

Farm Credit Foundations Defined Contribution / 401(k) Plan

**Financial Statements
December 31, 2008 and 2007**



CPAs, Consultants & Advisors
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INDEPENDENT AUDITORS' REPORT

Participants and Trust Committee
Farm Credit Foundations Defined Contribution/401(k) Plan
St. Paul, Minnesota

We have audited the accompanying statements of net assets available for benefits of Farm Credit Foundations Defined Contribution/401(k) Plan as of December 31, 2008 and 2007, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, net assets available for benefits of Farm Credit Foundations Defined Contribution/401(k) Plan as of December 31, 2008 and 2007, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.


LarsonAllen LLP

Minneapolis, Minnesota
September 10, 2009



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Farm Credit Foundations Defined Contribution / 401(k) Plan
Statements of Net Assets Available for Benefits
Years Ended December 31, 2008 and 2007

	2008	2007
Assets		
Investments at fair value		
Plan interest in Master Trust investments	\$ 946,830,744	\$ 1,237,200,822
Total investments	<u>946,830,744</u>	<u>1,237,200,822</u>
Receivables		
Employer contributions	<u>641,389</u>	<u>801,611</u>
Total assets	<u>947,472,133</u>	<u>1,238,002,433</u>
Liabilities		
Accrued expenses	<u>23,954</u>	<u>18,300</u>
Net assets available for benefits at fair value	<u>947,448,179</u>	<u>1,237,984,133</u>
Adjustment from fair value to contract value for interest in Master Trust	30,455,739	1,290,760
Net assets available for benefits	<u><u>\$ 977,903,918</u></u>	<u><u>\$ 1,239,274,893</u></u>

See accompanying notes to the financial statements.

Farm Credit Foundations Defined Contribution / 401(k) Plan
Statements of Changes in Net Assets Available for Benefits
Years Ended December 31, 2008 and 2007

	2008	2007
Net assets available for benefits, beginning of year	\$ 1,239,274,893	\$ 146,022,434
Net investment income (loss)		
Master Trust income (loss)	(286,651,771)	58,493,588
Net appreciation in fair value of investments	-	8,753,605
Interest and dividend income	-	1,487,564
	<u>(286,651,771)</u>	<u>68,734,757</u>
Contributions		
Participant	58,870,649	48,025,065
Employer	31,253,999	26,667,696
Total contributions	<u>90,124,648</u>	<u>74,692,761</u>
Other income	120,005	-
	<u>90,244,653</u>	<u>74,692,761</u>
Deductions		
Benefits paid to participants	(64,443,833)	(76,340,037)
Administrative expenses	(520,024)	(319,530)
	<u>(64,963,857)</u>	<u>(76,659,567)</u>
Net increase (decrease) prior to transfer of assets from another Plan	(261,370,975)	66,767,951
Transfer of assets from another Plan	-	1,026,484,508
Net increase (decrease)	<u>(261,370,975)</u>	<u>1,093,252,459</u>
Net assets available for benefits, end of year	<u>\$ 977,903,918</u>	<u>\$ 1,239,274,893</u>

See accompanying notes to the financial statements.

Farm Credit Foundations Defined Contribution / 401(k) Plan

Notes to Financial Statements

December 31, 2008 and 2007

1. Description of the Plan

The following description of the Farm Credit Foundations Defined Contribution / 401(k) Plan (the "Plan") provides general information regarding the Plan. Refer to the Plan document for a complete description of Plan provisions.

General

The Farm Credit Foundations Defined Contribution / 401(k) Plan (the "Plan") is sponsored and maintained by AgriBank Farm Credit Bank ("AgriBank") and by U.S. AgBank, FCB ("AgBank") for the benefit of the eligible employees of each Bank, their affiliated associations, Northwest FCS, and other employers within the federal Farm Credit System. The Plan is intended to conform to and qualify under § 401 and § 501 of the Internal Revenue Code of 1986, as amended.

The participating employers are defined and declared to be "instrumentalities of the United States" in the charters issued to them by the Farm Credit Administration. For this reason, the Plan is intended to be a "governmental plan" as that term is defined in Code § 414(d). For the same reason, the Plan is also intended to be a "governmental plan" as that term is defined in Section 3(32) of the Employee Retirement Income Security Act of 1974 ("ERISA").

Because of the close relationship that exists between the employers in the Plan under the provisions of the Farm Credit Act and the terms of their respective charters and because of their status as "instrumentalities of the United States," the Plan, consistent with prior historical practice, is designed and intended to be a single employer plan.

Effective January 1, 2009 the Plan was amended and restated. The Plan was restated to incorporate all amendments since the last IRS submission for a Determination Letter and was submitted to the IRS for their review as required to comply with the required resubmission period of Cycle C.

Plan Governance

The Farm Credit Foundations Plan Sponsor and Trust Committees provide consideration and oversight of the benefit plans offered by participating employers of the AgriBank District, U.S. AgBank District, and Northwest, FCS as defined by the Farm Credit Foundations Administrative Agreement. There are 48 participating employers across 26 states with over 7500 active employees. The governance committees are either elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for decisions regarding benefits at the direction of the participating employer. The Trust Committee is responsible for fiduciary and plan administrative functions.

Contributions

The provisions of the Plan are summarized below:

- Participants may contribute up to 75 percent of the eligible earnings on a pre-tax basis and up to 75 percent of eligible earnings on a post-tax basis. Total participant contributions may not exceed 75 percent of eligible earnings. In addition, Roth 401(k) after-tax contributions are also available.
- Employer matching contributions are equal to 100 percent of total participant contributions, up to 6 percent of eligible earnings for participants not accruing benefits in their employer's closed defined benefit plan.
- For employees hired prior to January 1, 2007, and who participate in their employer's closed defined benefit retirement plan the employer matching contributions are equal to 100% of

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employee contributions up to 2% of eligible pay; plus 50% of the next 4% of eligible pay.
(maximum 4% total employer match)

- Any eligible employee of the AgriBank District, U.S. AgBank District, and Northwest, FCS, that is not participating in the defined benefit plan receives additional Employer contributions each pay period. For qualified employees, contributions are made at a rate of 3 percent of compensation.

Grandfathered provisions for certain employee groups:

- For qualified employees of FCS of America, an employer of the AgriBank District, who began participation prior to January 1, 1991, contributions were up to a maximum of 13 percent of earnings.
- All employees of Northwest, FCS, FCS of America, an employer of the AgriBank District, and employers of the former Eleventh District Association hired prior to January 1, 2007, who do not participate in their employer's closed defined benefit plan, receive an additional 3% Integrated Contribution on salary that exceeds the Social Security taxable wage base for the year.
 - The Integrated Additional Contribution is credited to participants' 401(k) accounts beginning with the pay period that their benefit's eligible wages exceed the social security wage base.
- Certain employers of the former Eleventh District Associations (those who have Internal Revenue Service private letter rulings) are allowed to make paid-leave contributions to participant accounts. In general, paid-leave contributions are made in an amount equal to the dollar value of paid-leave accrued at December 31 in excess of the paid-leave that can be carried forward under the employers' paid-leave policy.

All participant and employer contributions are subject to limits set forth by the Internal Revenue Code. Participants may also contribute amounts representing eligible roll-over distributions from other qualified plans.

Participants in the Plan may direct employee and employer contributions in 1 percent increments to any of the Plan's investment options. The Plan's investments in each fund/option are maintained under the direction of the participants.

Participant Accounts

Each participant's account is credited with the participant's contribution, related employer contributions, and Plan allocations of earnings. Allocations are based on participant earning or account balances, as defined. The benefit to which a participant is entitled is the vested portion of the participant's account. Participant accounts are valued on a daily basis.

Vesting

The vesting provisions of the Plan are as follows:

- Participants are immediately vested in participant contributions, paid-leave contributions, and investment income earned thereon.
- Participants vest 100 percent in employer matching contributions and employer contributions after four years of service. Participants with less than four years of service vest in the employer contributions at a rate of 25 percent for each full year of service.
- Participants are immediately vested upon death, disability or retirement.

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Former Ninth District participants in the Plan prior to January 1, 2007, are immediately vested in their contributions plus actual earnings thereon. Participants are also fully vested in the Company's contribution portion of their accounts at the date of participation.

Participant Loans

The Plan allows participants to borrow a portion of their account balance subject to limitations set forth by the Plan and the Internal Revenue Code. Loans are secured by the balance in the participants' accounts and generally bear interest at the prime rate. Repayment of participant loans, including monthly interest charges, is made semi-monthly in the form of payroll withholding. Loans are generally made for a term of five years or less, except for loans for a principal residence, which may be made for a term of up to 25 years.

Payment of Benefits

Upon termination, the value of the participant's accounts will be distributed to the participant. The Plan participant or a Beneficiary may elect distribution under one, or any combination, of the following methods: (a) by payment in a lump sum; or (b) by payment in monthly installments over a fixed reasonable period of time, not exceeding the life expectancy of the Participant. All distributions will be paid in the form of a check drawn on the trust. In the case of death, distributions will be made to the designated beneficiary.

The Plan allows for in-service withdrawals upon financial hardship, as defined in the Plan, or upon attainment of age 59 1/2. The Plan also allows for in-service withdrawals of post-tax, rollover, or deductible employee contributions and certain matching contributions, as defined in the Plan.

Forfeited Accounts

Nonvested, employer contributions are forfeited by terminating participants. Forfeited amounts are held in an account at New York Life until used to either pay Plan administrative expenses or to reduce employer contributions. The amount of the forfeitures was \$249,299 at December 31, 2008 and \$161,812 at December 31, 2007. Forfeited dollars were used to offset administrative expenses of \$335,149 during 2008 and \$290,324 during 2007. In addition, forfeited dollars were used to reduce employer contributions by \$3,453 during 2008 and \$4,418 during 2007.

Regulatory Compliance

The Department of Labor has determined the Plan to be a governmental plan; therefore, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Plan Administration

The Plan provides that an employee of a participating employer that has adopted the Plan who has satisfied the Plan's eligibility requirements will have rights to benefits under the plan. AgriBank, FCB serves as Plan Administrator under the Plan. The Trust Committee has primary responsibility for administration and interpretation of the Plan and investment of the Plan assets.

The Farm Credit Foundation's Trust Committee is the trustee for the Plan assets invested in the Master Trust. The trustee supervises and administers all investments and related activities, including such functions as purchases, sales, reinvestment and collection of investment income. Certain income and expense items of the investments in the Master Trust are recorded at the Master Trust level. These include investment expenses, interest income and dividends. Wells Fargo is the custodian for the Plan assets.

New York Life Trust Company is the third-party administrator for the Plan.

Plan Termination

Although there has been no expression of intent to do so, the participating employers have the right under the Plan to discontinue contributions at any time and to terminate the Plan subject to the plan

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provisions. Upon either full or partial termination of the Plan, or, if applicable, upon complete discontinuance of profit sharing plan contributions to the Plan, an affected Participant's right to his/her Account Balance is 100% Vested, irrespective of the Vested percentage which otherwise would apply.

2. Summary of Significant Accounting Policies

A description of the Plan's significant accounting policies follows:

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, income is recorded in the year earned and expenses are recorded in the year incurred.

Accounting Pronouncement

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the American Institute of Certified Public Accountants (AICPA) Investment Company Audit Guide and Defined-Contribution Health and Welfare and Pension Plans* (the "FSP"), investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. As required by the FSP, the statements of assets available for benefits present the fair value of the investment contracts as well as the adjustment of the fully benefit responsive investment contracts from fair value to contract value. The statements of changes in net assets available for benefits are prepared on a contract value basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, disclosures of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

Fair Value of Financial Instruments

On January 1, 2008, the Plan adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Plan has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

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Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Investment Valuation and Income Recognition

The Plan's investments are valued at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Plan's investments are valued at fair value according to SFAS 157. The fair value of the Plan's interest in the Master Trust is based on the beginning of year value of the Plan's interest in the trust plus actual contributions and allocated investment income or losses less actual distributions and allocated administrative expenses.

The Plan invests in the New York Life Insurance Anchor Account III, a pooled separate account (PSA) which is held in the Master Trust. This PSA primarily invests in fully benefit-responsive investment contracts issued by insurance companies and other financial institutions and is subject to the reporting requirements under the FSP which requires the PSA to be reported at fair value in the Plan's financial statements. The FSP also provides that an investment contract is generally valued at contract value, rather than fair value, to the extent it is fully benefit-responsive. As a result, the New York Life Insurance Anchor Account III is included in Investments on the Statements of Net Assets Available for Benefits at fair value. The difference between the fair value and contract value of the fully benefit-responsive contracts held by the PSA is presented separately in the Statement of Net Assets Available for Benefits.

The Plan invests in an immediate participation insurance contract with New York Life Insurance Company. This contract is held in the Master Trust. The contract is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations.

Participant loans are valued at the unpaid principal balance, which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Purchases and sales of investments are recorded on a trade date basis. Interest income is accrued based on the terms of the underlying instrument and dividend income is recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Benefits and Expenses

Benefit payments to participants are recorded when distributed. Administrative and other expenses of the Plan are paid from the Plan assets to the extent of forfeited employer contributions. Expenses in excess of forfeitures are either paid from Plan assets or directly by the Employers.

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3. Income Tax Status

The Internal Revenue Service ("IRS") has issued a favorable determination letter regarding the Plan's current nontaxable status. The predecessor Plan received its latest determination letter in March 2004. The Plan was restated in 2009 and Plan management has applied for a new determination letter to the IRS.

Plan management is of the opinion that the Plan continues to comply with the applicable sections of the Internal Revenue Code, and that the related trust, which forms a part of the Plan, is exempt from income tax. Accordingly, no provision has been made for federal or state income taxes.

4. Investments

Interest in Master Trust

The Plan's investments are in a master trust which holds the investment assets of the Plan, AgriBank District Retirement Plan, The Eleventh Farm Credit District Employees' Retirement Plan, Northwest Farm Credit Services Retirement Plan, and the Ninth Farm Credit District Pension Plan. Each plan's share of the Master Trust is determined by the use of accumulation units, with each unit representing an undivided interest in the Master Trust. The plans are credited with units purchased and charged with units to be paid or forfeited at the monthly accumulation unit value. Net assets, net investment income, gains and losses and administrative expenses are allocated to the participating plans based upon the weighted average units held during the period. The Plan's interest in the Master Trust was approximately 58% at December 31, 2008 and 2007.

The following table presents the fair values of investments for the Master Trust as of December 31, 2008 and December 31, 2007:

	<u>2008</u>	<u>2007</u>
Mutual funds	\$ 585,712,163	\$ 1,467,175,486
Collective trust fund	407,807,924	1,029,136
Pooled separate account	226,228,282	189,293,116
Common stock	173,303,855	280,447,843
Investment insurance contracts	89,095,131	88,928,694
Money market	71,362,122	18,955,474
Limited partnership	56,574,951	74,204,482
Cayman Islands exempted company	18,384,641	-
Interest-bearing cash	10,918,928	7,301,517
Corporate bonds	1,012,679	192,122
Government securities	24,409	25,795
Participant loans	14,136,254	13,252,130
Securities lending cash collateral	43,146,644	126,600,316
Total investments held by master trust	<u>1,697,707,983</u>	<u>2,267,406,111</u>
Due to brokers for securities lending	(51,094,456)	(127,639,126)
Net investments held by master trust	<u>\$ 1,646,613,527</u>	<u>\$ 2,139,766,985</u>

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Master Trust investment income for the years ending December 31, 2008 and 2007. is as follows:

	<u>2008</u>	<u>2007</u>
Net appreciation (depreciation) in fair value of investments:		
Mutual funds	\$ (260,055,273)	\$ 82,100,172
Collective trust fund	(167,549,067)	-
Pooled separate account	38,919,082	5,797,217
Common stock	(110,529,256)	6,284,941
Investment insurance contracts	4,913,142	3,291,243
Money market	(1,730,509)	-
Limited partnership	(277,548)	-
Cayman Islands exempted company	(4,015,359)	-
Corporate bonds	(474,061)	-
Government securities	(11,426)	-
Loss from securities lending	(6,909,002)	-
Total net appreciation (depreciation)	<u>(507,719,277)</u>	<u>97,473,573</u>
Interest and dividends	21,500,999	24,782,817
Less: investment management expenses	20,040	859,030
	<u>\$ (486,238,318)</u>	<u>\$ 121,397,360</u>

Securities Lending

The Master Trust has a securities lending program with Wells Fargo Bank, N.A. The Master Trust requires collateral with a market value of at least 102% of the market value of the loaned securities at the time a loan is transacted. Collateral is provided by the borrower and may be held, invested, or reinvested in certain types of securities.

The fair market value of the securities loaned to Wells Fargo Bank, N.A. was \$51,094,456 at December 31, 2008 and \$127,639,126 at December 31, 2007. The fair value of the collateral accepted by the Master Trust was \$43,146,644 at December 31, 2008 and \$126,600,316 at December 31, 2007. No collateral had been sold or repledged at December 31, 2008 and 2007.

5. Risks and Uncertainties

The Plan provides for investment in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits. Subsequent to December 31, 2008, there continues to be market volatility in the fair value of investments due to changes in market conditions and other factors.

6. Related Party

AgriBank, FCB, paid expenses on behalf of the Plan and was reimbursed by the Plan for those expenses.

7. Fair Value

The Plan uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Plan measures fair value, refer to Note 2.

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The following table presents the fair value hierarchy for the balances of the assets of the Master Trust measured at fair value on a recurring basis as of December 31, 2008.

	<u>Investment Assets at Fair Value as of December 31, 2008</u>			
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds	\$ 585,712,163	\$ -	\$ -	\$ 585,712,163
Collective trust funds	-	407,807,924	-	407,807,924
Pooled separate account	-	226,228,282	-	226,228,282
Common stock	173,303,855	-	-	173,303,855
Investment insurance contracts	-	-	89,095,131	89,095,131
Money market	71,362,122	-	-	71,362,122
Limited partnership	-	-	56,574,951	56,574,951
Cayman Islands exempted company	-	-	18,384,641	18,384,641
Interest-bearing cash	10,918,928	-	-	10,918,928
Certificate of deposit	-	1,012,679	-	1,012,679
Government securities	-	24,409	-	24,409
Participant loans	-	14,136,254	-	14,136,254
Securities lending cash collateral	-	43,146,644	-	43,146,644
Total Investments at Fair Value	\$ 841,297,068	\$ 692,356,192	\$ 164,054,723	\$ 1,697,707,983

The following table presents changes in assets measured at fair value using Level 3 inputs on a recurring basis for the year ending December 31, 2008:

	<u>Level 3 Investment Assets</u> <u>for the Year Ended December 31, 2008</u>			
	Investment insurance contracts	Limited Partnership	Cayman Islands exempted company	Total
Balance, Beginning of Year	\$ 88,895,218	\$ 74,204,482	\$ -	\$ 163,099,700
Interest	5,531,252	-	-	5,531,252
Realized Gains (Losses)	-	15,147,501	-	15,147,501
Unrealized gains (losses) relating to instruments still held at the reporting date	-	(15,425,049)	(4,015,359)	(19,440,408)
Expenses	(212,650)	-	-	(212,650)
Purchases, issuances and settlement	(5,118,689)	(17,351,983)	22,400,000	(70,672)
Balance, End of Year	\$ 89,095,131	\$ 56,574,951	\$ 18,384,641	\$ 164,054,723