



**National Rural Utilities
Cooperative Finance Corporation**

ANNUAL REPORT 2008

A MESSAGE FROM THE PRESIDENT AND CEO

Planning for Turbulent Times

After several years of strong economic growth and availability of capital, the past year has been one of turbulence and uncertainty in the global economy and financial markets.

At the same time, the energy sector and the electric utility industry are also hot topics. Demand for electricity is still rising, and electric cooperatives need to build substantial amounts of new generating capacity. Simultaneously, climate change and restrictions on carbon emissions are part of the national debate.

Nearly a decade ago, the National Rural Utilities Cooperative Finance Corporation (NRUCFC) recognized that the good economic times the country was experiencing would not last forever. We began to prepare for tougher conditions in the capital markets by developing contingency plans in case turmoil hit the global financial markets and the U.S. economy. We diversified our banking relationships, enhanced our credit quality, expanded our funding sources and developed new financial products for our members.

We are pleased to report that these plans are paying off. It is important to remember, however, that NRUCFC's strong performance in FY2008 reflects not only good planning but also the underlying financial strength of our members, America's electric cooperatives. The perception of NRUCFC in the capital markets is tied to the consistently strong financial performance of our members, just as it has been for nearly four decades.



Roger A. Arthur
President



Sheldon C. Petersen
Governor & CEO

So, while our operating strategy has evolved to prepare for difficult economic times, our operating style has not changed one bit. We are member focused, service oriented and in it for the long haul.

Here some financial highlights from our recently completed FY2008:

- Net income was \$46 million in FY2008 compared to net income of \$12 million the prior year. Adjusted net income was \$138 million in FY2008 compared to adjusted net income of \$108 million for the prior year.
- TIER was 1.05 in FY2008 compared to TIER of 1.01 for the prior year. Adjusted TIER was 1.15 in FY2008 compared to 1.12 for the prior year. NRUCFC has met or exceeded its target adjusted TIER on an annual basis every year since 1982.
- Total loans and guarantees were \$20.1 billion, an increase of \$862 million from the previous year-end.
- CFC's market acceptance and financial strength were demonstrated when CFC accessed the capital markets in FY2008 for a large debt issuance of \$700 million.

NRUCFC is well positioned to meet the needs of the electric cooperative network in the years to come, just as we did in FY2008 and for the previous four decades. We are extremely pleased with our FY2008 financial performance, particularly given the economic environment.

We thank you for your continued support and look forward to working with you in the coming year.

Handwritten signature of Roger A. Arthur in black ink.

Roger A. Arthur
President

Handwritten signature of Sheldon C. Petersen in black ink.

Sheldon C. Petersen
Governor and Chief Executive Officer

NRUCFC Board of Directors



Front row (seated): Steven J. Haaven, Reuben B. McBride, Harold Foley, Roger A. Arthur, R. Wayne Stratton, Darryl Schriver. **Back row** (standing left to right): Delbert Cranford, E.F. "Wally" Wolski, Jim C. Herron, Jim L. Doerstler, Martin A. Hillert Jr., Fredrick C. Anderson, Gale Rettkowski, J. David Wasson Jr., Ronald P. Salyer, Charles Wayne Whitaker, Jimmy Ewing Jr., Burns Mercer, Raphael A. Brumbeloe, Roger A. Ball, Jack F. Wolfe Jr., Dwight Rossow, William A. Kopacz.

Officers

Roger A. Arthur
President

Darryl Schriver
Vice President

Reuben B. McBride
Secretary-Treasurer

About NRUCFC

Formed in 1969, the National Rural Utilities Cooperative Finance Corporation (NRUCFC) is a privately owned, cooperative organization that provides state-of-the-art financial products to its members.

NRUCFC is guided by a 23-member board of directors that represents 10 geographically defined districts, the electric cooperatives' national trade association and an at-large director.

NRUCFC operates from its corporate headquarters in Herndon, Virginia, with a staff of 231 employees as of May 31, 2008.

District 1

Delbert Cranford
Director
Randolph EMC, NC

Fredrick C. Anderson
President & CEO
New Hampshire EC, NH

District 2

Raphael A. Brumbeloe
President
Upton EMC, GA

J. David Wasson, Jr.
President & CEO
Laurens EC, SC

District 3

Roger A. Ball
President
Powell Valley EC, TN

Burns Mercer
President & CEO
Meade County REC, KY

District 4

Jim L. Doerstler
Asst. Secretary-Treasurer
Whitewater Valley REMC, IN

Ronald P. Salyer
President & CEO
Pioneer REC, OH

District 5

Roger A. Arthur
President
Allamakee-Clayton EC, IA

Martin A. Hillert, Jr.
CEO
Adams Columbia EC, WI

District 6

Steven J. Haaven
President & CEO
Wild Rice EC, MN

Dwight Rossow
Director
Cam Wal EC, SD

District 7

Jim C. Herron
General Manager
Mountain View EA, CO

Harold Foley
President
Brown-Atchison ECA, KS

District 8

Jimmy Ewing, Jr.
President
Pointe Coupee EMC, LA

Charles Wayne Whitaker
President & General Manager
Southwest Arkansas EC, AR

District 9

Gale Rettkowski
Director
Inland Power & Light Company, WA

William A. Kopacz
General Manager
Midstate EC, OR

District 10

Reuben B. McBride
Vice President
Graham County EC, AZ

Darryl Schriver
General Manager & CEO
Taylor EC, TX

District 11

Jack F. Wolfe, Jr.
President, NRECA
President and CEO
Mid-Carolina EC, SC

E.F. "Wally" Wolski
Vice President, NRECA
Director, Wyrulec Company, WY

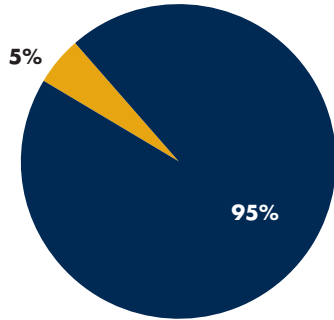
At-Large Director

Serving as the Audit Committee
Financial Expert

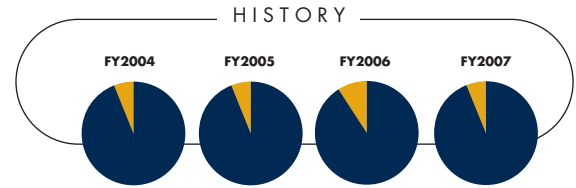
R. Wayne Stratton
Chairman
East Kentucky
Power Cooperative, KY

Total Loans and Guarantees Outstanding

As of May 31, 2008
Dollars in Millions



Loans Outstanding	\$ 19,027	95%
Guarantees Outstanding	\$ 1,037	5%
Total	\$20,064	100%

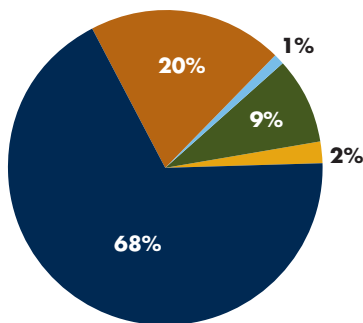


At the end of FY2008, NRUCFC's total loans and guarantees were \$20.1 billion, an increase of \$862 million from the previous year-end.

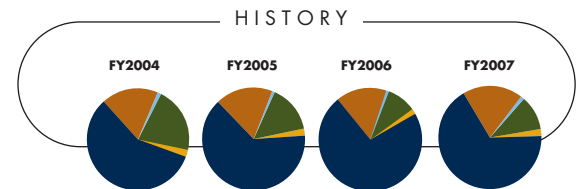
Total loans outstanding increased by \$899 million while total guarantees decreased by \$37 million.

Credit Outstanding by Member Class

As of May 31, 2008
Dollars in Millions



Electric		
Distribution	\$ 13,623	68%
Power Supply (G&T)	4,125	20%
Statewide & Associate	132	1%
Total Electric	\$17,880	89%
Telecommunications	1,727	9%
NCSC	457	2%
Total	\$20,064	100%

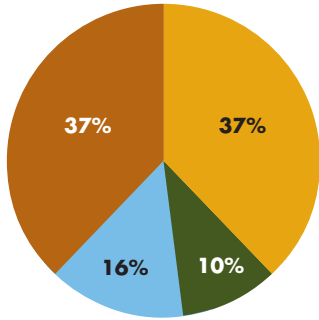


At the end of FY2008, \$17.9 billion, or 89 percent, of NRUCFC's credit outstanding, was to electric borrowers, a slight increase from 88 percent at the end of FY2007.

During FY2008, electric loans outstanding increased by \$1,081 million; telecommunications loans outstanding decreased by \$134 million; and National Cooperative Services Corporation (NCSC) loans outstanding decreased by \$48 million.

Member-Invested Funds

As of May 31, 2008
Dollars in Millions

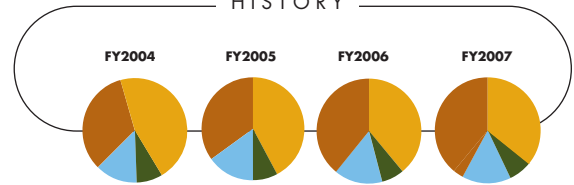


Commercial Paper (including Daily Liquidity Fund)	\$ 1,404	37%
Medium-Term Notes	393	10%
Members' Subordinated Certificates	1,407	37%
Members' Equity	613	16%
Total	\$ 3,817	100%

NRUCFC's members had a total of \$3.8 billion invested in NRUCFC at May 31, 2008, a decrease of \$72 million from the prior year. NRUCFC member funding as a percentage of total assets decreased to 19.7 percent at May 31, 2008, compared to 20.9 percent at the prior year-end.

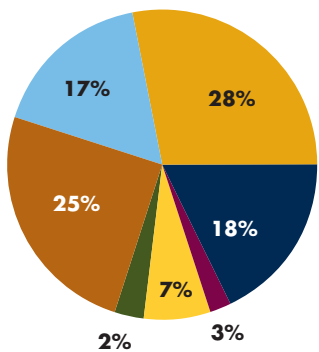
Member investments are an important expression of member confidence in NRUCFC.

HISTORY



Capital Position

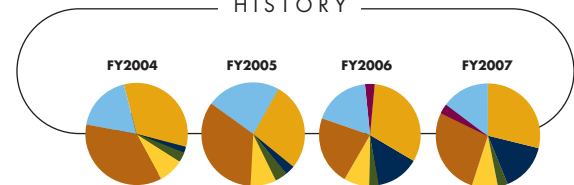
As of May 31, 2008
Dollars in Millions



Collateral Trust Bonds	\$ 4,711	25%
Commercial Paper and Bid Notes	3,150	17%
Medium-Term Notes	5,179	28%
Long-Term Notes Payable	3,461	18%
Subordinated Deferrable Notes	311	2%
Members' Subordinated Certificates	1,407	7%
Members' Equity	613	3%
Total	\$18,832	100%

During FY2008, NRUCFC's capitalization grew to fund the increase to loans outstanding. Total capitalization increased by \$851 million, or approximately 4.7 percent, during FY2008.

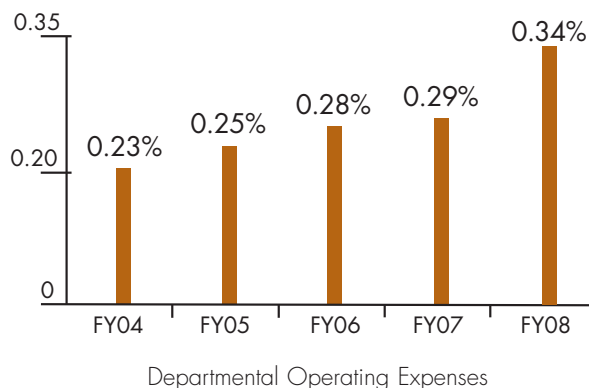
HISTORY



Departmental Operating Expenses

For the period ended May 31, 2008
 (As percentage of Average Loan Volume)

The FY2008 consolidated operating expenses for NRUCFC, the Rural Telephone Finance Cooperative (RTFC) and the National Cooperative Services Corporation (NCSC) were \$60 million. This figure represented 0.34 percent (34 basis points) of average loan volume.



Net Income

For the period ended May 31, 2008
 Dollars in Thousands

In its own analysis of operating results, NRUCFC excludes the non-cash gains and losses related to SFAS 133 and 52, and adds back the National Cooperative Services Corporation (NCSC) and Rural Telephone Finance Cooperative (RTFC) net income shown as minority interest. Therefore, the NRUCFC adjusted net income for FY2008 was \$138 million. This represents an increase from the adjusted net income of \$108 million for FY2007.

For an extensive review of how NRUCFC treats derivatives and foreign currency transactions, refer to the Management's Discussion & Analysis (MD&A) section of the May 31, 2008, Form 10-K. For a complete reconciliation of GAAP to non-GAAP financial measures, refer to the "Non-GAAP Financial Measures" section of the MD&A.

Reported Net Income \$ 45,745

Adjustments:

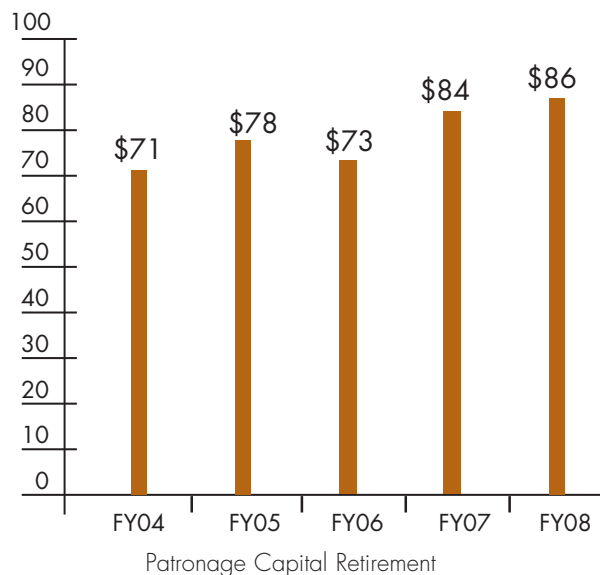
Derivative Forward Value 98,743
 Minority Interest (6,099)

Adjusted Net Income \$138,389

Patronage Capital Retirement

As of May 31, 2008
 Dollars in Millions

In September 2007 (FY2008), NRUCFC retired a total of \$86 million in patronage capital, and in October 2008 (FY 2009), NRUCFC retired a total of \$85 million in patronage capital. The retirement in October 2008 represents the 27th straight year in which NRUCFC has made a cash retirement of patronage capital to its members.



Total retired to members during NRUCFC's 39-year history: approximately \$1.3 billion.

Credit Ratings

As of May 31, 2008

	Moody's Investors Service	Standard & Poor's Corporation	Fitch Ratings
Ratings Outlook	Stable	Positive	Positive
Direct			
Senior Secured Debt	A1	A+	A+
Senior Unsecured Debt	A2	A	A
Subordinated Deferrable Debt	A3	BBB+*	A-
Commercial Paper	P-1	A-1	F-1
Guarantees			
Pooled Bonds	A1	A	A
Other Bonds	A2	A	A
Short-Term	P-1	A-1	F-1

*Equity Rating Indicator

During FY2008, Standard & Poor's maintained its ratings on NRUCFC's debt and guarantees and revised the ratings outlook on NRUCFC's debt and guarantees to Positive from Stable. There were no changes to NRUCFC's ratings or the associated outlooks at Fitch or Moody's in FY 2008.

On October 17, 2008, Fitch Ratings reaffirmed NRUCFC's credit ratings, but moved its ratings outlook from Positive to Stable, citing primarily macroeconomic issues.

The ratings in the table have the meaning defined by each of the rating agencies and are not recommendations to buy, sell or hold securities and are subject to revision at any time by the rating agencies.

CFC Executive Team



Sheldon C. Petersen
Governor and
Chief Executive Officer



John Borak
Senior Vice President,
Credit Risk Management



Lawrence Zawalick
Senior Vice President,
Rural Telephone Finance
Cooperative (RTFC)



John J. List
Senior Vice President,
Member Services, and
General Counsel



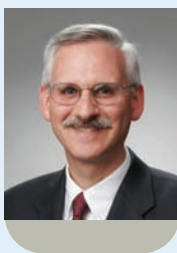
John Evans
Senior Vice President,
Operations



Sarah DeShazor
Director, Executive
Office Administration



Steven Lilly
Senior Vice President and
Chief Financial Officer



Rich Larochelle
Senior Vice President,
Corporate Relations



**National Rural Utilities
Cooperative Finance Corporation**

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