AgFirst Farm Credit Bank
& District Associations

Quarterly Report

First Quarter 2008

FIRST QUARTER 2008

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May 7, 2008

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, 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 and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of March 31, 2008, the District consisted of AgFirst and twenty-three District Associations. Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, the three months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of the District'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 $693.3 million, or 3.3 percent, compared to total loans outstanding at December 31, 2007, and $2.482 billion, or 13.1 percent, compared to March 31, 2007.

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 the District'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 District 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.

Nonaccrual loan assets for the combined District at March 31, 2008, were 0.6 percent of total loans outstanding compared to 0.5 percent at December 31, 2007, and 0.4 percent at March 31, 2007. Loan quality classifications as of March 31, 2008 have shown a minimal overall decline during the past twelve months, as illustrated in the following chart:

Asset Quality as of:			
Classification	**March 31, 2008**	**December 31, 2007**	**March 31, 2007**
Acceptable	95.79%	95.89%	96.45%
OAEM *	2.67%	2.63%	2.36%
Substandard	1.52%	1.42%	1.19%
Doubtful/loss	0.02%	0.06%	0.00%

* *Other Assets Especially Mentioned*

Diversification of the portfolio remains similar to December 2007 with regard to commodities and geography. Risk factors are generally stable overall for the District as reflected by past-due loans, asset quality, and non-earning assets. The allowance for loan losses of $92.7 million, or 0.4 percent of gross loan volume, at March 31, 2008 reflects management's estimate of losses inherent in the portfolio. By comparison, the allowance for losses at December 31, 2007 was $78.9 million, or 0.4 percent of gross loan volume. See Note 2, *Allowance for Loan Losses*, in the Notes to the Combined Financial Statements.

Liquidity and Funding Sources

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Providing liquidity for the District's operations is primarily the responsibility of the Bank. The primary source of funds for the District is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At March 31, 2008, the District had $25.775 billion in total debt outstanding compared to $24.847 billion at December 31, 2007. In addition, other interest-bearing liabilities for the District included $225.0 million in Bank 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 $7.809 billion, or 26.0 percent of total assets at March 31, 2008, compared to $7.674 billion, or 26.2 percent, as of December 31, 2007. Investments increased $684.2 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 for the Bank 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 $1.417 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 $5.859 billion at March 31, 2008. Total unrealized losses of $138.3 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, $576.2 million in whole loan CMO's, and $157.2 million in asset-backed securities.

The District has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure totaled $131.7 million (2.2 percent) of the available-for-sale liquidity investment portfolio and 1.8 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 $138.3 million of unrealized losses reflected in AOCI at March 31, 2008 as discussed above. The District'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 District 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 $576.2 million (9.8 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 $642.4 million and the market value adjustment decrease for whole loan CMO's of $66.3 million was included in the total $138.3 million of unrealized losses reflected in AOCI at March 31, 2008 as discussed above. All of the District's CMO securities were rated in the top category at March 31, 2008.

The District 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 District has not recognized any other-than-temporary impairment in connection with asset-backed securities, whole loan CMO's, or any other investments, as the District 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 District 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 District shareholders' equity decreased $51.1 million from December 31, 2007, to March 31, 2008. This 1.4 percent net decrease is primarily attributed to an increase of $100.5 million in unrealized losses on investments available for sale, a component of accumulated other comprehensive income, patronage distributions of $5.0 million, and retained earnings retired of $37.2 million. These decreases in shareholders' equity were offset by an increase in unallocated retained earnings from net income of $92.7 million and $5.8 million in capital stock and participation certificates issued. As of March 31, 2008, AgFirst and each of the District Associations exceeded the applicable minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2008 was $92.7 million, which was a decrease of $5.9 million, or 6.0 percent, compared to $98.6 million at March 31, 2007. This overall decrease is discussed below.

Net Interest Income

Net interest income for the three months ended March 31, 2008 was $193.3 million, an increase of $20.1 million or 11.6 percent compared to the three months ended March 31, 2007. Increased loan and investment volume accounted for $14.3 million or 71.4 percent of the total increase and improved interest rate spreads accounted for the remaining $5.7 million of the increase. The proceeds of the preferred stock issued by the Bank 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	$ 42,461	$ (28,730)	$ 13,731
Investments & Cash Equivalents	2,317	(15,543)	(13,226)
Total Interest Income	$ 44,778	$ (44,273)	$ 505
Interest Expense:			
Interest Bearing Liabilities	$ 30,446	$ (50,001)	$ (19,555)
Changes in Net Interest Income	$ 14,332	$ 5,728	$ 20,060

Provision for Loan Losses

The provision for loan losses for the three months ended March 31, 2008, was $20.1 million compared to a provision of $587 thousand for the same period in 2007. The $19.5 million increase was primarily attributed to three District Associations recording provisions of $17.3 million for loans that deteriorated during the quarter. Provisions were recorded by other associations due to continued loan growth, downward risk rating changes because of weakening conditions in the general economy, and increased nonaccrual loan activity. The Bank recorded provisions of $660 thousand to increase the general allowance for loan losses for certain loan pools purchased directly from several associations.

Noninterest Income

Noninterest income for the three months ended March 31, 2008 was $17.5 million, an increase of $10.7 million compared to the same period in 2007.

The increase in loan fees for the three months ended March 31, 2008 was primarily the result of a one-time adjustment of $4.5 million for the elimination of correspondent lending loan fees between AgFirst and the District Associations in the 2007 period, as well as increased loan volume.

The increase in gains on sale of rural home loans for the three months ended March 31, 2008, compared to March 31, 2007, primarily resulted from a one time adjustment of $2.6 million that was recorded in 2007 for an elimination of these gains between AgFirst and the District Associations.

The decrease in other noninterest income was primarily due to losses on trading investments which fund the non-qualified pension plans and expenses/losses on other property owned recorded during the three month 2008 period.

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	$ 13,101	$ 4,046	$ 9,055
Fees for financially related services	1,845	1,137	708
Realized gains (losses) on investments, net	(71)	13	(84)
Gain (loss) on sale of rural home loans, net	379	(1,687)	2,066
Gains from sale of premises and equipment, net	612	887	(275)
Patronage refunds from other Farm Credit institutions	957	324	633
Other noninterest income	699	2,109	(1,410)
Noninterest income	$ 17,522	$ 6,829	$ 10,693

Noninterest Expense

Noninterest expense for the three months ended March 31, 2008 was $97.8 million, an increase of $17.2 million compared to the same period in 2007. The increase in noninterest expense was primarily related to the $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.

Occupancy and equipment expenses increased $641 thousand or 7.9 percent primarily as the result of technology upgrading and renovation aimed at improving the Bank's infrastructure and upgrading various systems and related higher depreciation expense.

The Insurance Fund premium increased $841 thousand or 12.7 percent due to the increase in loan volume.

Other operating expenses increased $2.1 million or 11.8 percent primarily from higher general insurance premiums.

The increase in correspondent lending service expenses of $166 thousand or 35.6 percent is primarily due to higher guarantee fees from increased volume in the correspondent lending portfolio.

Other noninterest expense decreased $103 thousand or 59.9 percent primarily due to certain previously deferred issuance costs of Bank mandatorily redeemable preferred stock 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	$ 47,135	$ 46,568	$ 567
Occupancy and equipment	8,743	8,102	641
Insurance Fund premium	7,478	6,637	841
Other operating expenses	20,100	17,977	2,123
Called debt expense	13,608	621	12,987
Correspondent lending servicing Expense	632	466	166
Other noninterest expense	69	172	(103)
Noninterest Expense	$ 97,765	$ 80,543	$ 17,222

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	1.26%	1.48%	1.50%
Return on average shareholders' equity	10.01%	11.42%	11.89%
Net interest income as a percentage of average earning assets	2.72%	2.64%	2.68%
Net chargeoffs (recoveries) To average loans	0.03%	0.01%	0.00%

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. 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 and District Associations 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

Combined Balance Sheets

(dollars in thousands)	March 31, 2008 *(unaudited)*	December 31, 2007 *(audited)*
Assets		
Cash and cash equivalents	$ 533,025	$ 612,841
Investment securities:		
Available for sale (amortized cost of $5,993,280 and $5,679,228 respectively)	5,859,270	5,641,430
Held to maturity (fair value of $1,417,720 and $1,397,015 respectively)	1,416,959	1,419,371
Total investment securities	7,276,229	7,060,801
Loans	21,421,605	20,728,296
Less: allowance for loan losses	92,685	78,874
Net loans	21,328,920	20,649,422
Loans held for sale	1,520	1,904
Other investments	376,379	430,812
Accrued interest receivable	239,505	252,838
Investments in other Farm Credit System institutions	7,998	8,374
Premises and equipment, net	123,741	123,012
Other property owned	4,748	8,504
Deferred tax assets, net	—	5
Other assets	172,940	112,638
Total assets	$ 30,065,005	$ 29,261,151
Liabilities		
Bonds and notes	$ 25,774,918	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	145,995	179,578
Dividends and patronage refunds payable	11,173	132,146
Pension and other postretirement benefits liability	134,844	128,415
Advanced conditional payments	32,116	31,574
Deferred tax liabilities, net	5	—
Other liabilities	226,024	151,116
Total liabilities	26,550,075	25,695,077
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Protected borrower equity	4,840	5,369
Capital stock and participation certificates	133,117	127,147
Retained earnings		
Allocated	1,031,168	1,068,756
Unallocated	2,197,793	2,118,390
Accumulated other comprehensive income (loss)	(251,988)	(153,588)
Total shareholders' equity	3,514,930	3,566,074
Total liabilities and equity	$ 30,065,005	$ 29,261,151

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2008	2007
Interest Income		
Investment securities	$ 82,686	$ 95,826
Loans	373,895	360,164
Other	5,248	5,334
Total interest income	461,829	461,324
Interest Expense	268,571	288,126
Net interest income	193,258	173,198
Provision for (reversal of) loan losses	20,077	587
Net interest income after provision for (reversal of) loan losses	173,181	172,611
Noninterest Income		
Loan fees	13,101	4,046
Fees for financially related services	1,845	1,137
Realized gains (losses) on investments, net	(71)	13
Gain (loss) on sale of rural home loans	379	(1,687)
Gains from sale of premises and equipment, net	612	887
Patronage refunds from other Farm Credit institutions	957	324
Other noninterest income	699	2,109
Total noninterest income	17,522	6,829
Noninterest Expenses		
Salaries and employee benefits	47,135	46,568
Occupancy and equipment	8,743	8,102
Insurance Fund premiums	7,478	6,637
Other operating expenses	20,100	17,977
Called debt expense	13,608	621
Correspondent lending servicing expense	632	466
Other noninterest expense	69	172
Total noninterest expenses	97,765	80,543
Income before income taxes	92,938	98,897
Provision (benefit) for income taxes	203	289
Net income	$ 92,735	$ 98,608

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	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	$ 6,208	$ 118,817	$ 992,227	$ 2,039,308	$ 1,623	$ 3,308,183
Comprehensive income							
Net income					98,608		98,608
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of ($13)						1,900	1,900
Total comprehensive income							100,508
Protected borrower equity retired		(544)					(544)
Capital stock/participation certificates issued/(retired), net			4,221				4,221
Dividends declared/paid			107		(107)		—
Patronage distribution							
Cash					(3,620)		(3,620)
Allocated retained earnings				288	(288)		—
Nonqualified allocated retained earnings				485	(485)		—
Retained earnings retired				(34,490)			(34,490)
Patronage distribution adjustment				1,858	(4,888)		(3,030)
Balance at March 31, 2007	$ 150,000	$ 5,664	$ 123,145	$ 960,368	$ 2,128,528	$ 3,523	$ 3,371,228
Balance at December 31, 2007	$ 400,000	$ 5,369	$ 127,147	$ 1,068,756	$ 2,118,390	$ (153,588)	$ 3,566,074
Comprehensive income							
Net income					92,735		92,735
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $71						(100,539)	(100,539)
Total comprehensive income							(7,804)
Protected borrower equity retired		(529)					(529)
Capital stock/participation certificates issued/(retired), net			5,785				5,785
Dividends declared/paid			185		(211)		(26)
Patronage distribution							
Cash					(4,981)		(4,981)
Allocated retained earnings				63	(63)		—
Retained earnings retired				(37,200)			(37,200)
Patronage distribution adjustment				(451)	(3,064)		(3,515)
Employee benefit plans adjustments (Note 4)					(5,013)	2,139	(2,874)
Balance at March 31, 2008	$ 400,000	$ 4,840	$ 133,117	$ 1,031,168	$ 2,197,793	$ (251,988)	$ 3,514,930

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2008	2007
Cash flows from operating activities:		
Net income	$ 92,735	$ 98,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,697	4,476
Amortization of net deferred loan origination (fees) costs	(2,994)	(2,424)
Premium amortization/discount accretion on investment securities	(3,618)	(6,374)
Premium amortization/discount accretion on bonds and notes	2,796	2,898
Provision for (reversal of) loan losses	20,077	587
(Gains) losses on other property owned, net	502	(56)
(Gains) losses from sale of premises and equipment, net	(612)	(887)
Realized (gains) losses on investments, net	71	(13)
Gains (losses) on sales of rural home loans, net	(379)	1,687
Net change in loans held for sale	7,516	13,636
(Increase) decrease in accrued interest receivable	13,333	8,990
(Increase) decrease in deferred tax assets, net	5	39
(Decrease) increase in deferred tax liabilities, net	5	—
(Increase) decrease in other assets	(16,287)	4,312
Increase (decrease) in accrued interest payable	(33,583)	12,348
Increase (decrease) in pension and other postretirement benefits liability	6,429	978
Increase (decrease) in other liabilities	74,594	76,100
Total adjustments	72,552	116,297
Net cash provided by (used in) operating activities	165,287	214,905
Cash flows from investing activities:		
Investment securities purchased	(948,210)	(417,588)
Investment securities sold or matured	630,542	369,444
Net (increase) decrease in loans	(701,436)	(284,031)
(Increase) decrease in investments in other Farm Credit System institutions	376	37
Purchases of other investments	(12,420)	(17,060)
Proceeds from payments received on other investments	72,101	64,379
Purchase of premises and equipment, net	(6,230)	(4,340)
Proceeds from sale of premises and equipment, net	1,416	1,360
Proceeds from sale of other property owned	1,356	2,277
Net cash provided by (used in) investing activities	(962,505)	(285,522)
Cash flows from financing activities:		
Bonds and notes issued	32,130,809	10,048,195
Bonds and notes retired	(31,252,510)	(9,903,559)
Net increase (decrease) in advanced conditional payments	542	3,109
Protected borrower equity retired	(529)	(544)
Capital stock and participation certificates issued/retired, net	5,785	4,221
Patronage refunds and dividends paid	(129,495)	(115,720)
Retained earnings retired	(37,200)	(34,490)
Net cash provided by (used in) financing activities	717,402	1,212
Net increase (decrease) in cash and cash equivalents	(79,816)	(69,405)
Cash and cash equivalents, beginning of period	612,841	651,268
Cash and cash equivalents, end of period	$ 533,025	$ 581,863
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 4,300	$ —
Loans transferred to other property owned	2,402	958
Patronage refund and dividends payable	5,007	3,620
Change in unrealized gains (losses) on investments, net	(100,539)	1,900
Employee benefit plans adjustments	(2,874)	—
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	$ 299,358	$ 274,189
Taxes paid, net	249	(632)

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

Notes to the Combined Financial Statements

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

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

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District 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 combined 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 District maintains an allowance for loan losses in accordance with GAAP. The District'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 District's loan portfolios identified the need for a total allowance for loan losses of $92.7 million. As of March 31, 2008, the allowance for loan 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 District 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 District is still evaluating the provisions of SFAS No. 141R, but believes 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 District 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	$ 78,874	$ 71,915
Provision for (reversal of) loan losses	20,077	587
Loans (charged off), net of recoveries	(6,266)	(43)
Balance at end of period	$ 92,685	$ 72,459

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.

Actions are pending against AgFirst and/or certain District Associations in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the combined financial position of AgFirst and District Associations.

NOTE 4 — EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31, 2008	2007
Pension	$ 3,106	$ 4,382
401k	1,421	1,267
Other postretirement benefits	1,950	2,176
Total	$ 6,477	$ 7,825

The following table includes only non-qualified and single employer qualified retirement and other postretirement benefit contributions for the District. 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 multi-employer qualified pension plans in 2008 and thus none have been projected for these plans.

	Actual YTD Through 3/31/08	Projected Contributions for Remainder of 2008	Projected Total Contributions 2008
Pensions	$ 118	$ 1,163	$ 1,281
Other postretirement benefits	1,379	4,261	5,640
Total	$ 1,497	$ 5,424	$ 6,921

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 multi-employer 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 based upon each institutions pro rata share of service cost. Since the allocation of the aggregate contribution under the new funding policy for 2008 has not yet been determined, the aggregate contribution 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 requires 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 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 District 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 District decreased unallocated retained earnings and increased the pension liability by $5.0 million.

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, $2.1 million 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.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

	3/31/08 *(unaudited)*	**12/31/07** *(audited)*
Cash and investment securities	$ 7,607,889	$ 7,467,567
Loans	19,535,530	19,114,517
Less: allowance for loan losses	2,205	2,816
Net loans	19,533,325	19,111,701
Other assets	394,063	347,353
Total assets	$ 27,535,277	$ 26,926,621
Bonds and notes	$ 25,674,918	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	201,256	396,892
Total liabilities	26,101,174	25,469,140
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	392,806	364,759
Retained earnings	780,020	731,429
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

Statement of Income Data

	For the three months ended March 31,	
	2008 *(unaudited)*	**2007** *(unaudited)*
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 loan losses	77,780	58,984
Noninterest expense, net	(28,790)	(13,569)
Net income	$ 48,990	$ 45,415