DEFINED BENEFIT PLAN FOR FINANCIAL INSTITUTIONS

2008 ANNUAL REPORT

PENTEGRA | *Defined Benefit Plan for Financial Institutions*

2008 ANNUAL REPORT

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A LETTER TO OUR CUSTOMERS

Robert C. Albanese
President & CEO

These are challenging times for us all. Now, more than ever, we are focused on making a difference for our customers. At Pentegra, one of the primary ways we make a difference is our approach to pension plan investment management.

The framework for investing pension assets changed significantly with the implementation of the Pension Protection Act ("PPA"). The PPA is considered the most significant pension legislation since ERISA. It requires that actuarial liabilities be valued based upon market interest rates rather than an actuary's assumption. This and other PPA provisions can significantly increase the annual variability of pension contributions.

With the advent of PPA, pension plan investment policy is expected to shift from focusing on maximizing asset returns to minimizing the volatility of funding ratios and contributions, with a move toward liability driven investing. Plans should no longer focus only on asset driven benchmarks, such as the Russell 3000 Index, a total stock market index. Asset classes which have a high correlation to PPA liabilities, such as long term bonds, will become key plan performance benchmarks. In other words, pension investing should be more a process of aligning assets to liabilities, with the ultimate objective being to pay retirement benefits, rather than simply seek returns. We are intimately familiar with this approach: it is part of the investment strategy we have had in place for many years.

The market volatility of recent months will have a direct effect on the funding requirements of all pension sponsors, but we are pleased to have embarked on our pension investing strategy before implementation of PPA. This strategy has enabled us to maintain our stability despite record market volatility and was a critical factor in keeping Plan costs down and the Plan's funding ratio at 96% on December 31, 2008. Only 14% of plans had funding levels greater than 90% at the end of last year.

Our approach, which views assets and liabilities collectively, has not been a universal or perhaps even a common practice in the industry, but it is a primary focus that drives our investment policy to ensure that plan assets are invested to provide secure retirement benefits. We acknowledge that an asset based maximum total return approach can produce higher asset returns in a "bull" market, but a sound pension investment strategy should correlate asset returns to liability costs. The goal should be to "meet or beat" liabilities while minimizing the volatility of pension costs over time.

Many pension funds have had a primary investment objective to maximize total return or beat some asset based market benchmark. But pension assets and liabilities in the PPA environment need to be viewed collectively. That is why the singular focus that drives our investment policy is to ensure that plan assets are invested to provide secure retirement benefits.

I mentioned in last year's report that another significant way that we make a difference for customers lies in the governance and oversight of your retirement program. This is not just a hollow, nice-sounding catch phrase. It is a critical differentiator for us which was exemplified in the hours put in by our Board, staff and investment committee in addressing the inherent weaknesses in the total return approach to pension management. Our unique fiduciary role is a substantial responsibility, and one that we take very seriously. As the President of this organization, a participant in Pentegra's programs, and a plan fiduciary, I have a vested and very personal interest in ensuring that the billions of dollars in retirement plan assets under our watch are managed according to the high standards that our fiduciary role demands.

An engaged directorate affords significant advantages for Pentegra customers—in particular the integrity of the process by which investments are selected and monitored. Pentegra's due diligence is built around the fiduciary responsibility that we assume to ensure that investments are appropriate for a qualified retirement program. It is a focus on return of capital, before return on capital, without undue risk over time. It is the benefit of careful oversight of investment options for your participants that are regularly scrutinized for appropriateness, provide rigorous style consistency and the opportunity for broad diversification and asset allocation. It is our disciplined investment process, coupled with our 65-year prudent track record that makes a difference for our clients.

We are committed to safeguarding the retirement assets of you and your participants. Today, defined benefit plans remain one of the most significant assets that many employees own. In times of market volatility in particular, the need for defined benefit plans becomes more apparent than ever. Few other retirement programs provide a predictable and secure benefit for life. And few other providers offer 65+ years of experience built working with your industry to deliver retirement plan solutions focused exclusively on your needs.

We often refer to the Pentegra difference. What is it? Put simply,

- It is a long-standing tradition of offering the best possible retirement programs, managed with the highest level of integrity.

- It is a focus on retirement programs designed to build retirement security.

- It is an independent, unbiased and enlightened approach to pension asset and liability management in the PPA world.

- It is an unsurpassed level of governance and oversight.

- It is a 65-year dedication to the financial services industry.

Now, more than ever, our approach makes a difference to you, our customers. Our difference is your advantage, and we truly hope that your pleasure in working with Pentegra always equals ours in serving you.

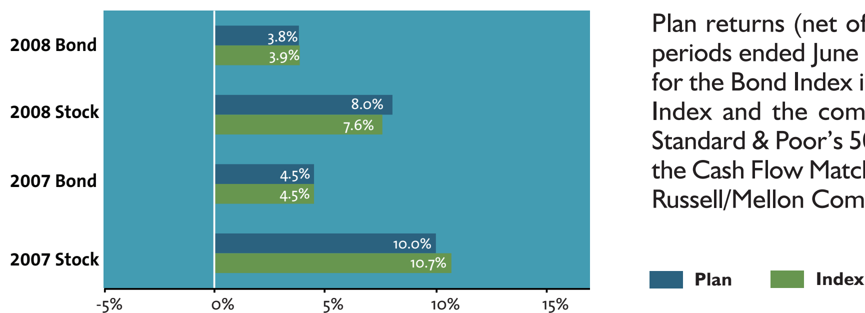
Sincerely,

Robert C. Albanese
President & Chief Executive Officer

INVESTMENT HIGHLIGHTS

Compared to Indexes

ANNUALIZED RATE OF RETURN



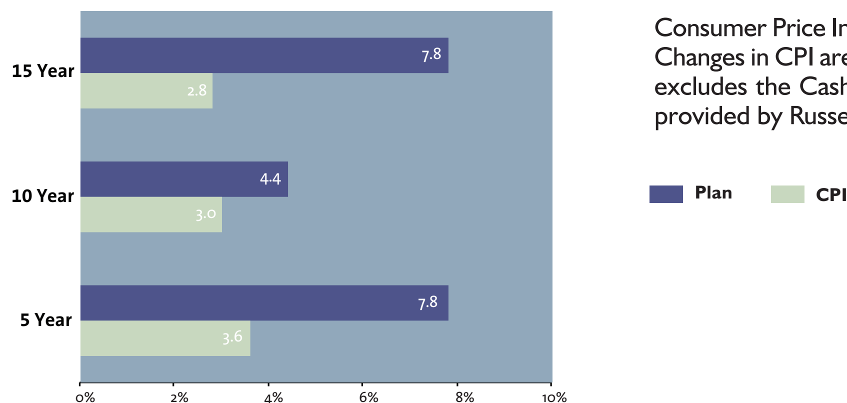
Plan returns (net of all fees) vs. comparable index for 5-year periods ended June 30, 2008 and 2007. The comparable index for the Bond Index is the Barclays Capital U.S. Aggregate Bond Index and the comparable index for the Stock Index is the Standard & Poor's 500 Stock Index. Plan performance excludes the Cash Flow Match Portfolio and is based on data provided by Russell/Mellon Company.

Plan **Index**

Investment strategies are used as a means of increasing plan assets at a rate that outpaces plan liabilities. Pension liabilities are driven by employee demographics, including salary growth. Since inflation is the major component in salary growth, a good measure of the success of the Plan's investment objectives is a comparison of investment return to inflation over the same time periods.

Compared to CPI

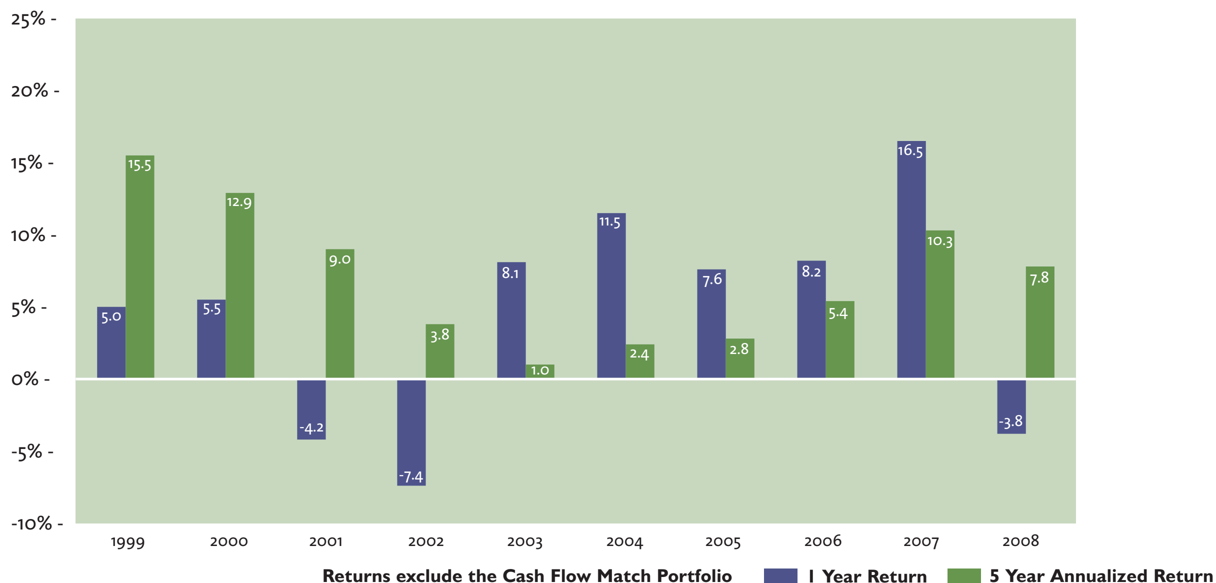
ANNUALIZED RATE OF RETURN



Consumer Price Index (CPI) is a government measure of prices. Changes in CPI are used to measure inflation. Plan performance excludes the Cash Flow Match Portfolio and is based on data provided by Russell/ Mellon Company.

Plan **CPI**

Ten Year Investment Returns



Returns exclude the Cash Flow Match Portfolio **1 Year Return** **5 Year Annualized Return**

Percentage of Portfolio

DOMESTIC EQUITIES

41.6% of the Portfolio

Arden Asset Management
New York, NY

Barclays Global Investors
San Francisco, CA

Barlow Partners
New York, NY

Goldman Sachs Asset Management
Tampa, FL

Ivy Asset Management
Garden City, NY

Morgan Stanley Alternative Investment Partners
West Conshohocken, PA

SSARIS Advisors
Stamford, CT

State Street Global Advisors
Boston, MA

Venture Capital Fund of America
New York, NY

In-House

INTERNATIONAL EQUITIES

7.8% of the Portfolio

Barclays Global Investors
San Francisco, CA

In-House

FIXED INCOME

48.6% of the Portfolio

The Bank of New York
New York, NY

Barclays Global Investors
San Francisco, CA

Pacific Investment Management Co.
Newport Beach, CA

State Street Global Advisors
Boston, MA

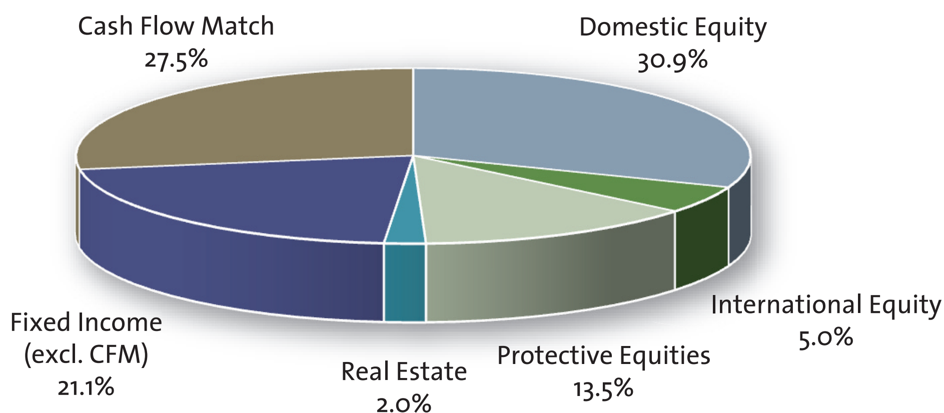
In-House

REAL ESTATE

2.0% of the Portfolio

Morgan Stanley Real Estate Fund III
New York, NY

Sentinel Real Estate
New York, NY



Note: Protective Equities in the above chart includes a 2.8% International and 10.7% Domestic Equity Exposure.

Diversification

		June 30, 2008	
		ESTIMATED FAIR VALUE (in thousands)	% OF TOTAL
COMMON STOCKS AND FUNDS			
Consumer Non Durables		$ 20,901	1.0
Consumer Durables		372	0.0
Materials & Services		8,721	0.4
Capital Goods & Services		5,241	0.2
Technology		21,075	1.0
Energy		16,309	0.8
Utilities		5,247	0.2
Financial Services		10,042	0.5
Preferred		928	0.0
Common Collective Trust:			
NASDAQ 100 Index Fund	$ 17,298		
Russell 1000 Growth Fund	10,034		
Barlow Group Trust	63,968		
Russell 2000 Index Fund	58,676		
EAFE Equity Index Fund	100,257		
Russell 1000 Value Fund	96,394		
S&P 500 Index Fund	128,162	474,789	21.8
Limited Partnerships		105,599	4.8
SUBTOTAL		669,224	30.7
REAL ESTATE FUNDS		42,532	2.0
FIXED INCOME SECURITIES AND FUNDS			
Bonds		745,489	34.2
Common Collective Trust:			
Lehman 20+ Treasury Bond Index Fund	107,803		
Long Government/Credit Bond Index	39,593		
Salomon Smith Barney Mortg-Backed Index Fund	36,030	183,426	8.4
Equity Linked Notes		261,233	12.0
Short-Term		277,577	12.7
SUBTOTAL		1,467,725	67.3
TOTAL INVESTMENTS		$ 2,179,481	100.0%

FINANCIAL NOTES

Management's Responsibility

Management of the Pentegra Defined Benefit Plan for Financial Institutions (the "Plan") prepared the financial statements contained in this Annual Report in accordance 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 Audit Committee and 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 in conformity with accounting principles generally accepted in the United States of America 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 controls provide for appropriate division of responsibilities and have been communicated to the Plan's employees with roles in the financial reporting process. Management believes that its internal control is effective.

We are pleased to report that, in 2008, we completed our third Statement on Auditing Standards No. 70 ("SAS 70") of the Plan. A SAS 70 provides reasonable assurance that proper recordkeeping controls and procedures are in place with respect to the administration of the Plan, and reiterates our commitment to ensuring that your retirement program is administered according to the highest standards.

AUDIT COMMITTEE REVIEW

The Directors, through its Audit Committee, monitors the financial and accounting operations of the Plan. The Audit Committee is scheduled to meet in June 2009 with the Plan's President and Chief Financial Officer and its independent auditors to discuss the financial results. Deloitte & Touche LLP is afforded an opportunity to present opinions in the absence of management with respect to internal control and the quality of financial reporting of the Plan. Management also recognizes its responsibility for fostering a strong ethical climate so that the Plan's affairs are conducting according to the highest standards of personal and professional conduct. This responsibility is monitored by the Legal Department under the Plan's Policy Statement on Conduct and Conflicts of Interest.

Robert C. Albanese
President & Chief Executive Officer

John E. Pinto
Executive Vice President & Chief Operating Officer

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February 9, 2009

Board of Directors
Pentegra Defined Benefit Plan for Financial Institutions
108 Corporate Park Drive
White Plains, New York 10604-3805

Subject: July 1, 2008 Valuation Results

Members of the Board:

An actuarial valuation of the Pentegra Defined Benefit Plan for Financial Institutions (the "Plan") is performed as of July 1st of each year in order to establish the contribution requirements for the ensuing plan year and to confirm the extent to which the funding of the Plan is progressing on an actuarially sound basis.

The July 1, 2008 valuation reflects the first valuation under the Pension Protection Act of 2006 (PPA). As a result of statutory requirements, numerous changes were made to the methods and assumptions used for determining annual funding requirements. In addition, an interest rate of 6.25% was used to determine the Present Value of Accumulated Plan Benefits. Previously, an interest rate of 5.8% was used to value retirees in pay status on or before July 1, 2003 and a rate of 7.75% was used to value all other participants. Other assumption changes, which had relatively minor effect, also were adopted.

The funded status of the Plan as measured by the ratio of the Market Value of Assets to the Actuarial Present Value of Accumulated Plan Benefits decreased from 109% as of July 1, 2007 to 102% as of July 1, 2008 prior to the change in assumptions and 93% after the change in assumptions. The ratio of the Actuarial Value of Assets to the Projected Benefit Obligation increased from 95% at July 1, 2007 to 97% as of July 1, 2008, prior to PPA. Under PPA, ratio of Market Value of Assets to the Target Liability was 98% as of July 1, 2008.

Most participating employers in the Plan are subject to annual contribution requirements. Assuming no further experience gains or losses or other changes in the plan provisions, these annual contributions (along with investment earnings) are expected to keep the Plan operating on a sound financial basis.

Respectfully submitted,

David M. Flagg, FSA, EA
Consulting Actuary

Lauren Keller, ASA, EA
Consulting Actuary

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INDEPENDENT AUDITORS' REPORT

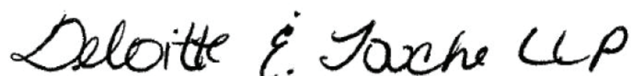
To the Board of Directors and Participants of
The Pentegra Defined Benefit Plan for Financial Institutions

We have audited the accompanying statements of net assets available for benefits of the Pentegra Defined Benefit Plan for Financial Institutions (the "Plan") as of June 30, 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 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 financial status of the Plan as of June 30, 2008 and 2007, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, the financial statements include investments valued at $409.6 million (approximately 18% of net assets) and $526.1 million, (approximately 22% of net assets) as of June 30, 2008 and 2007, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management estimates are based on information provided by the investment managers, general partners or other institutional sources.



April 15, 2009

Pentegra Defined Benefit Plan for Financial Institutions
Financial Statements

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	June 30, 2008	June 30, 2007
	(in thousands)	
ASSETS		
INVESTMENTS, AT FAIR VALUE AS DETERMINED BY QUOTED MARKET PRICE:		
Common Stock	$ 87,908	$ 90,255
U.S. Government Securities	52,618	49,519
TOTAL INVESTMENTS, AT FAIR VALUE AS DETERMINED BY QUOTED MARKET PRICE	140,526	139,774
INVESTMENTS, AT ESTIMATED FAIR VALUE:		
Limited Partnerships	105,599	103,284
Preferred Stocks	928	1,447
U.S. Government Securities	160,281	167,970
Corporate Debt Securities	793,823	849,381
Common Collective Trust Funds - Equity	474,789	663,982
Common Collective Trust Funds - Fixed Income	183,426	128,378
Interest Bearing Cash	277,577	188,323
Real Estate Funds	42,532	43,520
TOTAL INVESTMENTS, AT ESTIMATED FAIR VALUE	2,038,955	2,146,285
TOTAL INVESTMENTS	2,179,481	2,286,059
ACCRUED INCOME FROM INVESTMENTS	10,350	10,362
ACCOUNTS RECEIVABLE	1,035	1,998
EMPLOYER CONTRIBUTIONS RECEIVABLE	2,088	136,384
DUE FROM BROKERS AND INVESTMENT MANAGERS FOR SECURITIES SOLD, NOT YET SETTLED	67,263	2,484
OTHER ASSETS	909	1,593
TOTAL ASSETS	2,261,126	2,438,880
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	15,281	4,052
CONTRIBUTIONS TO BE INVESTED	2,338	3,115
DUE TO BROKERS AND INVESTMENT MANAGERS FOR SECURITIES PURCHASED, NOT YET SETTLED	13,294	3,895
TOTAL LIABILITIES	30,913	11,062
NET ASSETS AVAILABLE FOR BENEFITS	$ 2,230,213	$ 2,427,818

See accompanying notes to financial statements.

Pentegra Defined Benefit Plan for Financial Institutions
Financial Statements

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Years Ended June 30, 2008	2007
	(in thousands)	
ADDITIONS		
CONTRIBUTIONS		
Employers - Regular	$ 18,487	$ 163,762
Participants	300	164
TOTAL CONTRIBUTIONS	18,787	163,926
INVESTMENT (LOSS)/INCOME		
Net change in (depreciation) appreciation in fair value of investments whose fair value was determined based on quoted market prices:		
Common Stock	(2,350)	15,032
U.S. Government Securities	(5,791)	(8,104)
Net change in appreciation (depreciation) in fair value of investments whose fair value was estimated:		
Limited Partnerships	19,109	12,556
Preferred Stock	(319)	11
U.S. Government Securities	19,112	13,002
Corporate Debt Securities	(46,537)	65,033
Common Collective Trust Funds - Equity	(83,680)	124,640
Common Collective Trust Funds - Fixed Income	15,134	2,966
Real Estate Funds	(2,139)	2,143
Net change in (depreciation) appreciation in fair value of investments	(87,461)	227,279
Interest	50,784	52,095
Dividends	1,277	957
Less: Administrative Asset Fee	(7,402)	(6,286)
Investment Advisory Services	(1,394)	(2,558)
TOTAL INVESTMENT (LOSS)/INCOME	(44,196)	271,487
OTHER INCOME		
For Administrative Expenses	10,751	9,705
Other	13,166	6,008
TOTAL ADDITIONS	(1,492)	451,126
DEDUCTIONS		
EXPENSES		
Retirement Benefits	155,812	152,084
Death Benefits	2,436	2,318
Withdrawals	104	-
Administrative Expenses	23,633	16,781
PBGC Insurance Premium	(63)	2,040
Other	21	4
TOTAL DEDUCTIONS	181,943	173,227
NET (DECREASE) INCREASE	(183,435)	277,899
Net Transfers Out of the Plan	(14,170)	(34,270)
TOTAL (DECREASE) INCREASE IN NET ASSETS	(197,605)	243,629
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of Year	2,427,818	2,184,189
End of Year	$ 2,230,213	$ 2,427,818

See accompanying notes to financial statements.

Pentegra Defined Benefit Plan for Financial Institutions
Notes To Financial Statements

AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 ***(AMOUNTS IN THOUSANDS)***

1. DESCRIPTION OF THE PLAN

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

General — A description of the Plan's Comprehensive Retirement Program ("the Plan"), effective June 1, 2007 has been published in the Plan's Regulations, 26th Revision ("the Regulations"). This document, and various amendments to it, including amendments reflecting certain changes made by recent legislation such as the Economic Growth Tax Relief and Reconciliation Act of 2001, has been made available to participating employers and their participants. The Plan operates as a multiemployer plan for accounting purposes under Statement of Financial Accounting Standards ("SFAS") No. 87 and as amended under SFAS No. 132 (R) and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 ("ERISA") and the Internal Revenue Code ("IRC"). SFAS No. 87 requires that an employer participating in a multiemployer plan recognize as net pension expense the required contribution for the period and recognize a liability for any contributions due and unpaid. The Plan files one Internal Revenue Service ("IRS") form 5500 on behalf of all employers who participate in 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 ERISA. The Plan's management is responsible for monitoring and controlling the activity of the Plan in accordance with the provisions of the IRC.

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 — 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 assets, liabilities and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated benefits and changes therein at the date of the financial statements. Actual results could differ significantly from those estimates.

Risk and Uncertainties — Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, 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. Subsequent to June 30, 2008, conditions in the worldwide debt and equity markets have deteriorated. These conditions may have a negative effect on the fair value of the plan investments since June 30, 2008.

Investment Valuation and Income Recognition — Quoted market prices are used to value Common Stock. Prevailing market prices are used to value the fixed income securities which are traded on the secondary markets such as U.S. Government Securities and Corporate Debt Securities, except Equity Linked Notes, the valuation of which is described below. Other short-term fixed income investments, such as interest bearing cash, are valued at cost, which management has determined approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income are recorded on an accrual basis. Dividend income is recorded on the ex-dividend date.

Valuation of Investments (Securities with No Quoted Market Prices) — The valuation of securities that have no quoted market price represent estimates of fair value. Management considers many factors in arriving at estimated value. Investments in Common Collective Trust Funds ("Funds") are stated at estimated fair values, which have been determined by management based on information provided by institutions sponsoring such Funds by dividing the Funds' net assets at fair value by its units outstanding at each valuation date. The underlying assets of the Funds primarily consist 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. Equity Linked Notes, which are included in the category Corporate Debt Securities, are valued at bid price that the originating trading desk would be willing to execute a trade. Corporate Debt Securities (excluding Equity Linked Notes), U.S. Government Securities (excluding U.S. Treasury Securities) and Preferred Stock, which do not have available quoted prices, are valued by management based on information provided by BNY Mellon, as trustee, using the following observable inputs: matrix pricing, market pricing, market corroborated pricing and inputs such as yield curves and indices. The investment in Real Estate Funds is stated at fair value as reported by the investment manager. The assets underlying the Real Estate Funds are valued based on evidence obtained from real estate appraisals, comparables, or valued based on valuation techniques such as the cash flow projection model. In addition, the investment managers provide annual audited financial statements for the Limited Partnerships, Real Estate Funds, and other Funds. Management estimates are based on information provided by the investment managers, trustees, general partners or other institutional sources.

Valuation of Investments (Limited Partnerships) — The Plan's investments in limited partnerships are valued by management at estimated fair value based on the Plan's proportionate share of the partnerships' fair value as recorded in the partnerships' audited financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. Management estimates are based on information provided by the investment managers, general partners or other institutional sources.

Administrative Expenses — Administrative expenses are charged to employers and Plan assets. A basis point fee is charged against assets, excluding portions of the Cash Flow Match Portfolio. The Board of Directors has authorized that the part of the administrative expenses charged to the employer and the Pension Benefit Guaranty Corporation ("PBGC") insurance premiums be deducted from Plan assets if an employer has a Future Employer Contribution Offset ("FECO"). The remaining balance of administrative expenses is billed to employers. Employers without a FECO are billed for their total administrative expenses and PBGC premiums. Generally, a FECO signifies that an employer is in a fully-funded position. Fiduciary liability insurance premiums aggregating $255 in 2008 and $269 in 2007, respectively, were paid by employers and are not reflected in the Plan's financial statements.

Payment of Benefits — Benefit payments to participants are recorded upon distribution. As of June 30, 2008 and 2007, net assets available for benefits included $8,428 and $8,253, respectively, of benefits due to participants who have withdrawn from the Plan, or beneficiaries who have not yet received their distribution.

Contributions — The Plan accepts contributions for the current plan year up to eight and a half months after the plan year end as allowed by ERISA.

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

Pension Benefits — Pension benefits are provided to participants under several types of retirement options based upon years of continuous service and age. Retirement benefits are paid to participants in various forms of joint and survivor annuities, including a lump-sum payment option. Participants should refer to their respective Summary Plan Description for more information.

New Accounting Pronouncement — In September 2006, the Financial Accounting Standards Board issued SFAS No. 157 ("SFAS 157"), *Fair Value Measurements*. SFAS 157 established a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Plan management has not completed the process of evaluating the impact that will result from adopting SFAS 157 and is therefore unable to disclose the impact that adopting SFAS 157 will have on its net assets available for benefits and changes in net assets available for benefits when such statement is adopted.

Consolidated Financial Statements — The Plan's financial statements include the consolidation of the results of operations and net assets of Pentegra Services, Inc.("PSI"), a wholly owned subsidiary of the Plan.

Reclassifications — Certain reclassifications were made to prior year amounts to conform to current year presentation. In 2007, the breakout of investments in the categories "fair value as determined by quoted market price" and "estimated fair value" were presented in the notes to the financial statements. For 2008 and 2007, this information is presented on the face of the Statements of Net Assets Available for Benefits.

As of June 30, 2007, the Plan's investment in PSI of $2,729, included as Other Investments as previously presented in the Statement of Net Assets Available for Benefits has been reclassified as an increase to Interest Bearing Cash, Accounts Receivable, Accounts Payable and Other Liabilities and Contributions to be Invested in the amounts of $5,376, $1,998, $1,103 and $3,115, and a decrease to Other Assets in the amount of $427, respectively, to conform to the current year presentation. There was no net change to the Statement of Net Assets Available for Benefits as a result of these reclassifications. For the year ended June 30, 2007, Other Investment Income in the amount $(147) as previously presented on the Statement of Changes in Net Assets Available for Benefits was reclassified as an increase to Other Income, Administrative Expenses and Other Expenses in the amounts of $5,877, $6,021 and $3, respectively, to conform to the current year presentation. There was no net change in the Statement of Changes in Net Assets Available for Benefits as a result of these reclassifications.

3. SUMMARY OF ACTUARIAL ASSUMPTIONS

Actuarial Cost Methods — The actuarial cost method used to value all benefits is the traditional unit credit method. As part of the valuation process, the funded status of each employer is separately determined. Generally, each employer in an overfunded position will use its surplus to absorb future contribution requirements. Employers in an unfunded position are billed for their required contributions. The actuarial cost method for the 2007 valuation was the projected unit credit method. The actuarial cost method was changed in order to comply with the Pension Protection Act of 2006 ("PPA").

Actuarial Asset Valuation — The actuarial valuation uses the market value of assets. The actuarial valuation method for the 2007 valuation was a five year smoothing method. Under the PPA, this method is no longer permissible.

Actuarial Valuation Assumptions — The significant assumptions used in the actuarial valuation are:

- The interest rate used is based on the corporate bond yield curve for June, 2008, as prescribed in IRC Section 430(h) (2). The rates for select years are as follows:

Year	Rate
1	4.03%
5	5.71%
10	6.55%
15	6.91%
30	6.94%

For the 2007 actuarial valuation, a 7.75% annual rate of investment income was assumed for the determination of all liabilities, excluding liabilities for retirees in the Cash Flow Match portfolio. The Cash Flow Match portfolio, a portfolio which incorporates all retirees and beneficiaries before July 1, 2003, was valued at a rate of 5.80% for 2007.

- Normal retirement is assumed to occur at age 65. For the period prior to the normal retirement date, future withdrawals, deaths, disabilities, early retirements and salary increases are anticipated.
- The mortality table used is based on IRC Section 430(h) (3) (A), using the generational option. For the 2007 actuarial valuation, the 1994 Group Annuity Mortality Table, with 5-year projected improvements, was used to predict mortality.
- The interest rate assumed for lump sum benefits is the same as the valuation interest rate, as required by the PPA. For 2007, the interest rate assumed was 5.0%.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

4. FUNDING POLICY

The Plan is a defined benefit pension plan to which employers make contributions based upon calculations prepared annually by the Plan's outside actuary, Watson Wyatt. The calculations are designed to determine the amounts necessary to fund the target normal cost of pension benefits and the 7 year amortization of the Plan's funding shortfall. The Plan met the minimum funding requirements of ERISA for the years ended June 30, 2008 and June 30, 2007.

Certain employers have elected to participate on a contributory basis, whereby participants are required to contribute a percentage of their salaries. Participants are always 100% vested in the value of their contributions. Participants' accumulated contributions, including interest, were $7,121 and $5,809 at June 30, 2008 and 2007, respectively. Pursuant to Federal regulations, the interest rate credited to these contributions at June 30, 2008 and 2007 was 5.96% and 6.08%, respectively.

5. ACCUMULATED PLAN BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to service rendered by employees as of the valuation date. Accumulated plan benefits include benefits expected to be paid to (1) retired or terminated employees or their beneficiaries, (2) beneficiaries of employees who have died, and (3) present employees or their beneficiaries. The actuarial present value of accumulated plan benefits is determined by an independent actuary and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The actuarial present value of accumulated plan benefits as of June 30, 2008 and 2007, is as follows:

	Years ended June 30,	
	2008	2007
	(in thousands)	
Vested Benefits For:		
Retirees and Beneficiaries currently receiving payments	$ 837,362	$ 828,185
Other Members	1,477,770	1,237,059
Total Vested Benefits	2,315,132	2,065,244
Nonvested Benefits	57,416	45,367
Total Actuarial present value of accumulated plan benefits	$ 2,372,548	$ 2,110,611
Changes in accumulated plan benefits:		
Beginning of Year	$ 2,110,611	$ 2,078,835
Increase (decrease) during the year attributable to:		
Increase for interest due to decrease in the discount period	144,828	142,893
Benefits paid	(158,248)	(154,402)
Withdrawn employers	(64,964)	-
New employers	28,364	-
Changes in benefits adopted by employers	559	822
Assumption changes	217,520	-
Benefits accumulated and actuarial experience	93,878	42,463
Net Increase	261,937	31,776
End of Year	$ 2,372,548	$ 2,110,611

6. INVESTMENTS

Limited Partnerships, Corporate Debt Securities, Common Collective Trust Funds (Equity and Fixed Income) include investments valued at $409,638 (approximately 18% of net assets) and $526,097 (approximately 22% of net assets) as of June 30, 2008 and 2007, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values, are included in the Statements of Net Assets Available for Benefits. Management estimates are based on information provided by the investment managers, general partners or other institutional sources. These estimated fair values may differ significantly from values that would have been used had an active market for the investments existed and the differences could be material.

For the years ended June 30, 2008 and 2007, the Plans investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by $87,461 and appreciated in value by $227,279 respectively.

The plans investments which represent five percent or more of net assets available for benefits as of June 30, 2008 and 2007 as follows:

	2008	2007
BGI RUSSELL 1000 VALUE FUND	*	$ 143,077
BGI EAFE EQUITY INDEX FUND	*	124,920
BANK OF NEW YORK MELLON SHORT TERM	$ 265,341	181,153

*As of June 30, 2008, these investments did not represent 5% of the plans net assets available for benefits.

7. DERIVATIVES

Derivative financial instruments are used as hedging investments and to provide incremental income. The Plan holds $261,233 Equity Linked Notes as of June 30, 2008 and $308,398 as of June 30, 2007. An equity linked note consists of a discount fixed income instrument plus a longer term call option on an underlying equity market index such as the Standard & Poor's 500. When the note matures, the Plan will receive the principal of the note plus the value of the option. If the value of the underlying equity market has appreciated, the option will appreciate commensurately. If the underlying equity market has not appreciated, the value of the option will be zero and the Plan will receive the maturity value of the note.

8. COMMITMENTS

The Plan has an investment in a partnership fund of approximately $2,799 as of June 30, 2008 and is committed to invest an additional $1,850 over approximately five years.

9. EXEMPT PARTIES-IN-INTEREST

Certain Plan investments are managed by BNY Mellon. BNY Mellon is the trustee of the Plan and, therefore, these transactions qualify as party-in-interest transactions. Investments managed by BNY Mellon totaled $379,131 and $288,189 as of June 30, 2008 and 2007 respectively, are included in the Statements of Net Assets Available for Benefits. Income earned on these investments was $9,576 and $8,271 for the years ended June 30, 2008 and 2007 respectively, are included in Interest as shown in the Statements of Changes in Net Assets Available for Benefits. Fees paid by the Plan for investment management services of $380 and $479 for the years ended June 30, 2008 and 2007 respectively, are included in Investment Advisory Services as shown in the Statements of Changes in Net Assets Available for Benefits. The Board of Directors of the Plan are comprised of executive officers of participating employers of the Plan and as such are participants in the Plan.

For the years ended June 30, 2008 and 2007, rent expense charged to related parties was $0 and $313 respectively.

These transactions are not deemed prohibited party-in-interest transactions, because they are covered by statutory or administrative exemptions from the IRC and ERISA's rules on prohibited transactions.

10. 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 of Directors. 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. In the event that the Plan is terminated, the net assets of the Plan will be allocated for payment of benefits to the participants in an order of priority determined in accordance with ERISA, applicable regulations thereunder and the Plan document.

Certain benefits under the Plan are insured by the PBGC if the Plan terminates. Generally, the PBGC guarantees most vested normal-age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination, subject to a statutory ceiling on the amount of an individual's monthly benefit.

11. FEDERAL INCOME TAX STATUS

The IRS has determined and informed the Plan by letter dated December 5, 2007 that the Plan's Regulations and related trust are designed in accordance with applicable sections of the IRC. The Regulations have been amended and restated since receiving the determination letter and the restatement has been submitted to the IRS. The Plan Administrator and the Plan's tax counsel believe that the Plan's Regulations are designed and are currently being 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.

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