AgFirst Farm Credit Bank

Quarterly Report

First Quarter 2008

FIRST QUARTER 2008

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Chairman of the Board

F. A. Lowrey
Chief Executive Officer

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Chief Financial Officer

May 7, 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) for the three months ended March 31, 2008. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements and the 2007 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the three months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

FINANCIAL CONDITION

Loan Portfolio

The increase in loan volume over both the three month and the annual periods ended March 31, 2008 can be attributed to a number of factors. Stronger world demand for agricultural commodities coupled with a weaker U.S. dollar helped boost agricultural exports. An active agricultural real estate market, greater utilization of lines of credit by farm supply and livestock borrowers, and capital expansion by agribusinesses increased demand for borrowing. A seasoned staff and the inherent value of patronage paid under the cooperative structure position the Bank and its District Associations to compete effectively for this expanded business in the agricultural lending sector. As a result, loans outstanding at March 31, 2008, increased by $421.0 million, or 2.2 percent, compared to total loans outstanding at December 31, 2007, and $2.320 billion, or 13.5 percent, compared to March 31, 2007.

AgFirst's primary line of business is to provide funding to the District Associations. AgFirst has a revolving line of credit, referred to as a direct note, in place with each of the Associations to support their loan growth and other operating needs. All the assets of the Associations secure the direct notes. Lending terms are specified in a separate General Financing Agreement between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst also has a participation/syndication portfolio (which consists primarily of larger commercial loans), and a correspondent lending portfolio (which consists primarily of first lien residential mortgages). As of March 31, 2008, the direct note portfolio totaled $14.311 billion, the participations/syndications portfolio totaled $4.122 billion, and the correspondent lending portfolio totaled $1.100 billion. From March 31, 2007, to March 31, 2008, direct notes increased $568.8 million, or 4.1 percent, the participations/syndications portfolio increased $1.472 billion, or 55.6 percent, and the correspondent lending portfolio increased $266.3 million, or 32.0 percent.

As of March 31, 2008, the loan portfolio continued to reflect good credit quality. The increased volatility in the financial markets and the generally weaker economy experienced over the latter part of 2007 and first quarter of 2008 have not affected either the overall farm sector or AgFirst's customers in a substantially negative way. However, the future performance of the economy is uncertain and risk factors having the potential to affect the overall farm economy, certain segments, or individual borrowers in a negative way are increasing. Higher grain and other input prices caused by a number of factors, including stronger demand created by expanding economies in the world's developing countries and increased ethanol production will increase the operating costs of the meat production companies in the portfolio. Also, an increasing number of hedge funds, pension funds, and other large investors are buying commodities in search of better returns than other traditional investment vehicles are currently providing, thereby contributing to the higher commodity prices. However, most meat production borrowers within the portfolio are well capitalized and have significant ability to manage through increases in feed ingredient costs. Increasing fuel and energy prices will affect borrowers' profitability for all commodities. Fewer housing starts could put downward pressure on the credit quality of some loans extended to borrowers in the forest products industry. Although the credit quality of the AgFirst loan portfolio has not been negatively impacted to date in a material manner by the factors mentioned above, the risk of future deterioration is increasing.

AgFirst's direct note portfolio continued to perform well. As of March 31, 2008, twenty-one of the twenty-three District Associations' direct notes, representing 95.4 percent of the direct note portfolio, were classified acceptable. The remaining two direct notes representing 4.6 percent of the total were classified as Other Assets Especially Mentioned (OAEM). All twenty-three of the direct notes are performing. One Association failed to meet its General Financing Agreement (GFA) liquidity covenant at March 31, 2008. The GFA defines Association performance criteria for borrowing from AgFirst. The Association has submitted a plan to the Bank to achieve compliance with the covenant requirement by December 31, 2008. All other Associations are in compliance with the GFA. All District Associations also met all regulatory requirements for liquidity, earnings, and capital.

The credit quality of the participations/syndications portfolio showed a minimal decline during the past twelve months. AgFirst employs a number of risk management techniques to limit credit exposures, such as the adoption of underwriting standards, individual borrower exposure limits based on risk ratings, and commodity exposure limits. The portfolio is diversified both geographically and on a commodity basis. Concentration risk throughout the portfolio is mitigated through established maximum hold positions to a single borrower and to a single commodity. Credit quality statistics for the participations/syndications portfolio are shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**March 31, 2008**	**December 31, 2007**	**March 31, 2007**
Acceptable	97.64%	97.84%	98.47%
OAEM *	1.92%	1.57%	1.34%
Substandard	0.44%	0.53%	0.19%
Doubtful	0.00%	0.06%	0.00%

* Other Assets Especially Mentioned

Essentially all loans in the correspondent lending portfolio are guaranteed by Fannie Mae and/or Farmer Mac, thereby limiting credit risk to AgFirst. Technically, the guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the "guarantor" at par. At March 31, 2008, 99.6 percent of the correspondent lending portfolio was classified as Acceptable, and 0.4 percent was classified as OAEM.

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan and finance lease portfolios. At March 31, 2008, AgFirst had $2.2 million in general reserves for possible loan losses in certain loan pools purchased directly from several Associations. There were no specific reserves at March 31, 2008. As a part of the overall risk management program, AgFirst management has established a process which includes a review of all portfolios each quarter. Reserves are established as needed based upon that analysis. See Note 2, *Allowance for Loan Losses,* in the Notes to the Financial Statements.

Liquidity and Funding Sources

One of the primary responsibilities of AgFirst is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The primary source of funds for AgFirst is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At March 31, 2008, AgFirst had $25.675 billion in total debt outstanding compared to $24.847 billion at December 31, 2007. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities increased primarily to fund the increases in loan and investment volumes as discussed in this report.

Cash, cash equivalents, and investment securities totaled $7.608 billion, or 27.6 percent of total assets at March 31, 2008, compared to $7.468 billion, 27.7 percent, as of December 31, 2007. Investments increased $695.9 million compared to March 31, 2007.

As of March 31, 2008, AgFirst exceeded all applicable regulatory liquidity requirements. Farm Credit Administration (FCA) Regulations require a liquidity policy that establishes a minimum “coverage” level of 90 days. “Coverage” is defined as the number of days that maturing debt could be funded through the sale of liquid investments and Agency-guaranteed rural home loans. At March 31, 2008, AgFirst’s coverage was 219 days.

Investment securities classified as being held-to-maturity were $1.289 billion at March 31, 2008. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities purchased under a Mission-Related Investment pilot program approved by the FCA in 2005.

Investment securities classified as being available-for-sale were $5.821 billion at March 31, 2008. Total unrealized losses of $137.8 million relating to these securities are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The unrealized losses are primarily attributed to the market dislocation stemming from recent adversity in the subprime market. Available-for-sale investments at March 31, 2008 were comprised of $3.843 billion in Agency Collateralized Mortgage Obligations (CMO’s), $1.283 billion in Agency Adjustable Rate Mortgages, $561.8 million in whole loan CMO’s, and $131.7 million in asset-backed securities.

The Bank has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure totaled $131.7 million (2.3 percent) of the available-for-sale liquidity investment portfolio and 1.9 percent of the total investment security portfolio at March 31, 2008. The amortized cost of these investment securities was $175.1 million and the market value adjustment decrease for asset-backed securities of $43.4 million was included in the total $137.8 million of unrealized losses reflected in AOCI at March 31, 2008 as discussed above. The Bank’s asset-backed securities rated in the top category (AAA/ Aaa) by one or more of the Nationally Recognized Statistical Rating Organizations at March 31, 2008, totaled $102.2 million (amortized cost value of $129.3 million). This included all but three of the asset-backed securities held by the Bank at March 31, 2008. The three asset-backed securities not rated in the top category, totaling $29.5 million (amortized cost value of $45.8 million), continue to perform. Most asset-backed securities have credit enhancement features. However, the uncertainty in the mortgage securities markets has adversely impacted the market value of all asset-backed securities.

Whole loan CMO's have also recently experienced significant market pricing volatility. Whole loan CMO's totaled $561.8 million (9.7 percent) of the available-for-sale liquidity investment portfolio and 7.9 percent of the total investment security portfolio at March 31, 2008. The amortized cost of these investment securities was $627.6 million and the market value adjustment decrease for whole loan CMO's of $65.8 million was included in the total $137.8 million of unrealized losses reflected in AOCI at March 31, 2008 as discussed above. All of the Bank's CMO securities were rated in the top category at March 31, 2008.

The Bank performs periodic credit reviews on its investment securities portfolio, including asset-backed securities and whole loan CMO's, placing special emphasis on those investments not rated in the top category. The Bank has not recognized any other-than-temporary impairment in connection with asset-backed securities, whole loan CMO's, or any other investments, as the Bank has determined that the decline in market value was caused primarily by reduced liquidity in the securities markets stemming from the general adversity in the financial markets. The Bank also has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities.

Capital Resources

Total shareholders' equity decreased $23.4 million from December 31, 2007, to March 31, 2008. This 1.6 percent net decrease is primarily attributed to an increase of $100.1 million in unrealized losses on investments available for sale, a component of accumulated other comprehensive income, which was offset by an increase in unallocated retained earnings from net income of $49.0 million and a net increase in capital stock issued of $28.0 million. Total unrealized losses on investments available for sale were $137.8 million at March 31, 2008. These unrealized losses are allowed to be excluded when calculating regulatory capital ratios.

As of March 31, 2008, AgFirst exceeded the minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations. In conjunction with the issuance of the Mandatorily Redeemable Preferred Stock, FCA requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. AgFirst reported the following regulatory ratios:

	Regulatory	AgFirst Ratio as of	
	Minimum	**3/31/08**	**12/31/07**
Permanent Capital Ratio	7.00%	18.04%	20.59%
Total Surplus Ratio	7.00%	17.99%	20.54%
Core Surplus Ratio	3.50%	10.61%	13.04%
Net Collateral Ratio	104.00%	106.23%	106.02%

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2008 was $49.0 million, compared to $45.4 million at March 31, 2007, an increase of $3.6 million, or 7.9 percent. This overall increase is discussed below.

Net Interest Income

Net interest income for the three months ended March 31, 2008 was $78.4 million compared to $59.2 million for the same period of 2007, an increase of $19.2 million or 32.4 percent. Net interest margin was 1.19 percent in the current year period, an improvement of 0.19 percent over the first quarter of 2007. Net interest income increased as the outstanding balances of both loans and investments increased. The proceeds of the preferred stock issue in June 2007 reduced debt and shifted interest expense to dividend payments. Also, spreads improved as called debt was replaced by new debt issued at a lower rate of interest. However, the benefit of lower debt costs was partially offset by lower earning asset yields.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2008 vs. March 31, 2007		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 30,765	$ (18,213)	$ 12,552
Investments & Cash Equivalents	7,175	(20,437)	(13,262)
Total Interest Income	37,940	(38,650)	(710)
Interest Expense:			
Interest Bearing Liabilities	30,356	(50,260)	(19,904)
Changes in Net Interest Income	$ 7,584	$ 11,610	$ 19,194

Provision for Loan Losses

The provision for loan losses was $660 thousand for the three months ended March 31, 2008, compared to $262 thousand for the same period in 2007. The provision for the three months ended March 31, 2008, related to increasing the general allowance for loan losses for certain loan pools purchased directly from several Associations as previously discussed. See Note 2, *Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

Noninterest income for the three months ended March 31, 2008, was $3.4 million, which reflected an increase of $645 thousand compared to the same period in 2007. The increase in noninterest income primarily resulted from the increases in loan fees and patronage refunds from other Farm Credit institutions.

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended March 31,**		
(dollars in thousands)	**2008**	**2007**	**Increase/ (Decrease)**
Loan fees	$ 2,375	$ 1,727	$ 648
Realized gains (losses) on investments, net	(71)	–	(71)
Gains (losses) on sale of rural home loans, net	40	42	(2)
Patronage refunds from other Farm Credit institutions	436	134	302
Other noninterest income	624	856	(232)
Noninterest income	$ 3,404	$ 2,759	$ 645

Noninterest Expense

Noninterest expense for the three months ended March 31, 2008 was $32.2 million, which reflected an increase of $15.9 million compared to the corresponding period in 2007. The increase was primarily related to a $13.0 million increase in called debt expense. Call options were exercised on bonds totaling $8.490 billion during the first quarter of 2008, which resulted in the increase in called debt expense. The called debt expense is more than offset by interest expense savings realized over time as called debt is replaced by new debt issued at a lower rate of interest.

Salaries and employee benefits increased $917 thousand or 14.7 percent due to normal salary increases, retention of highly qualified staff, increased benefit costs, and reduced deferrals associated with the cost of internal project development and other factors.

Occupancy and equipment expenses increased $598 thousand or 18.9 percent primarily as the result of technology upgrading and renovation aimed at improving AgFirst's infrastructure and upgrading various systems and related higher depreciation expense.

The Insurance Fund premiums increased $597 thousand or 47.5 percent due to the increase in loan volume of the participations/syndications and correspondent lending portfolios.

Other operating expenses increased $703 thousand or 16.0 percent primarily from a decrease in cost deferrals related to internal capital project development and other factors in addition to higher general insurance premiums.

The increase in correspondent lending service expenses of $165 thousand or 35.3 percent is primarily due to higher guarantee fees from increased volume in the correspondent lending portfolio.

Other noninterest expense consists of amortization of mandatorily redeemable preferred stock issuance costs, which decreased $101 thousand or 59.1 percent due to certain previously deferred issuance costs being completely amortized into expense during the latter part of 2007.

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense *(dollars in thousands)*	**For the three months ended March 31, 2008**	**2007**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 7,162	$ 6,245	$ 917
Occupancy and equipment	3,761	3,163	598
Insurance Fund premium	1,854	1,257	597
Other operating expenses	5,107	4,404	703
Called debt expense	13,608	621	12,987
Correspondent lending servicing expense	632	467	165
Other noninterest expense	70	171	(101)
Total noninterest expense	$ 32,194	$ 16,328	$ 15,866

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2008	**For the year ended December 31, 2007**	**Annualized for the three months ended March 31, 2007**
Return on average assets	0.73%	0.76%	0.75%
Return on average shareholders' equity	13.20%	13.58%	15.11%
Net interest income as a percentage of average earning assets	1.19%	1.04%	0.99%
Net chargeoffs (recoveries) to average loans	0.007%	0.001%	0.001%

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements", in the Notes to the Financial Statements, and the 2007 Annual Report of AgFirst Farm Credit Bank for recently issued accounting pronouncements.

NOTE: Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, Financial Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

(dollars in thousands)	March 31, 2008 *(unaudited)*	December 31, 2007 *(audited)*
Assets		
Cash and cash equivalents	$ 497,787	$ 558,770
Investment securities:		
Available for sale (amortized cost of $5,958,432 and $5,646,683 respectively)	5,820,618	5,608,929
Held to maturity (fair value of $1,286,954 and $1,277,999 respectively)	1,289,484	1,299,868
Total investment securities	7,110,102	6,908,797
Loans	19,535,530	19,114,517
Less: allowance for loan losses	2,205	2,816
Net loans	19,533,325	19,111,701
Accrued interest receivable	111,986	114,508
Investments in other Farm Credit System institutions	63,737	64,221
Premises and equipment, net	19,841	20,750
Due from associations	36,230	42,701
Other assets	162,269	105,173
Total assets	$ 27,535,277	$ 26,926,621
Liabilities		
Bonds and notes	$ 25,674,918	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	145,706	179,578
Patronage distribution payable	1,828	153,103
Other liabilities	53,722	64,211
Total liabilities	26,101,174	25,469,140
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	392,806	364,759
Retained earnings		
Allocated	705	705
Unallocated	779,315	730,724
Accumulated other comprehensive income (loss)	(138,723)	(38,707)
Total shareholders' equity	1,434,103	1,457,481
Total liabilities and equity	$ 27,535,277	$ 26,926,621

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2008	2007
Interest Income		
Investment securities and other	$ 80,812	$ 94,074
Loans	265,558	253,006
Total interest income	346,370	347,080
Interest Expense	267,930	287,834
Net interest income	78,440	59,246
Provision for (reversal of) loan losses	660	262
Net interest income after provision for (reversal of) loan losses	77,780	58,984
Noninterest Income		
Loan fees	2,375	1,727
Realized gains (losses) on investments, net	(71)	—
Gain (loss) on sale of rural home loans, net	40	42
Patronage refunds from other Farm Credit institutions	436	134
Other noninterest income	624	856
Total noninterest income	3,404	2,759
Noninterest Expenses		
Salaries and employee benefits	7,162	6,245
Occupancy and equipment	3,761	3,163
Insurance Fund premiums	1,854	1,257
Other operating expenses	5,107	4,404
Called debt expense	13,608	621
Correspondent lending servicing expense	632	467
Other noninterest expense	70	171
Total noninterest expenses	32,194	16,328
Net income	$ 48,990	$ 45,415

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2006	$ 150,000	$ 313,353	$ —	$ 715,753	$ 1,981	$ 1,181,087
Comprehensive income						
Net income				45,415		45,415
Unrealized gains (losses) on investments available for sale					1,900	1,900
Total comprehensive income						47,315
Capital stock/participation certificates issued/(retired), net		4,477				4,477
Cash patronage				(49)		(49)
Balance at March 31, 2007	$ 150,000	$ 317,830	$ —	$ 761,119	$ 3,881	$ 1,232,830
Balance at December 31, 2007	$ 400,000	$ 364,759	$ 705	$ 730,724	$ (38,707)	$ 1,457,481
Comprehensive income (loss)						
Net income				48,990		48,990
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $71					(100,059)	(100,059)
Total comprehensive income (loss)						(51,069)
Capital stock/participation certificates issued/(retired), net		28,047				28,047
Cash patronage				(261)		(261)
Employee benefit plans adjustments (Note 4)				(138)	43	(95)
Balance at March 31, 2008	$ 400,000	$ 392,806	$ 705	$ 779,315	$ (138,723)	$ 1,434,103

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2008	2007
Cash flows from operating activities:		
Net income	$ 48,990	$ 45,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,284	2,123
Premium amortization/discount accretion on investment securities	968	(1,863)
Premium amortization/discount accretion on bonds and notes	2,796	2,899
Provision for (reversal of) loan losses	660	262
Realized (gains) losses on investments, net	71	—
(Gains) losses on sales of rural home loans, net	(40)	(42)
Net change in loans held for sale	6,793	10,125
(Increase) decrease in accrued interest receivable	2,522	(3,370)
(Increase) decrease in due from associations	6,471	22,652
(Increase) decrease in other assets	(13,081)	(3,992)
Increase (decrease) in accrued interest payable	(33,872)	12,348
Increase (decrease) in other liabilities	(8,024)	(17,419)
Total adjustments	(32,452)	23,723
Net cash provided by (used in) operating activities	16,538	69,138
Cash flows from investing activities:		
Investment securities purchased	(916,778)	(403,939)
Investment securities sold or matured	614,375	352,197
Net (increase) decrease in loans	(429,037)	(73,520)
(Increase) decrease in investments in other Farm Credit System institutions	484	350
Purchase of premises and equipment, net	(1,375)	(535)
Net cash provided by (used in) investing activities	(732,331)	(125,447)
Cash flows from financing activities:		
Bonds and notes issued	32,030,809	10,048,195
Bonds and notes retired	(31,252,510)	(9,903,560)
Capital stock and participation certificates issued/retired, net	28,047	4,477
Cash distribution to shareholders	(151,536)	(128,349)
Net cash provided by (used in) financing activities	654,810	20,763
Net increase (decrease) in cash and cash equivalents	(60,983)	(35,546)
Cash and cash equivalents, beginning of period	558,770	582,764
Cash and cash equivalents, end of period	$ 497,787	$ 547,218
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (100,059)	$ 1,900
Employee benefit plans adjustments	(95)	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	$ 46,575	$ 7,431
Decrease (increase) in other assets	(44,015)	(1,501)
Increase (decrease) in other liabilities	(2,560)	(5,930)
Supplemental information:		
Interest paid	$ 299,006	$ 273,896

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

Notes to the Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 — ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2007 are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Bank maintains an allowance for loan losses in accordance with GAAP. AgFirst's allowance methodology dictates that all loan portfolios are reviewed quarterly and all impaired loans are identified and analyzed to determine if a specific allowance is necessary. As of March 31, 2008, the risk analysis of the Bank's loan portfolios identified no impaired loans requiring specific reserves. The Bank also maintains a general allowance of $2.2 million related to a pool of loans purchased from District Associations. As of March 31, 2008, the allowance for losses was adequate in management's opinion to provide for possible losses on existing loans.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In measuring fair value for a financial statement item, SFAS No. 157 sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. SFAS No. 157 became effective for the Bank on January 1, 2008 and there was immaterial impact on the financial statements upon adoption.

In December 2007, the FASB issued Statements of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS No. 141R). SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Bank and District are still evaluating the provisions of SFAS No. 141R, but believe that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS No. 161), which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 161, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Bank is currently evaluating the impact of adoption of SFAS No. 161 on its financial statement disclosures.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31, 2008	2007
Balance at beginning of period	$ 2,816	$ 463
Provision for (reversal of) loan losses	660	262
Loans (charged off), net of recoveries	(1,271)	(128)
Balance at end of period	$ 2,205	$ 597

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each Farm Credit System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other Farm Credit System banks. The total bonds and notes of the System were $165.076 billion at March 31, 2008.

There are no material claims pending against the Bank in which money damages are asserted.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Bank:

	For the three months ended March 31, 2008	2007
Pension	$ 558	$ 768
401k	194	155
Other postretirement benefits	216	250
Total	$ 968	$ 1,173

The following table includes only non-qualified retirement and other postretirement benefit contributions for the Bank. Projections are based upon actuarially determined amounts as of the most recent measurement date of September 30, 2007. Based on the actuarial calculations, no contributions are required for the qualified pension plan in 2008 and thus none have been projected for this plan.

	Actual YTD Through 3/31/08	**Projected Contributions for Remainder of 2008**	**Projected Total Contributions 2008**
Pensions	$ 63	$ 189	$ 252
Other postretirement benefits	218	643	861
Total	$ 281	$ 832	$ 1,113

Market conditions could impact discount rates and return on plan assets which could change contribution projections by making additional contributions necessary before the next plan measurement date.

The funding policy for qualified pension plans was changed for 2008 such that the aggregate contribution will be 7 percent of the aggregate payroll of all participating District institutions. This aggregate amount will then be allocated to the participating District institutions, including the Bank, based upon each institutions pro rata share of service cost. Since the Bank's allocation of the aggregate contribution under the new funding policy for 2008 has not yet been determined, it is not included in current projected contributions for 2008.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS No. 158 were adopted at December 31, 2007 by the Bank and District.

SFAS No. 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Bank allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As a result, the Bank decreased unallocated retained earnings and increased the pension liability by $138 thousand.

Upon adoption, SFAS No. 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs over time. For the first three months of 2008, $43 thousand has been recognized as a credit to accumulated other comprehensive income and a debit to pension expense to reflect the amortization of the components previously recognized in AOCI.

Further details regarding employee benefit plans and adoption of SFAS No. 158 are contained in the 2007 Annual Report to Shareholders.