

DEFINED CONTRIBUTION PLAN FOR FINANCIAL INSTITUTIONS

PENTEGRA

2008 ANNUAL REPORT



PENTEGRA
RETIREMENT SERVICES

PENTEGRA | DEFINED CONTRIBUTION PLAN FOR FINANCIAL INSTITUTIONS 2008 ANNUAL REPORT

Contents

To Our Customers	1-4
Investment Highlights	5-7
Financials/Notes	
Management's Responsibility	8
Independent Auditor's Report	9
Financial Statements	10-11
Notes to Financial Statements	12-15
Board of Directors	16
Officers	17

a letter to our customers

As I write this letter, the economic uncertainty that we faced earlier this year is beginning to feel more like the very early stages of an economic recovery. There remains, however, a great deal of understandable concern about the course of the economy, and about how individuals can continue to build retirement security.

As your retirement partner, that's what we remain focused on.



Robert C. Albanese
President & CEO

Our mission as an organization—during both bull and bear markets—is unequivocal: to help you and your employees build retirement security. In managing retirement plans for your industry, our unique structure as an independent cooperative—an organization that's neither publicly traded nor privately owned—delivers a focus on independence, integrity, safety and cost containment that drives everything we do and enables us to better deliver on our mission.

Right now, most investors are suffering from the lack of any tangible form of predictability. The question everyone asks is whether the worst of the bear market is behind us, or whether there is more to come. The expectations of an ever-rising stock market and over-inflated returns are long gone and the financial markets correction has resulted in losses that are, in some cases, life-altering. It is why governance and oversight mean more than ever today. We emphasize as often as we can that our key difference lies in our leadership and fiduciary focus—with our unique fiduciary role and oversight by a board of directors comprised of our clients—Presidents and CEOs who use our products and services, and place their own retirement futures in our hands.

Our due diligence is built around the fiduciary responsibility that we assume to ensure that investments are appropriate for a qualified retirement program. This includes delivering the benefit of careful consideration of investment options for your participants that are regularly scrutinized for appropriateness, provide rigorous style consistency and offer the opportunity for broad diversification and asset allocation. Throughout our 65 years of existence, we have occasionally revisited our investment options, shifting at times from an index-only array to a mixed platform of index-only and managed account options. We've also seen many bull and bear markets but, as a plan fiduciary, we have remained constant to our core values which include adherence to retirement plan best practices and a disciplined investment process. The result has been a 65-year prudent track record built on integrity, trust, service and a commitment to helping participants plan for retirement.

To broaden the array of products and services that we offer customers, we made a major investment in the future of our organization in August 2008 by acquiring the subsidiaries of Retirement System Group Inc., an independent full-service retirement benefits consulting firm established in 1941. The combination of Pentegra Retirement Services and RSGroup brought together two of the longest tenured organizations serving the community-based financial institution marketplace. Today we manage more retirement plans for financial institutions than any other provider.

The acquisition fit Pentegra's growth strategies in several key areas. Along with its strong ties to the financial community, RSGroup brought regional depth, experienced staff, a trust company, insurance products (including Bank Owned Life Insurance) and registered investment advisory and broker-dealer capabilities to Pentegra. This increased our ability to meet client needs in a range of industries and offer a broader array of retirement products and services. It will afford us additional flexibility to introduce actively managed funds to our multiple employer defined contribution plan for the benefit



of our customers should our rigorous investment selection process signal the desirability of expanding beyond an index-only platform. We are presently evaluating this strategy with more to come.

As a company, Pentegra is excited to introduce these newly expanded retirement plan capabilities. Our goal is to offer our clients true full service, so that when your needs change, our retirement products and services will meet your changing benefit and cost objectives.

Our new 401(k) Advantage single employer product is designed with the same thinking, governance and oversight as our traditional 401(k) programs but features an enhanced investment strategy—offering index funds along with actively managed funds coupled with our investment fiduciary role. With this experience, we will be better able to assess the benefits of including similar investment options in the multiple employer plan.

Our new Defined Benefit Advantage product is a full service single employer defined benefit plan with the advantage of our investment fiduciary role. Our comprehensive approach not only includes an Investment Policy Statement and plan asset allocation, but also responsibility for monitoring and documenting the investment process, overseeing each investment manager and monitoring performance, at the portfolio, asset class and total plan level, to ensure that plan investment management aligns with your plan's investment policy.

Our ESOP Advantage program offers not only administration and recordkeeping, but also comprehensive trustee and custodial services—something that we previously partnered with other organizations to offer.

Another new capability is the ability to deliver true full service Executive Benefit and Director Plans, including funding vehicles for these plans. Our new Pentegra Benefits Funding Advantage is a truly unique and much needed evolution in the application of bank owned life insurance to offset benefit expenses. Pentegra's Benefit Funding Advantage is very different than other BOLI programs because of our unique ability to negotiate very favorable contractual provisions and asset based fees for community banks, terms previously available to only the largest banks. This is the same strategy that has enabled Pentegra to provide its qualified plan clients some of the most competitively priced services in the industry.

In this environment, our customers' needs are clear: to preserve retirement savings, reduce costs and receive outstanding service. For us to meet those needs, we must sustain the excellence of our people and the quality of their work—not as we measure it, but as our clients do. Independent client satisfaction surveys have evidenced real progress and improved performance since we have equaled or exceeded the expectations of 95% of our clients for the last five years.

We're continually focusing on what we can do better, how we can improve service and manage your retirement program with a level of personal commitment that's unsurpassed in the industry. We look forward to earning your business each and every day.

Sincerely,



Robert C. Albanese
President & Chief Executive Officer

investment highlights

In 2008, the continuation of falling housing prices, rising mortgage default/foreclosure rates, and financial sector write-downs tied to mortgage backed securities helped generate a global crisis of confidence, with financial markets exhibiting unprecedented levels of volatility. Banks such as Bear Stearns and Lehman Brothers failed, while mortgage giants Fannie Mae and Freddie Mac were placed under government conservatorship. The economic backdrop included a decline in employment of nearly 3.1 million jobs during the year and a deflationary environment (drop in prices) in the fourth quarter spurred in part by the contraction in credit. The US economy was declared to have entered a recession in December 2007. On the positive side, aggressive lowering of interest rates by the Federal Reserve, lower inflation, the passage of the Emergency Economic Stabilization Act of 2008 (EESA), the announcement of a major stimulus plan by President-elect Obama and a coordinated global response to the credit crisis were expected to lift the markets at the end of the year and into 2009.

In the first quarter of 2008, Gross Domestic Product rose at a 0.9% annual rate, continuing its slow growth pace from 2007. In addition to job losses, US and global credit and equity market distresses became particularly severe during the quarter. Risk aversion rose across the board as credit conditions tightened further, and the global equity market sell-off accelerated. Government yields declined substantially as investors sought a safe haven from market volatility. The Federal Reserve responded by lowering the federal funds rate by 2%, to 2.25% and by reducing the discount rate by 2.25%, to 2.50%. Personal consumption, responsible for more than two-thirds of output, did manage a gain of +1.0%, during the quarter, in the face of rising energy prices. The Pentegra Long Treasury Index Fund returned +4.0% while the Aggregate Bond Index Fund rose +2.2%. The S&P 500 Stock Fund declined -9.6% while the NASDAQ 100 Stock Fund fell -14.6%.

In the second quarter of 2008, crude oil prices reached a near-high in excess of \$140 per barrel, at the end of the quarter. Slowing growth and rising inflation (including fears of stagflation) took root in June after fairly solid gains for equities in April and May. Annualized inflation in the quarter rose to 7.9%. Though GDP increased by 2.8% over the previous quarter and personal consumption increased 1.2%, investors learned in June that the unemployment rate was at a four-year high (5.6%), while the Reuters/University of Michigan Index of Consumer Sentiment fell to nearly its fifty year low due to increasing prices, job concerns and falling home values. The Federal Reserve lowered the federal funds and discount rate, each by 25 basis points. The Pentegra S&P Midcap Stock Fund returned +5.3% over the quarter and the Nasdaq 100 Stock Fund was up +3.1%. The S&P 500 Stock Fund fell -2.8% while the S&P Value Stock Fund declined -7.9%.

ANNUAL RETURNS from 1999 to 2008

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nasdaq 100 Stock 101.0%	MS US REIT Stock 26.1%	MS US REIT Stock 12.2%	Long Term Govt Bond 16.4%	Nasdaq 100 Stock 48.3%	MS US REIT Stock 30.4%	International Stock 13.0%	MS US REIT Stock 34.8%	Nasdaq 100 Stock 18.2%	Long Term Govt Bond 23.9%
S&P 500 Growth Stock 27.3%	Long Term Govt Bond 21.0%	LB Aggreg Bond 7.8%	LB Aggreg Bond 9.8%	Russell 2000 Stock 46.0%	International Stock 19.7%	S&P MidCap Stock 12.0%	International Stock 25.5%	International Stock 10.6%	LB Aggreg Bond 4.9%
International Stock 26.0%	S&P MidCap Stock 16.8%	Stable Value 5.7%	Stable Value 5.3%	International Stock 37.1%	Russell 2000 Stock 17.7%	MS US REIT Stock 11.9%	S&P 500 Value 19.9%	Long Term Govt Bond 9.2%	Stable Value 2.9%
Growth Asset Allocation 22.7%	LB Aggreg Bond 11.1%	Short-Term Investment 4.0%	MS US REIT Stock 3.0%	MS US REIT Stock 36.1%	S&P MidCap Stock 16.1%	Target Ret 2045 8.9%	Russell 2000 Stock 17.5%	S&P 500 Growth Stock 8.5%	Short-Term Investment 2.3%
S&P 500 Stock 20.4%	Short-Term Investment 6.2%	Long Term Govt Bond 3.2%	Short-Term Investment 1.6%	S&P MidCap Stock 35.1%	S&P 500 Value 15.1%	Target Ret 2035 8.9%	Target Ret 2045 16.9%	Target Ret 2045 7.5%	Income Plus Asset Alloc. -7.6%
Russell 2000 Stock 20.0%	Stable Value 5.8%	Russell 2000 Stock 2.0%	Income Plus Asset Alloc. -2.6%	Target Ret 2045 31.5%	Target Ret 2045 14.5%	Target Ret 2025 8.5%	Target Ret 2035 16.9%	S&P MidCap Stock 7.4%	Growth & Inc. Asset Alloc. -20.9%
Growth & Inc. Asset Alloc. 14.8%	S&P 500 Value 5.6%	Income Plus Asset Alloc. 1.7%	Growth & Inc. Asset Alloc. -10.3%	Target Ret 2035 31.5%	Target Ret 2035 14.5%	Target Ret 2015 7.6%	Target Ret 2025 15.4%	Target Ret 2035 6.8%	Target Ret 2015 -22.8%
S&P MidCap Stock 14.3%	Income Plus Asset Alloc. 2.2%	S&P MidCap Stock -0.9%	Target Ret 2015 -10.7%	S&P 500 Value 30.6%	Target Ret 2025 13.8%	Long Term Govt Bond 7.1%	S&P 500 Stock 15.1%	Target Ret 2025 6.6%	Target Ret 2025 -28.7%
S&P 500 Value 11.9%	Russell 2000 Stock -3.2%	Growth & Inc. Asset Alloc. -5.2%	Target Ret 2025 -14.4%	Target Ret 2025 29.5%	Growth Asset Allocation 12.8%	Growth Asset Allocation 6.7%	Growth Asset Allocation 14.4%	LB Aggreg Bond 6.3%	Growth Asset Allocation -33.2%
Income Plus Asset Alloc. 7.4%	Growth & Inc. Asset Alloc. -3.9%	Target Ret 2015 -7.3%	S&P MidCap Stock -15.0%	Growth Asset Allocation 28.3%	Target Ret 2015 12.4%	Growth & Inc. Asset Alloc. 5.7%	Target Ret 2015 13.0%	Target Ret 2015 6.2%	Russell 2000 Stock -33.8%
Stable Value 5.7%	S&P 500 Stock -9.6%	Target Ret 2025 -9.2%	Target Ret 2035 -15.6%	S&P 500 Stock 28.0%	S&P 500 Stock 10.3%	S&P 500 Value 5.3%	S&P 500 Growth 10.7%	Income Plus Asset Alloc. 6.0%	Target Ret 2045 -34.1%
Short-Term Investment 4.9%	Growth Asset Allocation -11.3%	Target Ret 2035 -9.6%	Target Ret 2045 -15.6%	Target Ret 2015 25.0%	Nasdaq 100 Stock 9.9%	Income Plus Asset Alloc. 4.9%	Growth & Inc. Asset Alloc. 10.5%	Growth & Inc. Asset Alloc. 5.9%	Target Ret 2035 -34.2%
LB Aggreg Bond -1.4%	International Stock -14.7%	Target Ret 2045 -9.6%	International Stock -18.5%	S&P 500 Growth 24.9%	Growth & Inc. Asset Alloc. 9.9%	S&P 500 Stock 4.4%	S&P MidCap Stock 9.7%	Growth Asset Allocation 5.7%	S&P 500 Growth -34.8%
MS US REIT Stock -5.2%	S&P 500 Growth -22.6%	S&P 500 Value -12.2%	Growth Asset Allocation -18.8%	Growth & Inc. Asset Alloc. 19.7%	Long Term Govt Bond 8.4%	Russell 2000 Stock 4.2%	Income Plus Asset Alloc. 6.6%	S&P 500 Stock 4.9%	S&P MidCap Stock -36.5%
Long Term Govt Bond -10.6%	Nasdaq 100 Stock -37.1%	S&P 500 Stock -12.3%	Russell 2000 Stock -20.7%	Income Plus Asset Alloc. 11.7%	Income Plus Asset Alloc. 6.6%	Stable Value 3.7%	Nasdaq 100 Stock 6.2%	Short-Term Investment 4.9%	S&P 500 Stock -37.3%
		S&P 500 Growth -13.3%	S&P 500 Value -21.2%	Stable Value 4.3%	S&P 500 Growth 5.5%	S&P 500 Growth 3.5%	Short-Term Investment 4.7%	Stable Value 3.8%	MS US REIT Stock -39.3%
		Growth Asset Allocation -14.0%	S&P 500 Stock -22.4%	LB Aggreg Bond 3.5%	LB Aggreg Bond 3.7%	Short-Term Investment 2.9%	Stable Value 3.9%	S&P 500 Value 1.4%	S&P 500 Value -39.6%
		International Stock -22.0%	S&P 500 Growth -24.0%	Long Term Govt Bond 1.3%	Stable Value 3.6%	LB Aggreg Bond 1.8%	LB Aggreg Bond 3.6%	Russell 2000 Stock -2.1%	Nasdaq 100 Stock -42.0%
		Nasdaq 100 Stock -33.1%	Nasdaq 100 Stock -37.6%	Short-Term Investment 0.9%	Short-Term Investment 1.1%	Nasdaq 100 Stock 1.0%	Long Term Govt Bond 1.1%	MS US REIT Stock -18.1%	International Stock -43.6%

Note: Returns for the Target Retirement Funds prior to 2007 are the result of a historical return simulation created by aggregating each of the underlying commingled strategy's official monthly returns at the asset class weightings specified by the pre-determined roll-down schedule. Returns are aggregated on a monthly basis. The roll-down schedule reallocates on a calendar year basis.

In the third quarter of 2008, the credit crisis turned into a liquidity crisis during a tumultuous quarter as financial institutions began to have difficulty raising capital. In September, as the worldwide crisis of confidence worsened, the following major events occurred: the collapse of Lehman Brothers and Washington Mutual, the US government takeover of Fannie Mae and Freddie Mac, the sale of Merrill Lynch to Bank of America, the reorganization of Morgan Stanley and Goldman Sachs as bank holding companies and the US government bailout of AIG. In response, the Treasury presented Congress with a plan to buy up to \$700 billion in illiquid assets from financial institutions (Troubled Asset Relief Program, or TARP) as well as a guarantee program for money market mutual funds. Housing prices, as measured by the S&P/Case Schiller Home Price Index fell by more than 20% on a year over year basis during the quarter. Personal spending decreased -3.8% during the quarter. On the positive side, the price of oil fell to almost \$100 per barrel and consumer inflation moderated to an annualized rate of +2.6%. The US REIT Index Fund returned +4.3% while the Long Treasury Index Fund increased +2.8%. The S&P 500 Stock Fund fell -8.5% and the International Stock Fund fell -19.4%, reflecting a broad decline in equities.

In the fourth quarter of 2008, the Federal Reserve took action three times to lower interest rates. The federal funds rate was lowered by nearly 200 basis points to a 0%-0.25% target while the discount rate was decreased by 175 basis points to 0.5%. In early October, the Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which authorized TARP, and other actions such as increases in FDIC limits and homeowner loan modification and assistance. The Federal Reserve created a Money Market Investor funding facility and a backstop for the commercial paper market. Outside the US, countries allocated funds to rescue their troubled banks. The US unemployment rate increased to 7.2% by December, while personal spending fell -3.0% during the quarter and GDP fell at a -6.3% annual rate. In addition, a deflationary environment was manifested in the CPI, with consumer prices falling -3.2% while the price of oil fell below \$40.00 per barrel. The Long Treasury Index Fund increased +18.6%, driven by a flight to quality. The Aggregate Bond Index Fund returned +4.4%. The US REIT Index Fund declined -39.9%, the S&P 500 Stock Fund fell -22.0%, while the Russell 2000 Stock Fund fell by -26.0%.

For the full year 2008, Pentegra's SSgA returns were impacted by market volatility, particularly in equities, as well as a flight to safety in the form of government securities. Pentegra's 2008 SSgA fund returns showed mixed results. The Long Treasury Index Fund was up +23.9%, while the Fixed Income, Bond and Stable Value Funds showed positive returns ranging from +2.3% to +4.9%. Equity fund returns were adversely impacted by market volatility over the second half of 2008, including the S&P 500 Stock Fund, which declined -37.3%, the NASDAQ 100 Stock Fund, which fell -42.0%, and the International Stock Fund, which returned -43.6% for the year.

management's responsibility

Management of the Pentegra Defined Contribution Plan for Financial Institutions (the “Plan”) prepared the financial statements contained in this Annual Report in conformity with accounting principles generally accepted in the United States of America. Management is responsible for the integrity and objectivity of the financial statements. Other information contained in the Annual Report is consistent with that contained in the financial statements. The Plan’s financial statements have been audited by Deloitte & Touche LLP, independent auditors selected by the Plan’s Board of Directors (“Directors”). Management has made available to Deloitte & Touche LLP all of the Plan’s financial records and related data, including the minutes of the Directors’ meetings. The independent auditors express an opinion as to the fairness of the financial statements of the Plan based on an audit conducted in accordance with auditing standards generally accepted in the United States of America.

Internal Control

Management of the Plan has established and maintains internal control designed to provide assurance of the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. Internal control provides for appropriate division of responsibilities and is documented by written policies that have been communicated to the Plan’s employees with roles in the financial reporting process. Management believes that its internal control is effective.

Board of Directors Review

The Board of Directors monitors the financial and accounting operations of the Plan. It meets with the Plan’s President, Chief Operating Officer and its independent auditors to discuss the financial results. Management also recognizes its responsibility for fostering a strong ethical climate so that the Plan’s affairs are conducted according to the highest standards of personal and professional conduct. This responsibility is monitored by the Legal Department under a Policy Statement on Conduct and Conflicts of Interest.



Robert C. Albanese
President & Chief Executive Officer



John E. Pinto
Executive Vice President & Chief Operating Officer





Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Participants of
The Pentegra Defined Contribution Plan for Financial Institutions

We have audited the accompanying statements of net assets available for benefits of Pentegra Defined Contribution Plan for Financial Institutions (the "Plan") as of December 31, 2008 and 2007, and the related statement of changes in net assets available for benefits for the year ended December 31, 2008. 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 audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2008 and 2007, and the changes in net assets available for benefits for the year ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 14, 2009

PENTEGRA | DEFINED CONTRIBUTION PLAN FOR FINANCIAL INSTITUTIONS

Financial Statements

Statements of Net Assets Available for Benefits

	December 31,	
	<u>2008</u>	<u>2007</u>
	<i>(in thousands)</i>	
ASSETS:		
Investments at Fair Value as determined by Quoted Market Price:		
Interest Bearing Cash - JP Morgan Chase Bank, NA	\$ 4,645	\$ 5,354
Investments in Self Directed Brokerage Account	3,134	3,937
Total Investments at Quoted Market Price	<u>7,779</u>	<u>9,291</u>
Investments at Estimated Fair Value:		
Investments in Common Collective Trust Funds	554,248	844,943
Investments in Stable Value Fund	287,395	254,414
Interest Bearing Cash - Including Money Market and Government STIF	119,961	109,372
Participant Loans	21,509	20,612
Total Investments at Estimated Fair Value	<u>983,113</u>	<u>1,229,341</u>
Total Investments	<u>990,892</u>	<u>1,238,632</u>
Other Assets:		
Accounts Receivable - Administrative	7,968	131
Receivables for Securities Sold, Not Yet Settled	1,133	389
Total Assets	<u>999,993</u>	<u>1,239,152</u>
LIABILITIES:		
Accrued Administrative Expenses	102	174
Payables for Securities Purchased, Not Yet Settled	-	75
Other Liabilities	18,025	9,883
Total Liabilities	<u>18,127</u>	<u>10,132</u>
NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE	981,866	1,229,020
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	2,483	9,831
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 984,349</u>	<u>\$ 1,238,851</u>

See accompanying notes to financial statements.



PENTEGRA | DEFINED CONTRIBUTION PLAN FOR FINANCIAL INSTITUTIONS

Financial Statements

Statement of Changes in Net Assets Available for Benefits

	Year Ended December 31, 2008 (In thousands)
ADDITIONS:	
Contributions:	
Employers	\$ 30,244
Participants	57,224
Rollovers	9,204
Total contributions	<u>96,672</u>
Investment Income (Loss):	
Net Change in Appreciation (Depreciation) in Fair Value of Investments	
Common Collective Trust Funds	(251,881)
Earnings on Self Directed Brokerage Accounts	(1,504)
Interest Bearing Cash - Including Money Market and Government STIF	2,972
Interest on Participant Loans	1,529
Net Investment (Loss)	<u>(248,884)</u>
Other Income	6,581
Total Loss	<u>(145,631)</u>
DEDUCTIONS:	
Benefits Paid to Participants	87,302
Corrective Distributions	300
Deemed Distribution of Participant Loans	1,784
Investment Management Fees	5,368
Other Expenses	6,765
Total Deductions	<u>101,519</u>
TRANSFERS OF ASSETS:	
Transfers Into the Plan	39,533
Transfers Out of the Plan	<u>(46,885)</u>
DECREASE IN NET ASSETS:	(254,502)
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of Year	1,238,851
End of Year	<u>\$ 984,349</u>

See accompanying notes to financial statements.

PENTEGRA | DEFINED CONTRIBUTION PLAN FOR FINANCIAL INSTITUTIONS

Notes to Financial Statements

As of December 31, 2008 and 2007, and for the year ended December 31, 2008. *(Amounts in Thousands)*

I. DESCRIPTION OF THE PLAN

The following description of the Pentegra Defined Contribution Plan for Financial Institutions (the "Plan") is provided for general information purposes only. Participants should refer to their respective Summary Plan Description for more complete information.

General—The Plan is a multiple-employer, tax-exempt trustee savings plan. The Board of Directors of the Plan control and manage the operation and administration of the Plan. The Bank of New York Mellon ("BNY Mellon") serves as the trustee of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Contributions—All contributions made to the Plan were in the form of cash. Participating employers may, at their option, elect the 401(k) feature of the Plan. This feature permits participants to defer current federal income tax, and the income taxes of most states, on the amounts contributed to and earned on the 401(k) account. Contributions on behalf of each participant are invested in accordance with the participant's instructions, entirely in one fund or in any combination of funds in multiples of 1%, with the exception of the profit sharing feature. The profit sharing feature offers employers the option of allowing participant-directed investments as described above or designating that all contributions be placed in the Stable Value Fund or Money Market Fund. This feature is funded solely by employer contributions.

Participant Accounts—Individual accounts are maintained for each Plan participant. All contributions are converted to units based on the unit values of the respective investment funds. The value of a participant's account is determined by multiplying the number of units to their credit in each investment fund by the unit value of such fund and aggregating the results.

Investments—Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan offers a wide variety of investment options spanning the risk/return spectrum, from stock to asset allocation funds. The investments are managed by State Street Global Advisors ("SSgA"). In addition to the investment options managed by SSgA, the Plan offers expanded investment flexibility through the Personal Choice Retirement Account ("PCRA"). The PCRA is a self-directed brokerage feature that works in tandem with the investment options managed by SSgA, providing access to mutual funds and individual securities. It is administered through Charles Schwab and Company, Inc.

Vesting—Participants are vested immediately in their contributions plus actual earnings thereon. Participants should refer to their respective Summary Plan Description to determine the vesting schedule for employer contributions.

Participant Loans—Employers may also, at their option, make available a loan program to their employees. This program, depending on the option elected by the employer, allows a participant to borrow from their 401(k) and/or their non-401(k) account balance subject to limitations imposed by federal law. Monthly loan repayments of principal and interest, less an administrative charge, are credited to participants' accounts. Beginning with loans initiated in 2000, a one-time setup fee and an annual maintenance fee is charged to participant accounts. Loans classified as withdrawals are treated as taxable distributions.

Payment of Benefits—A participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in their account or a portion of their account, subject to limitations imposed by federal law or options elected by the participating employer. Participants should refer to their respective Summary Plan Description for more information.

Forfeited Accounts—At December 31, 2008 and 2007, forfeited non-vested accounts totaled \$1,682 and \$1,616, respectively. These accounts may be used to reduce future employer contributions or administrative fees or be allocated to all eligible participants. During the year ended December 31, 2008, forfeiture withdrawals of \$190 were used to offset employer contributions and allocated to eligible participants and \$22 were used to offset administrative fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates and Risk and Uncertainties—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates. The Plan's investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with a majority of the investment options, management believes it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Accounting Guidance—In accordance with Financial Accounting Standards Board (FASB) Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, the stable value fund is included as investments at estimated fair value in the statements of net assets available for benefits, and an additional line item is presented representing the adjustment from fair value to contract value. The statement of changes in net assets available for benefits is presented on a contract value basis.

Investment Valuation and Income Recognition—The Plan's investments are stated at fair value. Fair value of a financial instrument 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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. Participant loans are valued at the outstanding loan balances, which approximates fair value.

Management fees charged to the Plan for investments are reflected as an expense on the Statement of Changes in Net Assets Available for Benefits.

Valuation of Investments (Securities with No Quoted Market Prices)—Investments in Common Collective Trust Funds ("Funds") that have no quoted market price are stated at estimated fair values, which have been determined by the institution sponsoring such Funds by dividing the Fund's net assets at fair value by its units outstanding at each valuation date. The underlying assets of the Funds consist primarily of equity securities such as common stock and fixed income securities such as mortgage-backed securities and bonds, which are valued based on prevailing market prices. The Funds (including the Stable Value fund) aggregate to \$844,126 or 86% of net assets available for benefits and \$1,109,188 or 90% of net assets available for benefits as of December 31, 2008 and 2007, respectively.

Valuation of Investments (Securities with Quoted Market Prices)—Interest Bearing cash at fair value is measured at the closing price of the security reported on the major market on which the security is traded. As of December 31, 2007, the money market fund, government short term investment fund, and the JP Morgan Chase Bank cash account was included in interest bearing cash and for 2008, it is included as a separate line item. Investments in Self Directed



Brokerage Account (PCRA) are stated at quoted market prices and are administered through Charles Schwab and Company, Inc. Investments in PCRA include equity, fixed income, mutual funds, and cash. The PCRA does not allow for trading on “trade-away” trades, collectibles, currencies, precious metals, real estate, private placements, futures, commodities, margin accounts, index and equity options, short sales or Schwab corporate debentures/collateralized debt obligations. This would therefore exclude illiquid securities.

Administrative Expenses—Total administrative expenses for the year ended December 31, 2008 paid by employers and those charged against the Plan’s assets were \$6,440 and includes \$6,208 of expenses charged by Pentegra Services, Inc. (PSI), respectively (Note 6).

To the extent the amount of total administrative expense is greater or less than total collections, such amount is recorded as a deferred asset or liability, respectively, on the Statement of Net Assets Available for Benefits. The deferred liability at December 31, 2008 and 2007 was \$4,281 and \$5,335, respectively. Fiduciary liability insurance premiums aggregating \$36 in 2008 were billed directly to and paid by participating employers and are not reflected in the Plan’s financial statements.

Payment of Benefits—Benefit payments to participants are recorded upon distribution. At December 31, 2008 and 2007, net assets available for benefits included in other liabilities \$9,542 and \$0, respectively, for a transfer of assets out of the Plan that has not yet been paid.

Excess Contributions Payable—The Plan is required to return contributions received during the plan year in excess of the Internal Revenue Code (“IRC”) limits.

New Accounting Pronouncement—The financial statements reflect the prospective adoption of FASB Statement No. 157, (SFAS No. 157) *Fair Value Measurements* as of the beginning of the year ended December 31, 2008 (see Note 3). SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurement. The effect of the adoption of SFAS No. 157 had no impact on the statements of net assets available for benefits and statement of changes in net assets available for benefits except for enhanced disclosure in the footnotes as required.

In October 2008, the FASB issued FSP Financial Accounting Standards (“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 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial instrument when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP FAS 157-3 did not have a material impact on the Plan’s financial statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (“FSP FAS 157-4”) and is effective for annual periods ending after June 15, 2009. FSP FAS 157-4 provides additional application guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS 157 states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of FSP FAS 157-4 is not expected to have a material impact on the Plan’s financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (“SFAS 165”) which provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS 165, is not expected to have an impact on the Plan’s financial statements.

On July 1, 2009, the FASB issued SFAS No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (“SFAS 168”). SFAS 168 approved the FASB Accounting Standards Codification as the single source of authoritative nongovernmental GAAP. The FASB Accounting Standards Codification is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the FASB Accounting Standards Codification will be considered nonauthoritative. The adoption of SFAS 168 will not impact the Plan’s financial statements.

3. FAIR VALUE MEASUREMENTS

In accordance with SFAS No. 157, the Plan classifies its investments into Level 1, which refers to securities valued using quoted market prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth by level within the fair value hierarchy, a summary of the Plan’s investments measured at fair value on a recurring basis at December 31, 2008.

	Fair Value Measurements at December 31, 2008, Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Interest Bearing Cash - JP Morgan Chase Bank, NA	\$ 4,645	\$	\$	\$ 4,645
Self Directed Brokerage Account - Cash	940			940
Self Directed Brokerage Account - Equity	1,592			1,592
Self Directed Brokerage Account - Fixed Income	153			153
Self Directed Brokerage Account - Mutual Funds	449			449
Common Collective Trust Funds		554,248		554,248
Stable Value Fund		287,395		287,395
Money Market Fund		94,291		94,291
Government STIF Fund		25,670		25,670
Participant Loans			21,509	21,509
Total	\$ 7,779	\$ 961,604	\$ 21,509	\$ 990,892

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

**Fair Value Measurements
Using Significant Unobservable
Inputs (Level 3)**

	Participant Loans
Beginning Balance - January 1, 2008	\$ 20,612
Net Purchases (Sales)	897
Ending Balance - December 31, 2008	\$ 21,509

4. INVESTMENTS

The Plan's investments with SSgA that represented five percent or more of the Plan's net assets available for benefits as of December 31, 2008 and 2007 are as follows:

	December 31,	
	2008	2007
S&P Stock Fund, at estimated fair value (Equity Index Flagship Fund)* 5,296,608 units and 5,782,640 units, respectively	\$ 156,889	\$ 272,968
Stable Value Fund, at contract value (Investment Contracts - Note 5)* 22,789,143 units and 21,378,001 units, respectively	289,878	264,245
S&P MidCap Stock Fund, at estimated fair value (Mid-Cap Equity Index Fund)* 2,580,516 units and 2,950,199 units, respectively	94,671	170,359
Money Market Fund, at estimated fair value (Short term Investment Fund) 11,086,146 units and 12,482,386 units, respectively	94,292	103,792
Government Bond Fund, at estimated fair value (Long US Treasury Index Fund)* 4,018,802 units in 2008	67,548	**
International Stock Fund, at estimated fair value (EAFE Index Fund)* 3,868,625 units in 2007	***	74,808

*Common Collective Trust Funds (not publicly traded)

**As of December 31, 2007, these investments did not represent 5% of the Plan's net assets available for benefits.

***As of December 31, 2008, these investments did not represent 5% of the Plan's net assets available for benefits.

During the year ended December 31, 2008, the Plan's investments with SSgA (including gains and losses on investments bought and sold, as well as held during the year) appreciated / (depreciated) in value as follows:

	Year Ended December 31, 2008
S&P 500 Stock Fund (Equity Index Flagship Fund)	\$ (95,925)
Stable Value Fund	9,377
S&P MidCap Stock Fund (Mid-Cap Equity Index Fund)	(57,516)
Government Bond Fund (Long US Treasury Index Fund)	12,792
International Stock Fund (EAFE Index Fund)	(30,716)
Income Plus Fund (Conservative Strategic Balanced Fund)	(1,135)
Growth & Income Fund (Moderate Strategic Balanced Fund)	(8,153)
Growth Fund (Aggressive Strategic Balanced Fund)	(10,566)
S&P 500 Growth Stock Fund (Equity Growth Fund)	(12,784)
S&P 500 Value Stock Fund (Equity Value Fund)	(17,047)
Russell 2000 Stock Fund (Russell 2000 Index Fund)	(15,033)
Nasdaq 100 Stock Fund (Nasdaq 100 Index Fund)	(13,573)
US REIT Fund (REIT Index Fund)	(5,286)
Aggregate Bond Fund (Passive Bond Market Fund)	414
Target Retirement 2015 Fund	(3,069)
Target Retirement 2025 Fund	(2,086)
Target Retirement 2035 Fund	(1,017)
Target Retirement 2045 Fund	(558)
Net Depreciation of Investments	\$ (251,881)

Securities Lending—Several of the Plan's investments managed by SSgA participate in a securities lending program. Under this program, the Plan's investment securities are loaned to investment brokers for a fee. Securities so loaned are fully collateralized by cash, letters of credit, and securities issued or guaranteed by the U.S. government, its agencies, and instrumentalities. Funds that engage in securities lending do so in order to benefit from the additional income that securities lending offers to institutional investors, whether to augment returns, offset plan expenses or other similar purposes.

However, the disruption that the market and economic crisis has brought to the market for fixed income securities presents significant challenges for all securities lending programs. The collateral pools have not realized any material credit losses nor do they hold securities of issuers that have defaulted on their obligations. In an effort to help investors in lending funds from realizing losses, SSgA implemented revised withdrawal parameters from the lending funds. Under those withdrawal parameters, investors are allowed to make withdrawal requests for ordinary course business purposes. Defined contribution plan participants are able to make ordinary course contributions and withdrawals within their accounts from the lending funds. For the financial reporting period that ended December 31, 2007, the mark-to-market net asset values of the collateral pools' units ranged from \$0.986 to \$1.00. For both transacting and reporting purposes,



SSgA determined that the fair market value of the units of each collateral pool held by lending funds remained at \$1.00. For the financial reporting period that ended December 31, 2008, the mark-to-market value of the collateral pools' units ranged from \$0.908 to \$0.953. For the financial reporting period that ended December 31, 2007, SSgA has determined to reflect the units of the collateral pools' at the mark-to-market value rather than the amortized cost, while continuing to value the inputs in the collateral pool at \$1.00. The degree of impact within the lending fund will depend upon the percentage of the lending funds' portfolio holdings that are out on loan.

5. STABLE VALUE FUND

The stable value fund is a common collective trust fund sponsored by SSgA. The beneficial interest of each participant is represented by units. Units are issued and redeemed daily at the Fund's constant net asset value (NAV) of \$1.00 per unit less an expense accrual for management fees. In the event that a significant disparity develops between the contract value amount and the fair value of investments of the Fund, the Trustee may determine that continued redemption at a constant \$1.00 net asset value would create inequitable results for the Fund's unit holders. In these circumstances, the Trustee may in its sole discretion and acting on behalf of the Fund's unit holders, direct that units be redeemed at the fair value based net asset value until such time as the disparity between the fair value and the contract value based net asset value per unit is deemed to be immaterial. Contract value represents contributions made to the Fund, plus earnings, less participant withdrawals and administrative expenses.

The Fund imposes certain restrictions on the Plan, and the Fund itself may be subject to circumstances that impact the ability to transact at contract value, as described below. Plan management believes that the occurrence of events that would cause the Fund to transact at less than contract value is not probable.

Events Limiting Contract Value Treatment—Investment contracts are valued at contract value principally because participants are able to transact at contract value when initiating benefit-responsive withdrawals, taking loans or making investment option transfers permitted by the participating Plan. A benefit-responsive withdrawal includes a payment arising from retirement, termination of employment, disability or death. Employer initiated events, if material, may affect the underlying economics of investment contracts. These include plant closings, layoffs, plan termination, bankruptcy, merger, early retirement incentive programs, tax disqualification of a trust or other events. The occurrence of one or more employer initiated events could limit the Fund's ability to transact at contract value with Plan participants.

Circumstances That Impact the Fund—The Fund invests primarily in fully-benefit-responsive guaranteed investment contracts "GICs", synthetic GICs, and bank investment contracts. Investments in bank, insurance company and other financial institution investment contracts are stated at contract value which is equal to principal balance plus accrued interest. Synthetic investment contracts represent individual assets placed in a trust, with ownership by the Fund; a third party issues a "wrapper" that guarantees participant transactions are executed at contract value. In a typical wrap contract, the wrap issuer agrees to pay a portfolio the difference between the contract value and the market value of the underlying assets once the market value has been totally exhausted. The wrap contracts generally contain certain provisions that limit the ability of the Fund to transact at contract value upon the occurrence of certain events. These events include a breach of material obligation under the contract; a material misrepresentation; a material amendment to the trust agreement, in the administration of the trust or in the investment of fund assets without consent from the issuer; and a violation of the fund's investment guidelines.

In the event that wrap contracts fail to perform as intended, the Fund's NAV may decline if the market value of its assets decline. The Fund's ability to receive amounts due pursuant to these wrap contracts is dependent on the third-party issuer's ability to meet their financial obligations. SSgA will attempt to assess the credit quality of the issuers; however, there is no guarantee as to the financial condition of an issuer. The wrap issuer's ability to meet contractual obligations under the wrap contracts may be affected by future economic and regulatory developments.

The Fund is unlikely to maintain a stable NAV if, for any reason, it cannot obtain or maintain wrap contracts covering all of its underlying assets. This could result in the Fund's inability to promptly find a replacement wrap contract, following termination of a wrap contract. Wrap contracts are not transferable and have no trading market and there are a limited number of wrap issuers. The Fund may lose the benefit of wrap contracts on any portion of its assets in default in excess of a certain percentage of portfolio assets.

Contract value of Synthetic GICs at December 31, 2008 and 2007 was \$238,691 and \$234,872, respectively. The contract value of the remaining GICs at December 31, 2008 and 2007 was \$51,187 and \$29,373, respectively. The fair value of the wrapper contracts included in Synthetic GICs was \$165 and \$13 as of December 31, 2008 and 2007, respectively.

The net assets available for benefits included in the financial statements differ from the form 5500 by \$2,483 and \$9,831 as of December 31, 2008 and 2007, respectively, due to the adjustment required to properly present the fully benefit-responsive investment contracts at fair value for the form 5500. Accordingly, the net income per the form 5500 also differs from the statement of changes in net assets available for benefits by \$7,348 due to the year to date effect of this adjustment.

6. EXEMPT PARTIES-IN-INTEREST

The Board of Directors of the Plan is comprised of executive officers of participating employers of the Plan and as such are participants of the Plan. PSI and the Plan entered into a five year service agreement effective May 1, 2007 whereby PSI will provide all administrative services to the Plan. This agreement outlines the fees that PSI will charge the Plan and as such are related parties. For the period January 1, 2008 through December 31, 2008, the Plan paid PSI \$6,208.

7. PLAN TERMINATION

The Board of Directors shall have the right to amend or terminate the Plan or Trust Agreement subject to the provisions set forth in ERISA, at any time in whole or in part, for any reason, and without the consent of any participating employer or participant, and each employer by its adoption of the Plan and Trust shall be deemed to have delegated this authority to the Board. No amendment, however, shall impair such rights of payment as the participant would have had, if such amendment had not been made, with respect to contributions made by them or on their behalf to such amendment.

8. FEDERAL INCOME TAX STATUS

The Internal Revenue Service ("IRS") has determined and informed the Plan by a letter dated October 23, 2002 that the Plan and related trust are designed in accordance with the applicable sections of the IRC. The Plan has been amended since receiving the determination letter. The latest restatement of the Plan was submitted for a favorable opinion letter to the IRS on January 31, 2008. The Plan has been assigned an agent and it is under review. It is the view of the plan administrator and the Plan's counsel that the Plan continues to be designed and operated in compliance with the applicable requirements of the IRC and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements. The IRS concluded its audit of the Plan for the year ended December 31, 2005.

9. SUBSEQUENT EVENTS

Effective July 1, 2009, the Plan changed its trustee from BNY Mellon to Reliance Trust Company.

board of directors

CHAIR

Sandra L. McGoldrick, *President & CEO*

Winter Hill Bank

Somerville, MA

VICE CHAIR

Alfred A. DelliBovi, *President & CEO*

Federal Home Loan Bank of New York

New York, NY

Robert C. Albanese, *President & CEO*

Pentegra Retirement Services

White Plains, NY

Milton J. Miller, *President & CEO*

Federal Home Loan Bank of Indianapolis

Indianapolis, IN



officers

PRESIDENT AND CEO

Robert C. Albanese

EXECUTIVE VICE PRESIDENT

John E. Pinto

Chief Operating Officer

SENIOR VICE PRESIDENTS

Robert D. Alin

Secretary & General Counsel

Gwen D. Burroughs

Chief Marketing Officer

Horace J. Caulkins

Chief Investment Officer

Jeffrey A. Kissel

Chief Actuary

VICE PRESIDENTS

David S. Brown

Distribution Sales

Joseph M. Komosinski

Information Technology

William J. Pieper

Trust Services

Stephen P. Pollack

Legal

Michael D. Randazzo

Investments

Richard W. Rausser

Consulting Services

John J. Schafer

Director, National Markets

Michael J. Wood

Actuarial & Technical Services

ASSISTANT VICE PRESIDENTS

Stephen A. Hughes

Consulting Services

Beth H. Kane

Defined Contribution Services

Scott McCarthy

Consulting Services

G. Michael Morgenroth

Consulting Services

Lynn Phillips

Defined Benefit Administration

Linda Viggiano

Controller

Colleen M. Zanicchi

Human Resources

Contact Us

For more information on Pentegra's programs and services, contact:

Gwen Burroughs,
Chief Marketing Officer, at
1-800-872-3473 or
visit our website at
www.pentegra.com.

