

	2008	2007	2006
Federal tax at statutory rate	**$ 119,190**	$ 144,177	$ 118,349
State tax, net	**116**	83	75
Effect of nontaxable entities	**(102,063)**	(127,634)	(103,895)
Bank stock patronage income	**–**	–	(4,089)
Patronage distributions	**(16,941)**	(14,203)	(10,412)
Other	**(4,546)**	1,129	(455)
(Benefit from)/Provision for income tax	**$ (4,244)**	$ 3,552	$ (427)

Deferred tax assets and liabilities are comprised of the following:

	2008	2007	2006
Deferred tax assets:			
Allowance for loan losses	**$ 14,771**	$ 13,554	$ 12,496
Nonaccrual loan interest	**1,856**	1,495	2,288
Annual leave	**58**	60	37
Depreciation	–	582	624
Loss carryforwards	**11,396**	12,041	10,627
Employee benefit plan obligations	**211**	455	599
Other	**2,120**	1,790	1,855
Gross deferred tax assets	**30,412**	29,977	28,526
Less: Valuation allowance	**(14,987)**	(15,280)	(13,350)
Deferred tax assets, net of valuation allowance	**15,425**	14,697	15,176
Deferred tax liabilities:			
Bank patronage to Associations	**(3,749)**	(9,398)	(9,371)
Depreciation	**(201)**	–	–
Other	**(5,145)**	(4,761)	(3,768)
Gross deferred tax liabilities	**(9,095)**	(14,159)	(13,139)
Net deferred tax assets	**$ 6,330**	$ 538	$ 2,037

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained for those Associations operating as Subchapter T cooperatives. The expected future tax rates are based upon enacted tax laws.

District Associations and AgVantis recorded valuation allowances totaling $15.0 million, $15.3 million and $13.4 million during 2008, 2007 and 2006, respectively. Management will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

District Associations and AgVantis recognize interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. However, no adjustments to the deferred tax assets or tax liabilities were necessary for the year ended December 31, 2008 for unrecognized tax benefits. The tax years that remain open for federal and major state income tax jurisdictions are 2005 and forward.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The District participates in two defined benefit retirement plans: the Ninth Farm Credit District Pension Plan (Ninth Pension Plan) and the Eleventh Farm Credit District Employees' Retirement Plan (Eleventh Retirement Plan). It also participates with Farm Credit System employers from other districts in the Farm Credit Foundations 401(k) Plan (Foundations 401(k) Plan). Most District employees are eligible to participate in at least one of these plans. Certain individuals may participate in a nonqualified pension restoration plan in addition to the pension or retirement plans. For postretirement welfare benefits other than pension, the District participates along with other Farm Credit System employers in the Farm Credit Foundations Retiree Medical Plan (Retiree Medical Plan). During 2006, all District entities agreed to delegate the authority over employee benefit plans to a common Plan Sponsor Committee as part of a human resource consolidation project with certain other Farm Credit System entities which formed Farm Credit Foundations.

AgBank, AgVantis and certain Associations participate in the Ninth Pension Plan. The Ninth Pension Plan is noncontributory and covers certain employees of AgBank, AgVantis and the former Ninth District Associations. Benefits are based on compensation and years of service. The Ninth Pension Plan was closed to new participants beginning January 1, 2007. During 2007 those participants who were entitled to benefits only under the Account Balance Provisions of the Ninth Pension Plan were spun off into a separate pension plan, the Spinoff Pension Plan, which was then terminated. The accrued benefits for these participants were distributed from the Spinoff Pension Plan and may be transferred to the Foundations 401(k) Plan or to another qualified plan or individual retirement plan of the participant's choice.

AgBank and certain District Associations participate in the Eleventh Retirement Plan. The Eleventh Retirement Plan is noncontributory and covers certain employees of the former Eleventh District Associations and some AgBank employees. Benefits are based on compensation and years of service. The Eleventh Retirement Plan was closed to new employees hired after December 31, 1997. Employees in the former Eleventh District hired on or after January 1, 1998 are only eligible to participate in the Foundations 401(k) Plan.

AgBank, AgVantis and certain Associations also offer health care and other postretirement benefits to eligible retired employees through the Retiree Medical Plan. These plans are contributory and noncontributory. The anticipated costs of these benefits were accrued during the period of the employee's active service. During 2008, the life insurance benefit in the plan was funded by a one-time buy-out contribution with an insurance company resulting in income recognition of $997 thousand and additional cash contributions of $2.1 million. Prior to 2007, employees of the former Ninth District who were hired before 2004 could become eligible for employer subsidies under a predecessor plan to the Retiree Medical Plan. As of September 30, 2007, the Retiree Medical Plan was amended to continue employer subsidized benefits only for current retirees. Accrued balances for eligible employees were converted to present value and an equivalent amount was contributed to the Ninth Pension Plan and/or Spinoff Pension Plan as an additional pension benefit.

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 as an asset or liability with an offsetting adjustment to accumulated other comprehensive income on the balance sheet. The balance sheet recognition provisions of SFAS No. 158 were adopted at December 31, 2007. SFAS No. 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year-end for years ending after December 15, 2008. In fiscal 2007 and earlier, the District used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The District has applied the second approach which allows for the use of the measurements determined for the prior year end. Under this second approach, pension and postretirement expense 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, AgBank and the related Associations decreased retained earnings $2.7 million, net of tax and increased the pension and other postretirement benefit liabilities by $2.7 million.

The funding status and the amounts recognized in the combined statement of condition for the Ninth Pension Plan and Eleventh Retirement Plan including the nonqualified pension restoration plan and Retiree Medical Plan follow:

	Pension Benefits			**Other Benefits**		
	2008	2007	2006	**2008**	2007	2006
Change in benefit obligation						
Benefit obligation at the beginning of the period	**$ 319,479**	$ 312,245	$ 320,390	**$ 10,715**	$ 15,400	$ 16,509
Service cost	**9,335**	8,279	8,565	**155**	384	420
Interest cost	**24,696**	18,265	16,273	**817**	900	848
Plan amendments	**(3,070)**	6,017	–	**(997)**	–	–
Actuarial (gain)/loss	**15,982**	(1,785)	(16,691)	**395**	(1,071)	(1,220)
Benefits paid	**(26,821)**	(23,365)	(16,292)	**(3,294)**	(911)	(867)
Curtailments	**–**	–	–	**–**	(3,987)	–
Special termination benefits	**–**	–	–	**–**	–	(290)
Other	**–**	(177)	–	**–**	–	–
Benefit obligation at the end of the period	**$ 339,601**	$ 319,479	$ 312,245	**$ 7,791**	$ 10,715	$ 15,400
Change in plan assets						
Fair value of plan assets at beginning of the period	**$ 254,452**	$ 241,692	$ 232,329	$ –	$ –	$ –
Actual return on plan assets	**(52,425)**	32,476	17,979	–	–	–
Employer contributions	**34,048**	3,649	7,676	**3,286**	911	867
Benefits and premiums paid	**(26,821)**	(23,365)	(16,292)	**(3,294)**	(911)	(867)
Fair value of plan assets at the end of the period	**$ 209,254**	$ 254,452	$ 241,692	**$ (8)**	$ –	$ –
Funded status	**$ (130,347)**	$ (65,027)	$ (70,553)	**$ (7,799)**	$ (10,715)	$ (15,400)
Unrecognized net actuarial loss	**NA**	NA	76,135	**NA**	NA	1,186
Unrecognized prior service cost	**NA**	NA	(5,421)	**NA**	NA	(280)
Unrecognized net transition asset	**NA**	NA	(2,220)	**NA**	NA	38
Net amount recognized–September 30	**$ (130,347)**	$ (65,027)	$ (2,059)	**$ (7,799)**	$ (10,715)	$ (14,456)
Fourth quarter employer contributions	**NA**	5,186	3,455	**NA**	234	219
Net amount recognized–December 31	**$ (130,347)**	$ (59,841)	$ 1,396	**$ (7,799)**	$ (10,481)	$ (14,237)
Amounts recognized in the combined statement of condition consist of:						
Prepaid benefit costs	**$ NA**	$ NA	$ 19,688	**$ NA**	$ NA	$ –
Accrued benefit liability	**NA**	NA	(32,775)	**NA**	NA	(14,237)
Deferred tax asset	**NA**	NA	195	**NA**	NA	–
Accumulated other comprehensive (income)/loss, net of tax	**NA**	NA	14,288	**NA**	NA	–
Liabilities	**(130,347)**	(59,841)	NA	**(7,799)**	(10,481)	–
Net amount recognized	**$ (130,347)**	$ (59,841)	$ 1,396	**$ (7,799)**	$ (10,481)	$ (14,237)

The following represents the amounts included in accumulated other comprehensive income/loss at December 31.

	Pension Plan		Other Benefits	
	2008	2007	**2008**	2007
Net actuarial loss	**$ 141,650**	$ 53,646	**$ 435**	$ 41
Transition assets/(liabilities)	**(1,509)**	(1,904)	**20**	30
Prior service costs/(credits)	**2,519**	2,239	**(104)**	(153)
Total amount recognized in accumulated other comprehensive (income)/loss	**$ 142,660**	$ 53,981	**$ 351**	$ (82)

The projected and accumulated benefit obligation for the Ninth Pension Plans and the Eleventh Retirement Plans follows:

	December 31, 2008	September 30, 2007	September 30, 2006
Projected benefit obligation	**$ 339,601**	$ 319,479	$ 312,245
Accumulated benefit obligation	**$ 283,224**	$ 271,155	$ 263,643

The net periodic benefit costs for the Ninth Pension and the Eleventh Retirement Plans including the nonqualified pension restoration plan and Retiree Medical Plan included in the combined statement of income is comprised of the following:

	Pension Benefits			Other Benefits		
	2008	2007	2006	**2008**	2007	2006
Components of net periodic benefit cost/(income)						
Service cost	**$ 7,467**	$ 8,279	$ 8,565	**$ 124**	$ 384	$ 420
Interest cost	**19,757**	18,265	16,273	**654**	900	850
Expected return on plan assets	**(20,434)**	(19,538)	(17,922)	**–**	–	–
Net amortization and deferral	**3,381**	3,727	6,496	**(32)**	(43)	48
Net periodic cost	**$ 10,171**	$ 10,733	$ 13,412	**$ 746**	$ 1,241	$ 1,318
Retirement incentive cost, net	**(2,025)**	1,902	–	**(997)**	(3,987)	–
Total cost	**$ 8,146**	$ 12,635	$ 13,412	**$ (251)**	$ (2,746)	$ 1,318

The adjustment to retained earnings due to the change in measurement date is detailed below.

	Pension Benefits	Other Benefits	Total
Service cost	$ 1,868	$ 31	$ 1,899
Interest cost	4,939	163	5,102
Expected return on plan assets	(5,109)	–	(5,109)
Amortization of net transition obligation	(79)	2	(77)
Amortization of prior service cost/(credit)	(64)	(10)	(74)
Amortization of net actuarial loss	988	–	988
Total adjustment to retained earnings	$ 2,543	$ 186	$ 2,729

Change in the plan assets and benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	Pension Benefits	Other Benefits	Total
Current year net actuarial loss	$ 93,950	$ 394	$ 94,344
Prior service credit	(3,070)	(997)	(4,067)
Amortization of net transition obligation	316	(8)	316
Amortization of prior service cost	3,326	1,037	3,318
Amortization of net actuarial (gain)/loss	(4,999)	–	(3,962)
Adjustment due to change in measurement date	(845)	8	(837)
Total recognized in other comprehensive income	$ 88,678	$ 434	$ 89,112

Additional Information

With the adoption of SFAS No. 158, at December 31, 2007, the Eleventh Retirement Plan's minimum pension liability was eliminated. The offsetting impact was recorded to accumulated other comprehensive loss in the combined statement of condition. As a result, there was no combined statement of income impact. As of December 31, 2006, the minimum pension liability was $14.5 million.

In calculating pension expense for the Ninth Pension Plan and in determining the expected rate of return, the calculated value of assets phases in investment gains and losses over a five-year period. In calculating pension expense for the Eleventh Retirement Plan, the calculated value of assets includes current year gains and losses.

Assumptions for Ninth Pension Plan and Eleventh Retirement Plan

Weighted average assumptions used to determine retirement and postretirement benefit obligations:

	Pension Benefits			Other Benefits		
	2008	2007	2006	**2008**	2007	2006
Discount rate (Ninth qualified plan)	**6.30%**	6.35%	6.00%	**6.30%**	6.35%	6.00%
Discount rate (Ninth nonqualified plan)	**6.35%**	6.35%	6.00%	**NA**	NA	NA
Discount rate (Eleventh qualified plan)	**6.30%**	6.35%	6.00%	**6.30%**	6.35%	6.00%
Discount rate (Eleventh nonqualified plan)	**6.40%**	6.35%	6.00%	**NA**	NA	NA
Rate of compensation increase (Ninth)	**5.00%**	5.00%	5.00%	**NA**	5.00%	5.00%
Rate of compensation increase (Eleventh)	**4.50%**	4.50%	4.50%	**NA**	NA	NA

Weighted average assumptions used to determine net periodic benefit cost:

	Pension Benefits			Other Benefits		
	2008	2007	2006	**2008**	2007	2006
Discount rate	**6.35%**	6.00%	5.25%	**6.35%**	6.00%	5.25%
Expected long-term return on plan assets (Ninth)	**8.50%**	8.50%	8.00%	**NA**	NA	NA
Expected long-term return on plan assets (Eleventh)	**8.25%**	8.25%	8.25%	**NA**	NA	NA
Rate of compensation increase (Ninth)	**5.00%**	5.00%	5.00%	**4.50%**	5.00%	5.00%
Rate of compensation increase (Eleventh)	**4.50%**	4.50%	4.50%	**NA**	NA	NA

The discount rate for the benefit plans was selected by reference to actuarial analysis, industry norms, and Hewitt above-median yield curve.

For postretirement benefit obligations measurement purposes in the Retiree Medical Plan, annual rates of increase of 9.00 percent in the per capita cost of covered health benefits were assumed for next year. The rates were assumed to decrease to 5.00 percent through the year 2011, and remain at that level thereafter. Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	$ 22	$ (20)
Effect on postretirement benefit obligation	$ 296	$ (271)

Plan Assets

The asset allocations of the Ninth Pension Plan and Eleventh Retirement Plan by asset category are as follows:

	Pension Benefits		
	December 31 2008	September 30 2007	September 30 2006
Asset Category			
Equity securities	**$ 110,854**	$ 168,064	$ 163,564
Debt securities	**69,467**	82,643	77,257
Other	**28,933**	3,745	871
Total	**$ 209,254**	$ 254,452	$ 241,692

The target asset allocation for equity securities for the Ninth Pension Plan is 60 percent to 70 percent and 50 percent to 60 percent for the Eleventh Retirement Plan with the balance of the funds largely targeted to debt securities.

The funding objective of the plans is to provide present and future retirement or survivor benefits for its members by achieving an attractive rate of return, as defined by the plans' policy statements, without exposing the plans to undue risk. A Board of Trustees, called the Farm Credit Foundations Trust Committee, comprised of certain members of senior management of participating employers in Farm Credit Foundations, supervises the investment assets of the plans on behalf of the employers. The Trustees adopt an asset allocation strategy for each plan that reflects return and risk objectives, characteristics of plan liabilities, capital market expectations and other factors.

The Trustees employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and the participating entities' financial conditions. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, small, mid, and large capitalizations. The Trustees review the asset mixes periodically and regularly monitor the portfolios to maintain compliance with pre-established strategic allocation ranges. Other investment strategies may be employed to avoid certain market exposures, reduce portfolio risk, and to further diversify portfolio assets. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and monthly and quarterly investment portfolio reviews.

AgBank, AgVantis and combined Associations expect to contribute $15.6 million to the pension plans and $658 thousand to the Retiree Medical Plan in 2009.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the Ninth Plans and the Eleventh Plans and the Retiree Medical Plan.

	Pension Benefits	Other Benefits
2009	$ 22,764	$ 658
2010	$ 26,017	$ 649
2011	$ 31,156	$ 593
2012	$ 30,383	$ 567
2013	$ 29,262	$ 572
2014-2018	$ 152,522	$ 2,814

Defined Contribution Plans

Most AgBank, AgVantis and Association employees participate in the Foundations 401(k) Plan. Employees hired on or after January 1, 2007 are eligible to participate only in the Foundations 401(k) Plan and are not eligible to participate in a pension or other postretirement plan. The Foundations 401(k) Plan requires the employers to match a percentage of employee contributions. AgBank's, AgVantis' and Associations' contributions to the Foundations 401(k) Plan (including predecessor plans) were $10.4 million, $8.1 million, and $7.6 million for 2008, 2007 and 2006, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, Associations enter into loan transactions with officers and directors of AgBank or Associations, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the 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.

The following table details information on loans made to such persons.

	2008	2007	2006
Total loans with officers and directors	**$ 752,011**	$ 656,798	$ 554,860
New loans made	**$ 818,761**	$ 608,576	$ 466,277
Repayments	**$ 735,799**	$ 525,119	$ 417,083
Other [(1)]	**$ 12,251**	$ 18,481	$ 72

[(1)] Other is net of new directors' and resigned directors' loan balances.

In the opinion of management, none of the loans outstanding at December 31, 2008 involved more than the normal risk of collectibility.

AgBank and certain Associations purchase technical and systems support from AgVantis. The AgVantis Board of Directors is comprised of six elected directors, which are CEOs of the Associations, one director who is an officer of AgBank appointed by the AgBank CEO, and one Association director appointed by the other Board members.

NOTE 12 - REGULATORY ENFORCEMENT MATTERS

No FCA regulatory enforcement actions currently exist within the District.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

AgBank and Associations have various contingent liabilities and commitments outstanding. While primarily liable for its portion of Systemwide Debt Securities, AgBank is jointly and severally liable for the Systemwide Debt Securities of the other System Banks. The total Systemwide Debt Securities of the System at December 31, 2008 were $178.37 billion.

AgBank and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the combined 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. 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, $7.50 billion of commitments to extend 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 combined statement of condition 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.

AgBank and Associations also participate in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2008, the District had $157.3 million of standby letters of credit.

At December 31, 2008, various lawsuits were pending against AgBank and Associations in which claims for monetary damages have been or may be asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions would not be significant in relation to the combined financial position of AgBank, Associations, and AgVantis.

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

AgBank incurs and manages the primary sources of interest rate risk within the District. AgBank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to manage significant unplanned fluctuations in earnings that are caused by interest rate volatility. AgBank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain assets and liabilities so that movements in interest rates do not adversely affect market values or the net interest margin. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by AgBank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of assets and liabilities, respectively, will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by AgBank's income or expense from the derivative instruments that are linked to these hedged assets and liabilities. AgBank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents market values and earnings from being exposed to undue risk posed by changes in interest rates.

AgBank enters into derivatives, particularly interest rate swaps, interest rate caps, and interest rate floors, to lower funding costs, manage liquidity, diversify sources of funding, or manage interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps allow AgBank to convert fixed rate long-term debt to a floating rate instrument. The resulting cost of funds may be lower than it would have been if floating rate borrowings were made directly and also lowers AgBank's liquidity risk. Under interest rate swap arrangements, AgBank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount with at least one stream based on a specified floating rate index.

Given asset-liability mismatches, AgBank may use a variety of interest rate swaps to achieve a better funding match with the repricing characteristics of interest earning assets. The exchange of floating rate for fixed rate (receive fixed swaps); fixed rate for floating rate (pay fixed swaps); and floating rate for floating rate with payment obligations tied to specific indices may be used to reduce the impact of market fluctuations on AgBank's net interest income.

Options, such as interest rate caps and floors, are used to reduce the impact of changing interest rates. These options meet all hedge criteria and thus, are designated cash flow hedges. Changes in fair value of cash flow hedges are deferred and reported in accumulated other comprehensive income.

By using derivative instruments, AgBank exposes itself to credit risk and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, AgBank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes AgBank, and creates a repayment risk for AgBank. When the fair value of the derivative contract is negative, AgBank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, AgBank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of and levels of exposure to individual counterparties. AgBank has derivative transactions with ten counterparties, seven of which represent approximately 91 percent of the total notional amount of these derivatives. AgBank does not anticipate nonperformance by any of these counterparties. AgBank typically enters into master agreements that include netting provisions and the right of offset which allows AgBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. All derivative transactions are supported by collateral arrangements with counterparties. At December 31, 2008, AgBank has not posted collateral with respect to these arrangements, but has received $52.2 million from certain counterparties. Collateral held consisted of $22.2 million in cash and $30.0 million in investment securities.

Fair Value Hedges

AgBank enters into interest rate swaps primarily to convert fixed rate long-term debt to floating rate debt.

Cash Flow Hedges

AgBank uses various types of interest rate caps and swaps to reduce the impact of rising interest rates on short-term debt and to offset the effect of periodic and lifetime caps on loans and investments. AgBank also uses interest rate floors to reduce the impact of falling interest rates on floating rate assets. The specific terms and notional amounts of the swaps are determined based on management's assessment of future interest rates and strategic initiatives.

For certain cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current period earnings are included in the line item in which the hedged item is recorded in the same period the forecasted transaction was to affect earnings. As of December 31, 2008, $5.7 million of the deferred net losses on derivative instruments in accumulated other comprehensive income are expected to be reclassified as expense to earnings during the next twelve months. The maximum term over which AgBank is hedging its exposure to the variability of future cash flows (for all forecasted transactions, excluding interest payments on variable rate debt) is approximately ten years.

For both fair value and cash flow hedges, the amount of hedge ineffectiveness is reflected in interest income or interest expense. Changes in the fair value of derivatives not meeting hedge criteria are included in noninterest expense. Accumulated other comprehensive income (loss) includes fair value adjustments relating to investments held as available-for-sale and accumulated gains or losses on cash flow derivatives, which are anticipated to be reclassified as income or expense in the future.

The following table details the activity in earnings related to derivatives:

	2008	2007	2006
Recognition in income (expense):			
Fair value hedges			
Hedge ineffectiveness	**$ (559)**	$ (910)	$ 1,386
Discontinuance of fair value hedges	**(3,253)**	–	–
Cash flow hedges			
Ineffective component of cash flow hedges	**(205)**	(568)	(570)
Discontinuance of cash flow hedges	**16**	(1,180)	(8,528)
Derivatives not designated as hedges			
Change in fair value of derivatives not designated as hedges	**35**	–	–
Total impact to earnings	**$ (3,966)**	$ (2,658)	$ (7,712)

During September 2008, derivatives with a notional amount of $805.0 million that AgBank held with Lehman Brothers as the counterparty were impacted by Lehman's declaration of bankruptcy. A loss in fair value of the interest rate swaps and related accrued interest of $3.2 million was recognized immediately. During 2007, AgBank closed out two interest rate cap derivatives. These were three-month LIBOR caps originally purchased as hedges against rising interest rates on three-month discount notes. During 2006, AgBank closed out eight interest rate cap derivatives. These caps were either three-month LIBOR caps or six-month LIBOR caps originally purchased as hedges against rising interest rates on debt. By discontinuing these caps, the remaining unamortized premiums were recognized as a loss. The loss in 2007 was $1.2 million and in 2006 was $8.5 million. Premium amortization included in interest expense in future periods will be reduced by an amount similar to the recognized losses discussed above. Both in 2007 and 2006, these were replaced with interest rate caps indexed to 1-month LIBOR to better match the portfolio of liabilities being hedged.

NOTE 15 - FAIR VALUE MEASUREMENTS

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 – Summary of Significant Accounting Policies for additional information.

Assets and liabilities measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	$ –	$ 872,305	$ 4,630,484	$ 5,502,789
Derivative assets	–	106,352	–	106,352
Assets held in nonqualified benefits trust	22,084	–	–	22,084
Total assets	$ 22,084	$ 978,657	$ 4,630,483	$ 5,631,225
Liabilities:				
Derivative liabilities	$ –	$ –	$ 256	$ 256
Total liabilities	$ –	$ –	$ 256	$ 256

The table below represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using at least one significant unobservable input (Level 3) for the year ended December 31, 2008.

	Total Fair Value Measurement	
	Investment Securities	Derivative Liabilities
Balance at December 31, 2007	$ 4,677,265	$ 339
Impact of adoption of SFAS No. 157	–	–
Balance at January 1, 2008	4,677,265	339
Total gains or (losses) realized/unrealized:		
Included in earnings	(16,483)	(83)
Included in other comprehensive income	(96,430)	–
Purchases, Issuances and Settlements	(166,287)	–
Transfers in and/or out of Level 3	232,418	–
Balance at December 31, 2008	$ 4,630,483	$ 256
The amount of gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2008	$ (16,483)	$ (83)

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

	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans	$ –	$ –	$ 42,334	$ 42,334	$ (15,560)

Valuation Techniques

As more fully discussed in Note 2 –Summary of Significant Accounting Policies, SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used for AgBank and Associations' assets and liabilities.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. The District has no Level 1 investment securities. If quoted prices are not available in an active market, the fair value of securities are estimated using pricing models with observable or quoted prices for similar securities received from pricing services and are classified as Level 2. This would include certain mortgage-backed securities held by the District.

Where there is limited activity or less transparency around inputs to the valuation, securities are classified as Level 3. For these Level 3 securities, the District utilizes a pricing model that applies a present value technique in which multiple cash flow scenarios, reflecting possible outcomes, and a discount rate were used to estimate fair value at December 31, 2008. Securities classified within Level 3 include asset-backed securities, certain structured mortgage-backed securities, and other mortgage-backed securities issued by Farmer Mac. These securities have a structure, such as cap corridors, or certain collateral that pricing services do not accurately incorporate in their valuations. The pricing model AgBank uses is QRM, a widely recognized asset liability management tool. Necessary inputs to QRM include yield curves, volatility, prepayment speeds, and market spreads.

The valuation for certain structured mortgage-backed securities with relocation collateral and cap corridors utilize significant inputs such as yield curves, volatility, and prepayment speeds that are observable. However market spreads, a significant input, are derived from Broker/Dealer price indications only and are not observable thereby requiring these securities to be classified as Level 3.

Farmer Mac securities are backed by agricultural mortgage loans for which there are no available quotes. Significant inputs that are observable include the LIBOR yield curve and volatility. Significant inputs that are not observable include market spreads and prepayment speeds which are derived by correlations and assumptions. Therefore, Farmer Mac securities are classified as Level 3.

Under FSP FAS 157-3, it has been determined that asset-backed securities and non-agency mortgage-backed securities exist in inactive markets under the current economic environment. As there is no observable market for these securities, the valuation process is an average of the QRM valuation and two pricing service quotes. The QRM model inputs include market spreads and prepayment speeds that are not observable. These securities are classified as Level 3.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the District's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options. Other derivatives that are valued based upon models with at least one significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy.

Assets held in nonqualified benefits trust

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans – Fair Value on a Nonrecurring Basis

Certain loans are evaluated for impairment under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan – an amendment of FASB Statements No. 5 and 15." To estimate the impairment of certain loans, the District uses the practical expedient method which is based upon the fair value of the underlying collateral for collateral-dependent loans. Currently, all of the District's impaired loans that are recorded at fair value are secured by real estate. The fair value measurement process uses appraisals performed by independent licensed appraisers and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established in order to recognize the fair value. As a result, the District considers the appraisals used in its impairment analysis to be Level 3 inputs. Impaired loans are reviewed and evaluated periodically for additional impairment, and reserves are adjusted accordingly.

NOTE 16 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the District's financial instruments.

	December 31					
	2008		2007		2006	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans and notes receivable, net	**$ 23,038,760**	**$ 23,503,098**	$ 19,689,516	$ 19,810,417	$ 17,561,099	$ 17,513,199
Cash and federal funds	**$ 277,881**	**$ 277,881**	$ 274,540	$ 274,540	$ 217,465	$ 217,465
Eligible investment securities	**$ 4,860,574**	**$ 4,860,574**	$ 4,983,486	$ 4,983,486	$ 3,829,106	$ 3,829,106
Mission-related and other investments	**$ 980,920**	**$ 992,570**	$ 1,168,830	$ 1,184,588	$ 1,084,742	$ 1,087,378
Derivative assets	**$ 106,352**	**$ 106,352**	$ 39,988	$ 39,988	$ 13,277	$ 13,277
Asset held in nonqualified benefits trust	**$ 22,084**	**$ 22,084**	$ 22,452	$ 22,452	$ 15,944	$ 15,944
Financial liabilities:						
Systemwide debt securities	**$ 24,005,451**	**$ 24,463,948**	$ 21,103,730	$ 21,270,310	$ 18,181,097	$ 18,107,609
Other bonds and notes	**$ 756,889**	**$ 757,031**	$ 639,493	$ 639,279	$ 569,514	$ 569,360
Derivative liabilities	**$ 256**	**$ 256**	$ 6,086	$ 6,086	$ 53,897	$ 53,897
Unrecognized financial instruments:						
Commitments to extend credit	**$ –**	**$ 710**	$ –	$ 883	$ –	$ 101

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

Loans and Notes Receivable: Because no active market exists for AgBank's and the Associations' loans, fair value is estimated by discounting the expected future cash flows using AgBank's and/or the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the District's loan rates as well as 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 the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair value of loans in nonaccrual status is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows.

Cash and Federal Funds: The carrying value is a reasonable estimate of fair value.

Eligible Investment Securities: If an active market exists, the fair value is derived from multiple sources, including nationally recognized pricing providers and AgBank's internal valuation model. For those securities for which an active market does not exist, the fair value is determined as described in Note 15.

Mission-related and other investments: The fair value is estimated by calculating the discounted value of the expected future cash flows.

Assets held in nonqualified benefits trust: These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 15, the fair value of these assets is determined by quoted net asset values.

Systemwide Debt Securities and Other Bonds and Notes: Bonds and notes at times may not be regularly traded; thus, quoted market prices may not be available. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury issues.

Derivative Financial Instruments: The fair value of derivative financial instruments (asset and liability) is the estimated amount that would be received or paid to terminate the agreement at the reporting date, considering current interest rates and the current credit worthiness of the counterparties.

Commitments to extend credit: The fair value considers the difference between the current level of interest rates and the committed rates.

NOTE 17 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly combined results of operations for the years ended December 31, 2008, 2007 and 2006 follow:

			2008		
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 159,832**	**$ 152,857**	**$ 158,403**	**$ 162,964**	**$ 634,056**
Loan loss reversal/(Provision for loan losses)	**1,076**	**4,253**	**(3,523)**	**(24,407)**	**(22,601)**
Noninterest expense, net	**(52,182)**	**(57,357)**	**(60,001)**	**(92,355)**	**(261,895)**
Net income	**$ 108,726**	**$ 99,753**	**$ 94,879**	**$ 46,202**	**$ 349,560**

			2007		
	First	Second	Third	Fourth	Total
Net interest income	$ 157,267	$ 167,088	$ 176,181	$ 163,297	$ 663,833
Loan loss reversal/(Provision for loan losses)	5,282	(1,445)	(5,545)	(1,875)	(3,583)
Noninterest expense, net	(55,486)	(59,053)	(53,050)	(72,162)	(239,751)
Net income	$ 107,063	$ 106,590	$ 117,586	$ 89,260	$ 420,499

			2006		
	First	Second	Third	Fourth	Total
Net interest income	$ 143,436	$ 144,693	$ 149,136	$ 154,766	$ 592,031
Loan loss reversal/(Provision for loan losses)	1,281	(121)	(1,162)	(7,514)	(7,516)
Noninterest expense, net	(55,828)	(54,479)	(53,794)	(71,902)	(236,003)
Net income	$ 88,889	$ 90,093	$ 94,180	$ 75,350	$ 348,512

NOTE 18 - BANK ONLY FINANCIAL DATA

AgBank's condensed financial information follows:

Statement of Condition

		December 31	
	2008	2007	2006
Loans to Associations	**$ 18,500,286**	$ 15,737,457	$ 14,126,632
Loans to others	**1,044,887**	977,742	760,151
Less: allowance for loan losses	**3,202**	889	927
Net loans	**19,541,971**	16,714,310	14,885,856
Cash, federal funds and investment securities	**5,517,751**	5,613,088	4,402,388
Other assets	**354,039**	356,427	292,284
Total assets	**$ 25,413,761**	$ 22,683,825	$ 19,580,528
Systemwide debt securities	**$ 24,005,451**	$ 21,103,730	$ 18,181,097
Other liabilities	**237,593**	291,349	323,926
Total liabilities	**24,243,044**	21,395,079	18,505,023
Preferred stock	**225,000**	225,000	–
Stock	**572,710**	554,860	547,257
Retained earnings	**586,127**	591,567	576,599
Accumulated other comprehensive income/(loss)	**(213,120)**	(82,681)	(48,351)
Total shareholders' equity	**1,170,717**	1,288,746	1,075,505
Total liabilities and shareholders' equity	**$ 25,413,761**	$ 22,683,825	$ 19,580,528

Statement of Income

	For the Year Ended December 31		
	2008	2007	2006
Interest income	**$ 949,446**	$ 1,116,914	$ 949,692
Interest expense	**847,812**	987,588	840,773
Net interest income	**101,634**	129,326	108,919
Provision for loan losses/(Loan loss reversal)	**2,299**	(49)	(142)
Net interest income after provision for loan losses	**99,335**	129,375	109,061
Noninterest income	**26,116**	19,228	20,777
Noninterest expense			
Salaries and employee benefits	**16,074**	15,916	14,368
Occupancy and equipment expense	**2,516**	2,340	2,277
Insurance fund premium	**1,759**	1,288	1,117
Other operating expense	**10,492**	9,532	10,661
Gains on other property owned	**(6)**	(5)	(7)
Loss on investment impairment	**16,483**	–	–
Loss on discontinuance of derivatives	**3,237**	1,180	8,528
Loss on early extinguishment of debt	**–**	1,425	–
Net income	**$ 74,896**	$ 116,927	$ 92,894

AgBank patronage distributions to Associations are reflected in the following table. In 2007, stock patronage was discontinued and all patronage was paid in cash.

	For the Year Ended December 31		
	2008	2007	2006
Patronage in stock	**$ –**	$ –	$ 19,137
Patronage in cash	**66,289**	86,987	57,693
Total patronage	**$ 66,289**	$ 86,987	$ 76,830

Associations are currently required to own and maintain an investment in AgBank equities equal to 5.00 percent of their wholesale loan volume (the "Required Investment"). AgBank equities include stock, whether purchased or received in a patronage refund, and attributed surplus.

All intercompany balances and transactions are eliminated in combination.

NOTE 19 - ADDITIONAL DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS DISCLOSURES

The table below provides information about derivatives and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates. This table was prepared using the implied forward yield curve at December 31, 2008.

Maturities of 2008 Derivative Products and Other Financial Instruments

December 31, 2008 *(dollars in millions)*	2009	2010	2011	2012	2013	After 2013	Total	Fair Value
Systemwide Debt Securities:								
Fixed rate debt	$ 4,572,422	$ 1,493,587	$ 1,149,778	$ 1,254,442	$ 2,263,400	$4,905,567	$15,639,196	$ 16,252,204
Weighted average interest rate	2.05%	3.75%	4.03%	4.70%	4.47%	5.17%	3.90%	
Variable rate debt	$ 3,533,698	$ 4,104,516	$ 159,201	$ 55,069	$ 216,638	$ 297,133	$ 8,366,255	$ 8,211,744
Weighted average interest rate	0.65%	0.87%	1.14%	0.83%	1.88%	0.78%	0.80%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 705	$ 325	$ 125	$ 50	$ 200	$ 250	$ 1,655	$ 102
Weighted average receive rate	4.22%	4.28%	4.64%	4.62%	3.99%	5.03%	4.37%	
Weighted average pay rate	2.03%	0.91%	2.28%	2.68%	2.98%	3.03%	2.12%	
Amortizing pay fixed								
Notional value	$ –	$ 6	$ –	$ –	$ –	$ –	$ 6	$ –
Weighted average receive rate		2.23%					2.23%	
Weighted average pay rate		7.00%					7.00%	
Interest rate caps								
Notional value	$ 175	$ 165	$ 170	$ 30	$ 90	$ 270	$ 900	$ 2
Other derivative products								
Notional value	$ 100	$ –	$ –	$ –	$ –	$ –	$ 100	$ 2
Foreign exchange contracts								
Notional value	$ 2	$ –	$ –	$ –	$ –	$ –	$ 2	$ –
Total notional value	$ 982	$ 496	$ 295	$ 80	$ 290	$ 520	$ 2,663	$ 106
Total weighted average rates on swaps:								
Receive rate	4.22%	4.24%	4.64%	4.62%	3.99%	5.03%	4.36%	
Pay rate	2.03%	1.02%	2.28%	2.68%	2.98%	3.03%	2.14%	

COMPENSATION DISCUSSION AND ANALYSIS

(Amounts in whole dollars)

The objectives of the U.S. AgBank Executive compensation plans (Plans) are to:

- Provide market based compensation through base salary, and annual and long-term incentive components that will allow AgBank to attract, motivate and retain superior executive talent;
- Place a significant portion of total compensation for the executive at risk and contingent upon AgBank remaining sound financially and meeting established performance goals; and
- Ensure long-term financial stability of AgBank is emphasized over short-term results and decisions.

The Plans are designed to:

- Reward successful business year results through an Annual Incentive Plan;
- Foster AgBank long-term financial stability through the Long-Term Incentive Plan; and
- Significantly contribute to the retention of the CEO.

Certain executives participate in the Executive Incentive Plan that has an Annual Incentive Plan component and a Long-Term Incentive Plan component. Due to the cooperative business structure of AgBank, the Plans do not contain stock-based compensation components.

The Annual Incentive Plan performance factors and the weightings used in 2008 were earnings (25%), credit quality (30%), operating efficiency (15%), service quality (10%), and a Board discretionary rating (20%). In the 2008 Annual Incentive Plan, the CEO award range was 0 percent to 40 percent of base pay with a target of 25%. The percentage of base pay awarded is determined by the AgBank Board of Directors' (Board) performance appraisal rating of the CEO and the actual results achieved in relation to the minimum and maximum levels of performance for each performance factor as determined by the Board.

The Long-Term Incentive Plan is linked to the long-term stability of AgBank. This long-term stability is determined through the Contractual Interbank Performance Agreement (CIPA) score. The CEO award target for the 2008 Long-Term Incentive Plan was 50%. The actual percentage of base pay awarded is determined by the AgBank Board.

Additionally, AgBank provides a comprehensive and market-based package of employee benefits for health and welfare, and for retirement purposes. The employee benefits provided to the CEO are through the same benefit plans as are offered to other similarly situated employees. In addition, some retirement benefits are restored for the CEO and other AgBank executives through one or more nonqualified retirement plans and/or employment agreements.

SUMMARY COMPENSATION TABLE

	Year	Base Salary	Annual Incentive Compensation	Long-term Incentive Compensation	All Other Compensation (3)	Total
Darryl W. Rhodes, CEO	2008	$ 450,000	$ 160,000	$ 200,000	$ 33,261	$ 843,261
Darryl W. Rhodes, CEO	2007	$ 438,901	$ 127,500	$ 212,500	$ 41,627	$ 820,528
Darryl W. Rhodes, CEO (1)	2006	$ 35,417	$ –	$ –	$ 1,784	$ 37,201
Jerold L. Harris, retired	2006	$ 387,370	$ 100,000	$ 125,000	$ 44,560	$ 656,930
5 other Senior Officers	2008	$ 1,099,367	$ 135,000	$ 333,000	$ 130,376	$ 1,697,743
5 other Senior Officers (4)	2007	$ 995,255	$ 158,500	$ 321,000	$ 65,741	$ 1,540,496
6 other Senior Officers (2)	2006	$ 1,269,693	$ 188,000	$ 238,400	$ 87,190	$ 1,783,283

(1) One month compensation as CEO recognized in 2006.

(2) Includes Darryl W. Rhodes as Executive Vice President-Finance for 11 months in 2006.

(3) Other compensation includes company contributions for 401(k), restoration of company contributions on compensation voluntarily deferred, life and disability insurance, retirement gifts, spousal travel, and other miscellaneous expenses.

(4) Two of the Senior Officers began employment in March 2007.

SUMMARY COMPENSATION DISCLOSURE

Summary Compensation Table - The Base Salary and Annual Incentive Compensation columns include all amounts earned during 2008 regardless of whether a portion of such compensation has been deferred at the CEO's or officers' election. The

Long-Term Incentive column includes the amount awarded during 2008. In 2006, the table includes annual and long-term incentive compensation paid during the year. Individual compensation for any senior officer included here in the aggregate is available to shareholders upon written request.

Deferred Compensation - During 2008, the CEO voluntarily deferred $47,438 of compensation, and the five other senior officers voluntarily deferred $161,458 of compensation under the 401(k) Plan and the Nonqualified Deferred Compensation Plan.

All Other Compensation - Other Compensation is primarily comprised of company contributions to benefit plans, taxable group term life insurance premiums, and long-term disability premiums. In 2008, AgBank's employer matching contribution to the CEO's 401(k) was $13,696 and its contribution to the Nonqualified Deferred Compensation Plan to restore the employer match lost due to IRS limits and compensation deferred was $6,804.

Annual Incentive Plans - In addition to base salary, substantially all employees and executives can earn additional incentive compensation under the Annual Incentive Plans which are gain-sharing plans tied to the overall business performance and to the employee's performance. The Annual Incentive Plans are based on the fiscal year and are designed to motivate employees and executives to exceed annual performance targets established by the Board of Directors. In 2008, performance targets were established for the following factors: Earnings, Operating Efficiency, Asset Quality and Service Quality. In addition, the plans include provisions for the Board to evaluate AgBank's performance in other important but subjective areas of operations through a discretionary rating component.

While substantially all employees are covered by the Annual Incentive Plans, the percentage of base salary that can be earned increases at manager, senior officer, and executive levels. Also, the percentage of salary that can be earned is higher if the individual's performance evaluation is higher.

Long-Term Incentive Plans - The Executive Long-Term Incentive Plan for senior management involves a series of three-year plans with targeted long-term awards for executives based on position and responsibilities. For each executive, a long-term incentive award is established and communicated at the beginning of the plan term, but not paid out. The payout of the Long-Term Incentive award is three years later and is conditioned upon satisfactory performance of the executive and AgBank exceeding a CIPA score as determined in the plan.

Substantially all other employees are eligible for the Employee and Vice President Long-Term Retention Plan, which is a series of three 30-month plans. Under this Long-Term Retention Plan, individual awards are established and communicated to each employee but not paid out for 30 months.

Executives and employees that terminate forfeit these awards.

2009 Plans - Annual and Long-Term Incentive Plans are considered annually by the Board, and Incentive Plans similar to the 2008 Plans previously discussed have been approved by the Board for 2009.

Expense Reimbursement - Additionally, all employees are reimbursed for travel expenses incurred when traveling on AgBank business. A copy of the travel policy is available to shareholders upon written request.

CEO Employment Agreement - Darryl W. Rhodes began serving as the CEO for AgBank on December 1, 2006. Mr. Rhodes served as AgBank's Executive Vice President-Finance from 1991 to 2006 and has been in various other credit and management positions during his 36 years in the District. The Board of Directors reviews Mr. Rhodes' performance semi-annually.
Mr. Rhodes is employed "at will" pursuant to an employment agreement that expires December 31, 2011. Under this Employment Agreement, base salary, annual incentives, long-term incentives, and supplemental executive retirement plan (SERP) benefits have been pre-determined for each year of the Employment Agreement and as such, Mr. Rhodes is not a participant in the Executive Incentive Plan. In the event of termination by U.S. AgBank without cause, or by Mr. Rhodes with good reason as defined in the Agreement, Mr. Rhodes shall receive six months' base salary and an additional six months vesting on annual and long-term incentives and the SERP. Under the employment agreement, if Mr. Rhodes' employment terminates due to his death prior to the end of 2011, a death benefit will be paid to his designated beneficiary.

PENSION BENEFITS DISCLOSURE

Overview - The U.S. AgBank President and CEO participates in two defined benefit pension plans: (a) the Ninth Farm Credit District Pension Plan (the Pension Plan), which is a qualified defined benefit plan; and a Supplemental Executive Retirement Plan (SERP), which is a nonqualified deferred compensation plan. Additionally, Mr. Rhodes participates in a 401(k) defined contribution plan with an employer matching contribution and in a nonqualified deferred compensation plan that restores benefits limited by the IRS in the 401(k) plan and that allows discretionary employer contributions.

Qualified Pension Plan - In general, the Pension Plan will provide Mr. Rhodes with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of his average monthly compensation during the 60 consecutive months in which he received his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which his High 60 exceeds covered compensation multiplied by his years of benefit service. The benefit is actuarially adjusted if Mr. Rhodes chooses a different form of distribution than a 50% joint-and-survivor annuity. The Pension Plan takes into account compensation up to the applicable limit under Section 401(a)(17) of the Internal Revenue Code (Code). The limit applied to Mr. Rhodes' 2008 compensation is $345,000.

SERP Benefit - Prior to December 19, 2008, Mr. Rhodes participated in the U.S. AgBank District Pension Restoration Plan (Pension Restoration Plan) and in a SERP (Old SERP). The Pension Restoration Plan restores benefits under the Pension Plan that are limited by the imposition of Code Sections 401, 410, and 415 and by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of Compensation in the Pension Plan. To determine the amount payable to Mr. Rhodes through the Old SERP, the benefits under the Pension Plan and the Pension Restoration Plan were first recalculated by using Mr. Rhodes' average monthly compensation during the 36 consecutive months in which he received his highest compensation rather than the High 60. Then, the amount was offset by the actual benefits payable to Mr. Rhodes from the Pension Plan and the Pension Restoration Plan. As of December 19, 2008, Mr. Rhodes is no longer a participant in the Pension Restoration Plan and the Old SERP, and his vested benefits under those two plans have been replaced by the guaranteed SERP payments set forth in his employment agreement. Additional SERP benefits under the employment agreement will be paid to Mr. Rhodes, depending on the length of his continued employment with U.S. AgBank.

COMPENSATION OF DIRECTORS

Each month, AgBank's directors are paid 1/12th of the amount established by the AgBank Board of Directors as the annual compensation to each director for services rendered. During 2008, each of the directors was compensated $3,666 monthly for normal responsibilities including Board committees. In addition to cash compensation, directors are reimbursed for direct travel expenses incurred. Aggregated reimbursements to directors for travel, subsistence and other related expenses were $285,041, $222,608 and $302,431 for the years December 31, 2008, 2007 and 2006, respectively. De minimis amounts or gifts to directors, if any, are not included in compensation. A copy of the expense reimbursement policy is available to shareholders upon written request. Days served in the following table represent actual days at board meetings and activities. Board members also spend additional time in preparation for meetings and in travel to and from meetings.

Additional information for each director is as follows:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Compensation (1)
John Eisenhut	24	12	$ 44,000
Kenneth Shaw	23	12	44,000
Wayne Allen	24	23	44,000
Wesley D. Brantley	25	18	44,000
Robert Bray (2)	4	3	11,000
John J. Breen	25	14	44,000
Oghi DeGiusti	24	21	44,000
Lyle H. Gray	25	15	44,000
J. Less Guthrie	25	15	44,000
George Jenik (3)	18	9	33,000
David S. Phippen	25	11	44,000
Glen A. Rector	20	12	44,000
Sheldon Richins	24	14	44,000
Edward L. Schenk	25	20	44,000
Donnell Spencer	25	14	44,000
David Vanni	23	14	44,000
Robert J. Wietharn	22	15	44,000
			$ 704,000

(1) The regulatory limit for 2008 was $50,205

(2) Became Board Member October 1, 2008

(3) Left the Board September 30, 2008

Disclosure Information Required by Farm Credit Administration Regulations

U.S. AgBank District

(Dollars in thousands, except as noted)

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and 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 combined financial statements, "Organization and Operations" included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or disposition of material assets, material changes in the manner of conducting the business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" included in this annual report to shareholders.

Description of Property

The activities and description of property required to be disclosed in this section are incorporated herein by reference from Note 5 to the combined financial statements "Premises and Equipment," included in this annual report to shareholders.

Legal Proceedings and Enforcement Actions

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the combined financial statements, "Commitments and Contingencies," included in this annual report to shareholders. There were no regulatory enforcement matters for the years presented.

Description of Capital Structure

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the combined financial statements, "Shareholders' Equity," included in this annual report to shareholders.

Description of Liabilities

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the combined financial statements, "Bonds and Notes," included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 to the combined financial statements in this annual report to shareholders.

Selected Financial Data

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

Management's Discussion and Analysis

"Management's Discussion and Analysis," included in this annual report to shareholders is required to be disclosed in this section, and is incorporated herein by reference.

Directors and Senior Officers

The following represents certain information regarding the directors of AgBank, which includes their experience for a minimum of 5 years:

John Eisenhut, 63, Chairman, Turlock, California, is an almond grower and Manager of Grower Relations for Hilltop Ranch, an almond processor. He is a member of American AgCredit, ACA. Mr. Eisenhut is a member and former officer of the Stanislaus County Farm Bureau. He serves as an ex-officio member of the U.S. AgBank, FCB, Compensation Committee and the U.S. AgBank, FCB, Audit Committee. He also serves on the U.S. AgBank, FCB, Risk Management Committee. Mr.

Eisenhut has a Bachelor's Degree and a Masters Degree in Economics from the University of California-Santa Barbara and an MBA from California State University-Stanislaus. He became a director in 2005, and his current term expires on September 30, 2009.

Kenneth Shaw, 58, Vice Chairman, Mountainair, New Mexico, is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit of New Mexico, ACA. Mr. Shaw is a director of the Central New Mexico Electric Cooperative. Mr. Shaw serves on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Agricultural Business from Eastern New Mexico University. Mr. Shaw became a director in 1999, and his current term expires on September 30, 2010.

Wayne Allen, 67, Nevada City, California, is a rice producer. He is a member of Farm Credit West, ACA. Mr. Allen is a member of Cal West Seeds, a seed marketing cooperative, and served on the board of directors of that organization for 24 years. He serves on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has an Associates of Arts Degree from Sacramento City College. Mr. Allen became a director in 2003, and his current term expires on September 30, 2009.

Wesley D. Brantley, 68, Ada, Oklahoma, is a CPA and was an audit partner with Horne and Company, CPAs, in Ada, Oklahoma from 1967 to 1998. His areas of practice included banks, savings and loans, farm cooperatives, insurance companies, colleges, and state and local governments. In 1998, Mr. Brantley accepted a position as Chief Financial Administrator of the Chickasaw Nation, a federally recognized Indian tribe. In this capacity, he was responsible for the tribe's financial statements, budget and grant writing departments, internal audit department, governmental and grant finance department, purchasing and supply department and oversight of the housing and tribal business finance department. Mr. Brantley has retired from this position and now serves in a consulting capacity. Mr. Brantley serves as chairperson of the Oklahoma Securities Commission, an agency that enforces Oklahoma securities laws. Mr. Brantley serves on the U.S. AgBank, FCB, Audit Committee and has been designated a financial expert. He also serves on the U.S. AgBank, FCB, Risk Management Committee. Mr. Brantley has a Bachelor's of Science Degree in General Business from East Central University in Ada, Oklahoma. He was appointed to the Board of Directors in October 2005, and his current term expires on September 30, 2011.

Robert W. Bray, 53, Redvale, Colorado, is a farmer and rancher, who also owns and operates a big game hunting business. He is a member of Farm Credit Services of the Mountain Plains, ACA. Mr. Bray is a member of the Colorado Cattlemen's Association, Colorado Woolgrowers' Association, the Colorado Farm Bureau, and is Chairman of the Colorado Division of Wildlife. Mr. Bray serves on the U.S. AgBank, FCB, Audit Committee and the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Agricultural Economics from Colorado State University. Mr. Bray became a director in 2008, and his term expires on September 30, 2011.

John J. "Jack" Breen, 66, Middletown, New Jersey, was the managing Director-Administration of the Federal Farm Credit Banks Funding Corporation prior to his retirement in 2004. Mr. Breen joined the Funding Corporation management team in 1991 with responsibility for Farm Credit System financing programs and Selling Group Management. In 1996, he assumed responsibility for a newly created Administration Group encompassing all Funding Corporation operating activities, including Information Systems, Securities Operations, Corporate Accounting, Business Continuity Planning, and Selling Group Surveillance and Credit Activities. Prior to joining the Funding Corporation, Mr. Breen spent 15 years in various executive positions with the Irving Trust Company, a New York money center banking company, and served as a member of the bank's Risk Management and Foreign Exchange Management Committees. He serves on the U.S. AgBank, FCB, Audit Committee and has been designated a financial expert. Mr. Breen also serves on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Economics from Fordham University and an MBA from the University of Buffalo. He was appointed to the Board of Directors in July 2004, and his current term expires on September 30, 2010.

Oghi A. "Tony" DeGiusti, 56, Tuttle, Oklahoma, is a farmer who produces alfalfa and grass hay and wheat. He also owns and operates a cow/calf stocker operation. Mr. DeGiusti is a member of Chisholm Trail Farm Credit, ACA. He serves as a director of the Grady County Alfalfa Hay Growers Association and is a member of the American Farmers and Ranchers Insurance Company. Mr. DeGiusti serves as the Chairman of the U.S. AgBank, FCB, Compensation Committee and as the Vice Chairman of U.S. AgBank, FCB, Risk Management Committee. He became a director in 2005, and his current term expires on September 30, 2011.

Lyle H. Gray, 74, Leon, Kansas, is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit Services of Central Kansas, ACA. Mr. Gray is a past member of the executive board of the Kansas Beef Council. He formerly served as treasurer, vice chairman and chairman of the Cattlemen's Beef Promotion and Research Board, as a director of the National Cattlemen's Beef Association board, and as the president of the Kansas Livestock Association. Mr. Gray serves on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He is a graduate of Butler County Community College in El Dorado, Kansas. Mr. Gray became a director in 1990, and his current term expires on September 30, 2009.

J. "Less" Guthrie, 64, Porterville, California, owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation. Mr. Guthrie is a member of Farm Credit West, ACA. He is a director of Guthrie Investment Co., Inc. (farming and investments) and F&T Financial Services (consumer loans and debt collections). He serves on the board of directors of Guthrie Investment Co., Inc. and F&T Financial Services. He also serves as chairman of the board of directors of the Federal Farm Credit Banks Funding Corporation and on the board of directors of the California Cattlemen's Association. Mr. Guthrie serves on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Agricultural Economics from the University of California-Davis. Mr. Guthrie became a director in 1997, and his current term expires on September 30, 2010.

David S. Phippen, 58, Ripon, California, is an almond grower and a co-owner in an almond processing company. He is a member of American AgCredit, ACA. Mr. Phippen is a director of the Almond Board of California. He also serves as a director of the San Joaquin County Farm Bureau. Mr. Phippen serves as Chairman of the U.S. AgBank Risk Management Committee. He also serves on the U.S. AgBank, FCB, Audit Committee. Mr. Phippen has an Associates Degree from Modesto Junior College, Modesto, California. He became a director in 2006, and his current term expires on September 30, 2009.

Glen A. "Andy" Rector, 67, Agate, Colorado, is a farmer and rancher with a cow/calf/yearling and wheat operation. He is in partnership with his two sons in Triple R Farms Partnership LTD. Mr. Rector is a member of Farm Credit of Southern Colorado, ACA. He serves on the U.S. AgBank, FCB, Compensation Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Vocational Education from Colorado State University. Mr. Rector became a director in 2002, and his current term expires on September 30, 2010.

Sheldon D. Richins, 72, Henefer, Utah, is a rancher and stockman with a cow/calf operation and is in partnership with his two sons. Mr. Richins is a member of Western AgCredit, ACA. He serves on the board of directors of the Farm Credit Council. Mr. Richins is a member of the National Cattlemen's Association. He also served as chairman of the Summit County Commission and as president of the Utah Association of Counties. Mr. Richins serves as the Vice Chairman of U.S. AgBank, FCB, Compensation Committee. He also serves on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Education Degree from Weber State University and a Graduate Degree in Administration from Utah State University. Mr. Richins became a director in 2005, and his current term expires on September 30, 2011.

Edward L. Schenk, 70, Chickasha, Oklahoma, is a farmer and rancher, producing primarily alfalfa, wheat and livestock. He also practices veterinary medicine on a part-time basis. Mr. Schenk is a member of Chisholm Trail Farm Credit, ACA, and Farm Credit of Central Oklahoma, ACA. Mr. Schenk serves on the board of directors of the Farm Credit Council. He serves on the U.S. AgBank, FCB, Audit Committee and on the U.S. AgBank, FCB, Risk Management Committee. Mr. Schenk has a Bachelor of Science Degree and a Doctor of Veterinary Medicine Degree from Oklahoma State University. Mr. Schenk became a director in 1995, and his current term expires on September 30, 2009.

Donnell Spencer, 74, Richfield, Utah, is a farmer and rancher raising alfalfa and livestock. He is a board member and president of Diversified Spencer, Inc., a family farming corporation. Mr. Spencer is a member of Western AgCredit, ACA. He serves on the U.S. AgBank, FCB, Audit Committee and on the U.S. AgBank, FCB, Risk Management Committee. He has a Bachelor of Science Degree in Engineering from Utah State University. Mr. Spencer became a director in 2000, and his current term expires on September 30, 2011.

David Vanni, 67, Gilroy, California, is the owner and operator of Rancho de Solis Winery, Inc., and Fratelli Ranch, LLC, in Santa Clara County, California. His operation consists of 40 acres of wine grapes, and covers all aspects of a winery operation, including production and marketing. He is also an officer of Vanni Business Partners, LLC (investment development). Mr. Vanni is a member of American AgCredit, ACA. He is a member of the Santa Clara County Farm Bureau and serves on the Ag Advisory Committee to the Santa Clara Valley Water District Board. Mr. Vanni serves as Vice Chairman of the U.S. AgBank, FCB, Audit Committee. He also serves on the U.S. AgBank, FCB, Risk Management Committee. He attended San Francisco City College. He became a director in 2007, and his current term expires on September 30, 2010.

Robert J. Wietharn, 47, Clay Center, Kansas, is a farmer, pork producer and manufacturer of irrigation equipment. He manages and is a director of Wietharn Farms, Inc. (a family farming corporation raising corn and soybeans), Valley Pork Ranch, Inc. (a family farm corporation marketing farrow-to-finish hogs), Riverscreen, Inc. (manufacturing and selling irrigation equipment), and Valley Farmers, Inc. (a grain facility and irrigation equipment dealership). Mr. Wietharn is a member of Frontier Farm Credit, ACA. He serves as Chairman of the U.S. AgBank, FCB, Audit Committee and also serves as a member of the U.S. AgBank, FCB, Risk Management Committee. He became a director in 2002, and his current term expires on September 30, 2010.

George Jenik, 74, Sterling, Colorado, who is semi-retired, feeds cattle in a custom feedlot. Mr. Jenik serves as a director of George Jenik, Inc., a family farming corporation. He is a member of Premier Farm Credit, ACA. Mr. Jenik serves as a director of the Northern Water Conservancy District, a water distribution company, and is a member of the National Cattlemen's Association. He served on the U.S. AgBank, FCB, Audit Committee and on the U.S. AgBank, FCB, Risk Management Committee. He became a director in 1997. Mr. Jenik's term expired on September 30, 2008. He was not re-elected to the Board.

Information related to AgBank's senior officers is as follows:

Darryl W. Rhodes, 58, President and Chief Executive Officer. Mr. Rhodes has served as President and CEO of U.S. AgBank, FCB, since December 1, 2006. He previously served as Executive Vice President-Finance (and Chief Financial Officer), a position he held since October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Executive Vice President-Finance of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Rhodes was named Executive Vice President-Finance of the Farm Credit Bank of Wichita in May 1991. He began his career in 1972 as a loan officer trainee with the Federal Land Bank of Wichita and has over 36 years of experience with Associations and Banks in the Farm Credit System.

Mr. Rhodes serves as Chairman of the U.S. AgBank, FCB, Executive Committee. He is a member of the Farm Credit System Presidents Planning Committee (PPC), and Chairman of the Farm Credit System Finance Committee and a member of the PPC Executive Committee. He serves on the Executive Council of the Board of Directors of the National Council of Farmer Cooperatives. He was a member of the board of directors of the Federal Agricultural Mortgage Corporation (Farmer Mac) from 1995 to 1999. In addition, he served on the board of directors of the Farm Credit System Captive Insurance Company from 1997 to 2003.

Mr. Rhodes was raised on a cash grain and livestock operation near Deer Trail, Colorado. He received an Associates Degree from Northeastern Junior College in 1970, and a Bachelor's Degree in Agricultural Business from Colorado State University in 1972.

David D. Janish, 50, Senior Vice President - Finance. Mr. Janish was named Senior Vice President-Finance of U.S. AgBank, FCB, in March 2007. He served as President and CEO of AgVantis, Inc., a technology and business services organization serving Farm Credit Associations and Banks, from January 2002 until March 2007. Mr. Janish was named Vice President-Information Services of the Farm Credit Bank of Wichita in June 1992. He began his career in 1980 with the Federal Intermediate Credit Bank of Omaha and has over 28 years of experience in corporate management, business and consulting services, and information technology with various other Farm Credit System entities, including the Farm Credit Bank of Omaha, Farm Credit Corporation of America, Farm Credit Council Services, the Farm Credit Bank of Wichita, and AgVantis, Inc.

Mr. Janish serves as Chairman of the U.S. AgBank, FCB, Asset/Liability Management Committee and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee. He is a voting member of the U.S. AgBank, FCB, Executive Committee. He also serves on the board of directors for AgVantis, Inc.

Mr. Janish was raised on a diversified livestock, row crop, and grain operation near Kimball, South Dakota. He received Bachelor Degrees in Mathematics and Computer Science from the University of South Dakota, and an MBA in Finance from Regis University in Denver, Colorado.

James L. Grauerholz, 59, Senior Vice President-Administration. Mr. Grauerholz was named Senior Vice President-Administration of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Senior Vice President-Administration of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Grauerholz was named Senior Vice President-Administration of the Farm Credit Bank of Wichita in 1994, and had previously served as Senior Vice President-Lending since 1991. He began his career in 1973 as a loan officer trainee with the Federal Intermediate Credit Bank of Wichita and has over 36 years of experience with Associations and Banks in the Farm Credit System.

Mr. Grauerholz is a voting member of the U.S. AgBank, FCB, Executive Committee, the U.S. AgBank, FCB, Asset/Liability Management Committee, and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee. He also serves on the Farm Credit Foundations Plan Sponsor Committee.

Mr. Grauerholz was raised on a cash grain and livestock operation near Athol, Kansas. He received a Bachelor's Degree in Agricultural Economics and a Masters Degree in Adult and Occupational Education from Kansas State University.

Dennis E. Grizzell, 60, Senior Vice President-Credit. Mr. Grizzell was named Senior Vice President-Credit of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Senior Vice President-Credit of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Grizzell was named Senior Vice President-Credit of the Farm Credit Bank of Wichita in 1994. He began his career as a loan officer trainee with the Federal Intermediate Credit Bank of Wichita in 1972 and has over 36 years of experience with Associations and Banks in the Farm Credit System.

Mr. Grizzell is a voting member of the U.S. AgBank, FCB, Executive Committee, U.S. AgBank, FCB, Asset/Liability Management Committee, and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee. He serves as Chairman of the U.S. AgBank, FCB, Loan Committee.

Mr. Grizzell was raised on a cash grain and livestock operation near Macksville, Kansas. He received a Bachelor's Degree in Business and Agriculture from Fort Hays State University.

Gregory J. Buehne, 56, Senior Vice President-Legal and Legislative Services. Mr. Buehne was named Senior Vice President-Legal and Legislative Services of U.S. AgBank, FCB, on March 5, 2007. He began his Farm Credit System career in 1985 as Associate General Counsel at the Farm Credit Bank of Spokane, and subsequently served as the Senior Vice President and General Counsel of the Farm Credit Bank of Spokane, and also for AgAmerica, FCB, and the Western Farm Credit Bank. He left the Farm Credit System prior to the formation of U.S. AgBank, FCB, in 2003 and providing consulting services to System entities on Governance and Strategic Planning until 2007. He has over 19 years of experience in the Farm Credit System.

Mr. Buehne is a voting member of the U.S. AgBank, FCB, Executive Committee, the U.S. AgBank, FCB, Asset/Liability Management Committee, and the U.S. AgBank, FCB, Disclosure Controls and Procedures Committee. He also serves as the Executive Director of the AgBank District Farm Credit Council.

Mr. Buehne is a native Kansan and received a Bachelor of Arts Degree and Juris Doctorate from the University of Kansas in Lawrence, Kansas.

Thomas R. Kruse, 59, Senior Vice President-Internal Audit and Quality Assurance. Mr. Kruse was named Senior Vice President-Internal Audit and Quality Assurance of U.S. AgBank, FCB, on March 1, 2007. He previously served as Vice President-Risk Management, a position he held since October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Vice President-Risk Management of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Kruse was named Vice President-Risk Management of the Farm Credit Bank of Wichita in January 1997. He has over 36 years of experience in management, credit, operations, review, and audit functions with various Farm Credit System entities.

Mr. Kruse is a non-voting member of the U.S. AgBank, FCB, Executive Committee and the U.S. AgBank, FCB, Asset/Liability Management Committee. He is also a member of U.S. AgBank, FCB, Disclosure Controls and Procedures Committee.

Mr. Kruse was raised on a diversified grain and livestock farm near Little River, Kansas. He holds a Bachelor's Degree in Agricultural Economics from Kansas State University and is a graduate of the Pacific Coast Banking School.

Transactions with Senior Officers and Directors

AgBank'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 12 to the combined financial statements, "Related Party Transactions," included in this annual report to shareholders.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings.

Borrower Privacy Statement

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. AgBank does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting AgBank.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders, and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS PROGRAM

As part of the Farm Credit System, we are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Annual marketing goals are established by each Association related to financing YBS farmers and ranchers. Association Boards of Directors regularly review the number, volume and credit quality of the YBS customers that are financed. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

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

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

The following table summarizes information regarding loans outstanding to young and beginning farmers and ranchers at year-end:

	December 31, 2008	
	Number of loans	Volume
Total loans and commitments	75,182	$ 30,709.8
Loans to young farmers and ranchers	12,032	3,234.7
Percent of loans to young farmers and ranchers	16.0%	10.5%
Loans to beginning farmers and ranchers	16,665	4,640.4
Percent of loans to beginning farmers and ranchers	22.2%	15.1%

The following table summarizes information regarding new loans made to young and beginning farmers and ranchers during 2008:

	For the Year Ended December 31, 2008	
	Number of loans	Volume
Total new loans and commitments	18,549	$ 10,261.6
New loans to young farmers and ranchers	3,344	1,162.3
Percent of new loans to young farmers and ranchers	18.0%	11.3%
New Loans to beginning farmers and ranchers	4,254	1,512.2
Percent of new loans to beginning farmers and ranchers	22.9%	14.7%

The following table summarizes information regarding loans outstanding to small farmers and ranchers at year-end:

	December 31, 2008 Annual Gross Sales				
(dollars in millions)	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
Total number of loans and commitments	24,993	13,616	15,856	20,717	75,182
Number of loans to small farmers and ranchers	16,467	8,512	7,682	3,236	35,897
Percent of loans to small farmers and ranchers	65.9%	62.5%	48.4%	15.6%	47.7%
Total loan and commitment volume	$ 594.2	$ 1,021.5	$ 2,554.6	$ 26,539.5	$ 30,709.8
Total loans to small farmers and ranchers volume	$ 401.1	$ 636.7	$ 1,217.2	$ 1,967.4	$ 4,222.4
Percent of loan volume to small farmers and ranchers	67.5%	62.3%	47.6%	7.4%	13.7%

The following table summarizes information regarding new loans made to small farmers and ranchers during 2008:

	December 31, 2008 Annual Gross Sales				
(dollars in millions)	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
Total number of new loans and commitments	5,236	3,309	4,009	5,995	18,549
Number of new loans to small farmers and ranchers	3,514	1,937	1,783	838	8,072
Percent of new loans to small farmers and ranchers	67.1%	58.5%	44.5%	14.0%	43.5%
Total new loan and commitment volume	$ 135.5	$ 258.5	$ 682.5	$ 9,185.1	$ 10,261.6
Total new loans to small farmers and ranchers volume	$ 88.7	$ 149.2	$ 291.7	$ 557.1	$ 1,086.7
Percent of new loan volume to small farmers and ranchers	65.4%	57.7%	42.7%	6.1%	10.6%

Each Association management establishes annual marketing goals to increase market share of loans to YBS farmers and ranchers. A summary of goals in the District are as follows.

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other system institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

Reports are provided regularly to Association Boards of Directors detailing the number, volume and credit quality of their YBS customers. They have developed quantitative targets to monitor progress. Such targets may include:

- Loan volume and loan number goals for YBS farmers and ranchers in the territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in the territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in the territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in the territory.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, the Associations typically utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, Association management and staff are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers. Specific qualitative and quantitative information for each District Association can be found in its annual report.

COMBINED FINANCIAL STATEMENTS

The combined financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 27, 2009, and the Report of Management, appearing as part of this annual report to shareholders, is incorporated herein by reference.

Annual reports are released within 75 days and quarterly reports within 40 days of period end. The annual report and recent quarterly reports are available on the AgBank website, www.usagbank.com or copies are available free of charge, upon request to:

U.S. AgBank, FCB
245 N. Waco, P.O. Box 2940
Wichita, KS 67201-2940
(800) 322-9880

District Associations

California

Farm Credit Services of Colusa-Glenn, ACA
www.californiafarmcredit.com
Colusa ◆ Willows

Farm Credit West, ACA
www.farmcreditwest.com
Visalia ◆ Arroyo Grande ◆ Bakersfield ◆ Carpinteria
Dinuba ◆ Hanford ◆ Paso Robles
Roseville ◆ Santa Maria ◆ Tulare
Ventura ◆ Woodland ◆ Yuba City

Federal Land Bank Association of Kingsburg, FLCA
www.kingsburglandbank.com
Kingsburg ◆ Hanford

Fresno-Madera Farm Credit, ACA
www.fmfarmcredit.com
Fresno ◆ Madera

Northern California Farm Credit, ACA
www.norcalfc.com
Chico ◆ Red Bluff ◆ Willows

Yosemite Farm Credit, ACA
www.yosemitefarmcredit.com
Turlock ◆ Los Banos
Merced ◆ Oakdale ◆ Patterson

California and Arizona

Farm Credit Services Southwest, ACA
www.fcssw.com
Tempe ◆ El Centro
Safford ◆ Yuma

California and Nevada

American AgCredit, ACA
www.agloan.com
Santa Rosa ◆ Alturas ◆ Elko ◆ Escondido
Eureka ◆ Fallon ◆ Indio ◆ Los Banos ◆ Merced
Oakdale◆ Ontario ◆ Petaluma ◆ Reno
Riverside ◆ Salinas ◆ St. Helena ◆ Stockton
Tulelake ◆ Turlock ◆ Ukiah ◆ Yreka

Colorado

Farm Credit of Southern Colorado, ACA
www.aglending.com
Colorado Springs ◆ Burlington ◆ LaJunta
Lamar ◆ Limon ◆ Monte Vista

Farm Credit Services of the Mountain Plains, ACA
www.ifeedtheworld.com
Greeley ◆ Durango
Grand Junction ◆ Montrose

Premier Farm Credit, ACA
www.premieraca.com
Sterling ◆ Fort Morgan ◆ Yuma

Hawaii

Farm Credit Services of Hawaii, ACA
www.hawaiifarmcredit.com
Honolulu ◆ Hilo

Idaho

Idaho Agricultural Credit Association
www.idahoagcredit.com
Blackfoot ◆ American Falls ◆ Rexburg

District Associations

Kansas

Farm Credit of Ness City, FLCA
www.farmcreditnesscity.com
Ness City

Farm Credit of Southwest Kansas, ACA
www.farmcreditconnect.com
Garden City ◆ Dodge City
Liberal ◆ Scott City

Farm Credit of Western Kansas, ACA
www.farmcreditkansas.com
Colby

Frontier Farm Credit, ACA
www.frontierfarmcredit.com
Manhattan ◆ Baldwin City ◆ Emporia
Hiawatha ◆ Marysville ◆ Parsons

High Plains Farm Credit, ACA
www.highplainsfarmcredit.com
Larned ◆ Dodge City ◆ Hays
Phillipsburg ◆ Pratt

Kansas and Oklahoma

Farm Credit of the Heartland, ACA
www.fcheartland.com
Wichita ◆ Concordia ◆ El Dorado ◆ Hutchinson
Kingman ◆ Larned ◆ Ponca City ◆ Pratt ◆ Salina

New Mexico

Farm Credit of New Mexico, ACA
www.farmcreditnm.com
Albuquerque ◆ Clovis
Roswell ◆ Tucumcari

Oklahoma

AgPreference, ACA
www.agpreference.com
Altus

Chisholm Trail Farm Credit, ACA
www.chisholmtrailfc.com
Enid ◆ Chickasha ◆ Duncan
Shawnee ◆ Watonga

Farm Credit of Central Oklahoma, ACA
www.farmcreditloans.com
Anadarko

Farm Credit of East Central Oklahoma, ACA
www.farmcreditecok.com
Broken Arrow ◆ Ardmore ◆ Durant ◆ Idabel
Kingfisher ◆ McAlester ◆ Muskogee ◆ Pauls Valley
Poteau ◆ Stillwater ◆ Vinita

Farm Credit of Enid, ACA
www.fcenid.com
Enid

Farm Credit of Western Oklahoma, ACA
www.fcwestok.com
Woodward ◆ Clinton ◆ Guymon
Alva ◆ Elk City

Utah and Wyoming

Western AgCredit, ACA
www.westernagcredit.com
South Jordan ◆ Cedar City ◆ Delta
Evanston ◆ Logan ◆ Richfield ◆ Roosevelt
Spanish Fork ◆ Tremonton

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U.S. AGBANK, FCB

STAFF MEMBERS

Darryl W. Rhodes
President & Chief Executive Officer

CREDIT DIVISION

Dennis E. Grizzell
Senior Vice President
Credit

Gregg A. Howell
Vice President
Lending

Randall S. Patane
Vice President
Lending

Gregory R. Reno
Vice President
Correspondent Lending

FINANCE DIVISION

David D. Janish
Senior Vice President
Finance

Jean L. Koenck
Vice President
Controller

Craig A. Olsen
Vice President
Treasurer

Charles D. Pfeifer
Vice President
Financial Management

ADMINISTRATION DIVISION

James L. Grauerholz
Senior Vice President
Administration

PRESIDENTS DIVISION

Thomas R. Kruse
Senior Vice President
Internal Audit & Quality Assurance

LEGAL AND LEGISLATIVE SERVICES DIVISION

Gregory J. Buehne
Senior Vice President
Legal & Legislative Services

Jeana K. Hultquist
Vice President
Legislative Affairs

U.S. AGBANK DISTRICT

PART OF THE FARM CREDIT SYSTEM

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