AgFirst Farm Credit Bank
& District Associations

Quarterly Report

Second Quarter 2008

SECOND QUARTER 2008

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Chairman of the Board

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Chief Executive Officer

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August 1, 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 and six month periods ended June 30, 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 June 30, 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, neither the three months' nor the six months' results of operations may be indicative of an entire year due to the seasonal nature of a portion of the District's business.

FINANCIAL CONDITION

Loan Portfolio

Total loans outstanding were $22.643 billion at June 30, 2008, increases of $1.915 billion, or 9.2 percent, compared to total loans outstanding at December 31, 2007, and $2.974 billion, or 15.1 percent, compared to June 30, 2007.

The strong increase in loan volume over both the six month and the annual periods ended June 30, 2008, can be attributed to a number of factors. In response to growing worldwide demand for agricultural commodities, especially grains, farmers have increased their production capacities. Borrowing needs have also grown because of rising costs for inputs such as fertilizer and fuel. Related capital expansion by agribusinesses has also driven up loan demand. As a result, farmers' needs for new production loans have increased dramatically, and they have also drawn more heavily on existing lines of credit.

As agricultural loan demand has increased, turmoil in the overall financial markets, and the banking sector in particular, has caused commercial banks to reduce the amount of available credit to farmers and related businesses. This also has contributed to increased loan demand in the District and throughout the Farm Credit System. A seasoned, knowledgeable lending staff and the inherent value of patronage paid under the cooperative structure have positioned the District to compete effectively for this expanded business while retaining current members and their business relationships.

As of June 30, 2008, the credit quality of the loan portfolio continued to be good with only slight adverse movements in some quality measures compared to earlier reporting periods. The increased volatility in the financial markets and the generally weaker economy experienced over the past twelve months have not affected either the overall farm sector or District's customers in a substantially negative way.

To the extent there has been recent credit quality deterioration, that deterioration is largely driven by rapidly increasing input costs. Higher fuel costs have adversely impacted all producers. Higher feed costs have been problematic for the livestock and poultry industries. Industries tied to housing such as forestry, sawmills, sod, and landscape nurseries saw demand plummet and profitability compromised. Over time, the higher inputs will either be passed on to the consumer or production will be cut to ensure the supply produced will clear the market at prices that will generate a profit. Although the credit quality of the District loan portfolio has been only slightly negatively impacted to date by the factors mentioned above, the risk of future deterioration is increasing.

Nonaccrual loan assets for the combined District at June 30, 2008, were 0.9 percent of total loans outstanding compared to 0.5 percent at December 31, 2007, and 0.4 percent at June 30, 2007. Credit quality classifications have shown a minimal overall decline during the past twelve months, as illustrated in the following chart:

Credit Quality as of:			
Classification	**June 30, 2008**	**December 31, 2007**	**June 30, 2007**
Acceptable	95.02%	95.89%	96.31%
OAEM *	3.17%	2.63%	2.43%
Substandard	1.78%	1.42%	1.25%
Doubtful/loss	0.03%	0.06%	0.01%

* *Other Assets Especially Mentioned*

Diversification of the portfolio remains similar to December 2007 with regard to commodities and geography. Risk factors have been generally stable overall for the District as reflected by past-due loans, asset quality, and non-earning assets but the possibility for future deterioration is increasing as mentioned above. The allowance for loan losses of $98.7 million, or 0.4 percent of gross loan volume, at June 30, 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 June 30, 2008, the District had $27.740 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 $8.544 billion, or 26.7 percent of total assets at June 30, 2008, compared to $7.674 billion, or 26.2 percent, as of December 31, 2007. Investment securities increased $1.243 billion compared to June 30, 2007.

As of June 30, 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 June 30, 2008, AgFirst's coverage was 147 days.

Investment securities classified as being held-to-maturity totaled $1.882 billion at June 30, 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 totaled $6.224 billion at June 30, 2008. Total unrealized losses of $177.3 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 adversity in the subprime mortgage market. Available-for-sale investments at June 30, 2008 included $4.196 billion in Agency Collateralized Mortgage Obligations (CMO's), $1.343 billion in Agency Adjustable Rate Mortgages, $554.6 million in whole loan CMO's, and $129.7 million in asset-backed securities.

The District has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure totaled $111.7 million, which represented 1.8 percent of the available-for-sale liquidity investment portfolio and 1.4 percent of the total investment security portfolio at June 30, 2008. The amortized cost of these investment securities totaled $164.7 million and the market value adjustment decrease of $53.0 million for asset-backed securities with subprime exposure was included in the total $177.3 million of unrealized losses reflected in AOCI at June 30, 2008 as discussed above. The District's asset-backed securities rated above the minimum for investment grade (BBB-/ Baa3) by the Nationally Recognized Statistical Rating Organizations (NRSROs) at June 30, 2008, totaled $117.3 million (amortized cost value of $159.3 million). This included all but two of the seventeen available-for-sale asset-backed securities held by the District at June 30, 2008. The two asset-backed securities rated at the minimum for investment grade by one of the NRSROs, totaling $12.4 million (amortized cost value of $22.7 million), continue to perform. The District's 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 $554.6 million, which represented 8.9 percent of the available-for-sale liquidity investment portfolio and 6.8 percent of the total investment security portfolio at June 30, 2008. The amortized cost of these investment securities totaled $604.3 million and the market value adjustment decrease for whole loan CMO's of $49.7 million was included in the total $177.3 million of unrealized losses reflected in AOCI at June 30, 2008 as discussed above. All of the District's CMO securities were rated in the top category (AAA/ Aaa) by the NRSROs at June 30, 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 and mortgage markets. The District 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. All securities continue to perform.

Capital Resources

Total District shareholders' equity decreased $24.1 million from December 31, 2007, to June 30, 2008. This 0.7 percent net decrease is primarily attributed to an increase of $139.5 million in unrealized losses on investments available-for-sale, a component of AOCI, patronage distributions of $9.7 million, perpetual preferred stock dividends paid of $13.7 million, and retained earnings retired of $54.9 million. These decreases in shareholders' equity were offset by an increase in unallocated retained earnings from net income of $193.6 million and $3.5 million in capital stock and participation certificates issued. As of June 30, 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 June 30, 2008 was $100.8 million, compared to $106.4 million at June 30, 2007, a decrease of $5.6 million, or 5.2 percent. For the six months ended June 30, 2008, net income was $193.6 million, compared to $205.0 million at June 30, 2007, a decrease of $11.4 million, or 5.6 percent. These overall decreases are discussed below.

Net Interest Income

Net interest income for the three months ended June 30, 2008 was $198.1 million compared to $175.8 million for the same period of 2007, an increase of $22.2 million or 12.6 percent. For the six months ended June 30, 2008, net interest income was $391.3 million compared to $349.0 million for the same period of 2007, an increase of $42.3 million or 12.1 percent. Net interest margin was 2.64 percent and 2.68 percent in the current year three and six month periods respectively, an improvement of 0.01 percent and 0.02 percent over the same periods of 2007. Net interest income increased as the outstanding balances of both loans and investments increased. The increase was also due to the proceeds of the preferred stock issue by the Bank in June 2007 which 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 thereby increasing net interest income. However, the benefit of lower debt costs was substantially offset by lower earning asset yields. Given that interest rates increased during the quarter ended June 30, 2008, the majority of callable bonds were not eligible to be replaced at lower interest rates by quarter end. The positive impact of callable bond rates declining at a faster rate than refinancing earning assets may not be present in future periods.

The following table illustrates the changes in net interest income:

	For the three months ended June 30, 2008 vs. June 30, 2007			For the six months ended June 30, 2008 vs. June 30, 2007		
	Increase (decrease) due to changes in:			**Increase (decrease) due to changes in:**		
(dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 54,213	$ (73,988)	$ (19,775)	$ 96,363	$ (102,407)	$ (6,044)
Investments & Cash Equivalents	7,784	(29,044)	(21,260)	10,130	(44,616)	(34,486)
Total Interest Income	$ 61,997	$ (103,032)	$ (41,035)	$ 106,493	$ (147,023)	$ (40,530)
Interest Expense:						
Interest-Bearing Liabilities	$ 44,395	$ (107,665)	$ (63,270)	$ 74,703	$ (157,528)	$ (82,825)
Changes in Net Interest Income	$ 17,602	$ 4,633	$ 22,235	$ 31,790	$ 10,505	$ 42,295

Provision for Loan Losses

The District provision for loan losses was $36.3 million for the six months ended June 30, 2008, compared to a provision of $1.6 million for the same period in 2007, an increase of $34.7 million. During the first six months of 2008, District Associations and the Bank recorded provisions of $29.6 million and $6.7 million, respectively, primarily for specific reserves related to loans placed on nonaccrual status. AgFirst and the Associations assess risks inherent in their individual loan portfolios on an ongoing basis and establish appropriate reserves for loan losses.

Noninterest Income

Noninterest income for the three months ended June 30, 2008 was $14.5 million, which reflected an increase of $1.3 million compared to the same period in 2007. For the six months ended June 30, 2008, noninterest income was $32.0 million, which reflected an increase of $12.0 million compared to the same period in 2007. The increase in noninterest income for both periods primarily resulted from the increases in loan fees. The $12.5 million increase in loan fees for the six months ended June 30, 2008 was primarily due to increased loan volume, as well as a one time adjustment of $4.5 million for the elimination of correspondent lending loan fees between AgFirst and the District Associations in the first quarter of 2007.

The increase in gains on sale of rural home loans for the six months ended June 30, 2008, compared to June 30, 2007, primarily resulted from a one time adjustment of $2.6 million that was recorded in the first quarter of 2007 for an elimination of these gains between AgFirst and the District Associations.

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

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended June 30,**			**For the six months ended June 30,**		
(dollars in thousands)	**2008**	**2007**	**Increase/ (Decrease)**	**2008**	**2007**	**Increase/ (Decrease)**
Loan fees	$ 11,178	$ 7,738	$ 3,440	$ 24,279	$ 11,784	$ 12,495
Fees for financially related services	1,111	1,912	(801)	2,956	3,049	(93)
Realized gains (losses) on investments, net	-	(2)	2	(71)	11	(82)
Gains (losses) on sale of rural home loans, net	774	581	193	1,153	(1,106)	2,259
Gains from sale of premises and equipment, net	146	222	(76)	758	1,109	(351)
Patronage refunds from other Farm Credit institutions	(44)	409	(453)	913	733	180
Other noninterest income	1,317	2,352	(1,035)	2,016	4,461	(2,445)
Total noninterest income	$ 14,482	$ 13,212	$ 1,270	$ 32,004	$ 20,041	$ 11,963

Noninterest Expense

Noninterest expense for the three months ended June 30, 2008 was $95.1 million, which reflected an increase of $12.6 million compared to the corresponding period in 2007. For the six months ended June 30, 2008, noninterest expense was $192.8 million, which reflected an increase of $29.8 million compared to the corresponding period in 2007. The increase in noninterest expense was primarily related to increases of $8.1 million and $21.1 million in called debt expense for the three and six month periods, respectively. Call options were exercised on bonds totaling $14.2 billion during the first half 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 $512 thousand (6.2 percent) and $1.2 million (7.0 percent) for the three and six month periods, respectively, 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 $1.0 million (14.6 percent) and $1.9 million (13.7 percent) for the three and six month periods, respectively, due to the increase in loan volume. Effective July 1, 2008, the base on which insurance fund premiums are assessed was expanded from total loans to total system debt. Also, the annual premium rate, which is currently 15 basis points, can be increased to as much as 20 basis points. The Insurance Fund Board has announced its intention to increase the premium to 18 basis points in the fourth quarter of 2008. This combination of factors, in addition to continued balance sheet growth, will result in higher than normal increases in insurance fund premiums expense in future reporting periods.

Other operating expenses increased $1.9 million (10.7 percent) and $4.0 million (11.3 percent) for the three and six month periods, respectively, primarily from higher general insurance premiums.

The increase in correspondent lending servicing expenses of $273 thousand (55.8 percent) and $438 thousand (45.8 percent) for the three and six month periods, respectively, was 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 (59.1 percent) and $203 thousand (59.4 percent) for the three and six month periods, respectively, 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	**For the three months ended June 30,**			**For the six months ended June 30,**		
(dollars in thousands)	**2008**	**2007**	**Increase/ (Decrease)**	**2008**	**2007**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 49,668	$ 48,831	$ 837	$ 96,803	$ 95,399	$ 1,404
Occupancy and equipment	8,805	8,293	512	17,548	16,395	1,153
Insurance Fund premium	7,931	6,919	1,012	15,409	13,556	1,853
Other operating expenses	19,577	17,687	1,890	39,677	35,664	4,013
Called debt expense	8,265	133	8,132	21,873	754	21,119
Correspondent lending servicing expense	762	489	273	1,394	956	438
Other noninterest expense	70	171	(101)	139	342	(203)
Total noninterest expense	**$** 95,078	$ 82,523	$ 12,555	$ 192,843	$ 163,066	$ 29,777

Key results of operations comparisons:

	Annualized for the six months ended June 30, 2008	**For the year ended December 31, 2007**	**Annualized for the six months ended June 30, 2007**
Return on average assets	1.28%	1.48%	1.53%
Return on average shareholders' equity	10.50%	11.42%	12.03%
Net interest income as a percentage of average earning assets	2.67%	2.64%	2.66%
Net chargeoffs (recoveries) to average loans	0.076%	0.007%	0.000%

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. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's 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)	**June 30, 2008**	**December 31, 2007**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 438,378	$ 612,841
Investment securities:		
Available for sale (amortized cost of $6,400,925 and $5,679,228 respectively)	6,223,610	5,641,430
Held to maturity (fair value of $1,836,226 and $1,397,015 respectively)	1,881,744	1,419,371
Total investment securities	8,105,354	7,060,801
Loans	22,643,262	20,728,296
Less: allowance for loan losses	98,732	78,874
Net loans	22,544,530	20,649,422
Loans held for sale	1,677	1,904
Other investments	389,861	430,812
Accrued interest receivable	245,672	252,838
Investments in other Farm Credit System institutions	8,181	8,374
Premises and equipment, net	127,076	123,012
Other property owned	6,675	8,504
Deferred tax assets, net	—	5
Other assets	128,915	112,638
Total assets	$ 31,996,319	$ 29,261,151
Liabilities		
Bonds and notes	$ 27,740,439	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	189,073	179,578
Dividends and patronage refunds payable	12,200	132,146
Pension and other postretirement benefits liability	135,964	128,415
Advanced conditional payments	31,862	31,574
Deferred tax liabilities, net	5	—
Other liabilities	119,761	151,116
Total liabilities	28,454,304	25,695,077
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Protected borrower equity	4,781	5,369
Capital stock and participation certificates	130,983	127,147
Retained earnings		
Allocated	1,014,230	1,068,756
Unallocated	2,280,545	2,118,390
Accumulated other comprehensive income	(288,524)	(153,588)
Total shareholders' equity	3,542,015	3,566,074
Total liabilities and equity	$ 31,996,319	$ 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 June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Interest Income				
Investment securities	$ 74,488	$ 95,625	$ 157,174	$ 191,451
Loans	354,647	374,422	728,542	734,586
Other	5,589	5,712	10,837	11,046
Total interest income	434,724	475,759	896,553	937,083
Interest Expense	236,674	299,944	505,245	588,070
Net interest income	198,050	175,815	391,308	349,013
Provision for (reversal of) loan losses	16,227	1,053	36,304	1,640
Net interest income after provision for (reversal of) loan losses	181,823	174,762	355,004	347,373
Noninterest Income				
Loan fees	11,178	7,738	24,279	11,784
Fees for financially related services	1,111	1,912	2,956	3,049
Realized gains (losses) on investments, net	—	(2)	(71)	11
Gain (loss) on sale of rural home loans,net	774	581	1,153	(1,106)
Gains from sale of premises and equipment, net	146	222	758	1,109
Patronage refunds from other Farm Credit institutions	(44)	409	913	733
Other noninterest income	1,317	2,352	2,016	4,461
Total noninterest income	14,482	13,212	32,004	20,041
Noninterest Expenses				
Salaries and employee benefits	49,668	48,831	96,803	95,399
Occupancy and equipment	8,805	8,293	17,548	16,395
Insurance Fund premium	7,931	6,919	15,409	13,556
Other operating expenses	19,577	17,687	39,677	35,664
Called debt expense	8,265	133	21,873	754
Correspondent lending servicing expense	762	489	1,394	956
Other noninterest expense	70	171	139	342
Total noninterest expenses	95,078	82,523	192,843	163,066
Income before income taxes	101,227	105,451	194,165	204,348
Provision (benefit) for income taxes	405	(922)	608	(633)
Net income	$ 100,822	$ 106,373	$ 193,557	$ 204,981

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
(dollars in thousands)				Allocated	Unallocated		
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					204,981		204,981
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $11						(6,431)	(6,431)
Total comprehensive income							198,550
Preferred stock issued	250,000						250,000
Issuance cost on preferred stock					(2,740)		(2,740)
Protected borrower equity retired		(607)					(607)
Capital stock/participation certificates issued/retired, net			6,420				6,420
Dividends declared/paid			312		(312)		—
Perpetual preferred stock dividends paid					(5,475)		(5,475)
Patronage distribution							
Cash					(8,790)		(8,790)
Allocated retained earnings				261	(261)		—
Nonqualified allocated retained earnings				1,135	(1,135)		—
Retained earnings retired				(61,584)			(61,584)
Patronage distribution adjustment				2,263	(3,988)		(1,725)
Balance at June 30, 2007	$ 400,000	$ 5,601	$ 125,549	$ 934,302	$ 2,221,588	$ (4,808)	$ 3,682,232
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					193,557		193,557
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $(71)						(139,517)	(139,517)
Total comprehensive income							54,040
Protected borrower equity retired		(588)					(588)
Capital stock/participation certificates issued/retired, net			3,480				3,480
Dividends declared/paid			356		(356)		—
Perpetual preferred stock dividends paid					(13,706)		(13,706)
Patronage distribution							
Cash					(9,701)		(9,701)
Allocated retained earnings				63	(63)		—
Retained earnings retired				(54,949)			(54,949)
Patronage distribution adjustment				360	(2,563)		(2,203)
Employee benefit plans adjustments (Note 5)					(5,013)	4,581	(432)
Balance at June 30, 2008	$ 400,000	$ 4,781	$ 130,983	$ 1,014,230	$ 2,280,545	$ (288,524)	$ 3,542,015

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 193,557	$ 204,981
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	9,583	8,974
Amortization of net deferred loan origination (fees) costs	(5,551)	(4,885)
Premium amortization/discount accretion on investment securities	(6,511)	(12,143)
Premium amortization/discount accretion on bonds and notes	7,576	7,658
Provision for (reversal of) loan losses	36,304	1,640
(Gains) losses on other property owned, net	685	72
(Gains) losses from sale of premises and equipment, net	(758)	(1,109)
Realized (gains) losses on investments, net	71	(11)
Gains (losses) on sales of rural home loans, net	(1,153)	1,106
Net change in loans held for sale	17,620	27,191
(Increase) decrease in accrued interest receivable	7,166	(14,737)
(Increase) decrease in deferred tax assets, net	5	27
(Decrease) increase in deferred tax liabilities, net	5	—
(Increase) decrease in other assets	(11,709)	2,813
Increase (decrease) in accrued interest payable	9,495	18,230
Increase (decrease) in postretirement benefits other than pensions	7,549	1,948
Increase (decrease) in other liabilities	(31,913)	(29,354)
Total adjustments	38,464	7,420
Net cash provided by (used in) operating activities	232,021	212,401
Cash flows from investing activities:		
Investment securities purchased	(2,268,489)	(1,185,653)
Investment securities sold or matured	1,080,022	809,798
Net (increase) decrease in loans	(1,942,820)	(1,030,491)
(Increase) decrease in investments in other Farm Credit System institutions	193	45
Purchases of other investments	(20,313)	(30,767)
Proceeds from payments received on other investment	72,101	64,379
Purchase of premises and equipment, net	(14,518)	(10,484)
Proceeds from sale of premises and equipment, net	1,629	1,660
Proceeds from sale of other property owned	1,863	4,619
Net cash provided by (used in) investing activities	(3,090,332)	(1,376,894)
Cash flows from financing activities:		
Bonds and notes issued	63,000,203	22,373,868
Bonds and notes retired	(60,119,030)	(21,444,514)
Net increase (decrease) in advanced conditional payments	288	6,247
Preferred stock issued net of issuance cost	—	247,260
Protected borrower equity retired	(588)	(607)
Capital stock and participation certificates issued/retired, net	3,480	6,420
Patronage refunds and dividends paid	(131,850)	(115,986)
Dividends paid on perpetual preferred stock	(13,706)	(5,475)
Retained earnings retired	(54,949)	(61,584)
Net cash provided by (used in) financing activities	2,683,848	1,005,629
Net increase (decrease) in cash and cash equivalents	(174,463)	(158,864)
Cash and cash equivalents, beginning of period	612,841	651,268
Cash and cash equivalents, end of period	$ 438,378	$ 492,404
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 4,300	$ 10
Loans transferred to other property owned	5,019	7,387
Change in unrealized gains (losses) on investments, net	(139,517)	(6,431)
Employee benefit plans adjustment	(432)	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	$ 4,442	$ (6,540)
Decrease (increase) in other assets	(4,568)	2,541
Increase (decrease) in other liabilities	126	3,999
Supplemental information:		
Interest paid	$ 488,174	$ 564,900
Taxes paid, net	648	(1,381)

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 second 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 six months ended June 30, 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 combined 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 June 30, 2008, the risk analysis of the District's loan portfolios identified the need for a total allowance for loan losses of $98.7 million. As of June 30, 2008, the allowance for loan losses was adequate in management's opinion to provide for inherent 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 the adoption did not have an impact on the District's financial position, results of operations, or cash flows. However, the fair value disclosures have been expanded with SFAS No. 157 (see Note 3 – Fair Value Measurement).

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 six months ended June 30,	
	2008	**2007**
Balance at beginning of period	$ 78,874	$ 71,915
Provision for (reversal of) loan losses	36,304	1,640
Loans (charged off), net of recoveries	(16,446)	51
Balance at end of period	$ 98,732	$ 73,606

NOTE 3 — FAIR VALUE MEASUREMENT

As described in Note 1, the District adopted SFAS No. 157 effective January 1, 2008 which expanded the District's fair value disclosure. The District's fair value disclosure on a quarterly basis will include assets and liabilities measured at fair value on a recurring basis. These assets and liabilities primarily consist of investments available-for-sale, highly-liquid funds, derivative assets and liabilities, assets held in trust funds, and standby letters of credit.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the District's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets. The District's Level 1 assets at June 30, 2008 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

The fair value of substantially all of the District's investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

The fair value of the District's derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models. These models incorporate benchmark interest rate curves, volatilities, and other inputs which are observable directly or indirectly in the marketplace. The District compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

The District's Level 2 assets and liabilities at June 30, 2008 include derivative contracts and investment securities in U.S. government and agency mortgage-backed securities, non-agency mortgage-backed securities, and U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. Level 2 assets also include federal funds sold, securities purchased under resale agreements and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities also could include investments and derivative contracts whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at June 30, 2008 include the District's mortgage-related asset-backed investment portfolio, which have unadjusted values from third-party pricing models. Based on the currently illiquid marketplace for mortgage-related asset-backed investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the District classified the mortgage-related asset-backed investment portfolio as Level 3 assets. Level 3 liabilities at June 30, 2008 also include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2008 for each of the fair value hierarchy levels:

	June 30, 2008			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Investments available-for-sale	$ -	$ 6,111,939	$ 111,671	$ 6,223,610
Federal funds sold, securities purchased under resale agreements, and other	-	298,795	-	298,795
Interest rate swaps and other financial instruments	-	37,755	-	37,755
Assets held in trust funds	10,888	-	-	10,888
Total Assets	$ 10,888	$ 6,448,489	$ 111,671	$ 6,571,048
Liabilities:				
Interest rate swaps and other financial instruments	$ -	$ 2,686	$ -	$ 2,686
Standby letters of credit	-	-	5,139	5,139
Total Liabilities	$ -	$ 2,686	$ 5,139	$ 7,825

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Asset-Backed Investment Securities	**Standby Letters Of Credit**
Balance at January 1, 2008	$ 166,551	$ 5,205
Total gains or (losses) realized/unrealized:		
Included in earnings	-	-
Included in other comprehensive loss	(34,898)	-
Purchases, sales, issuances and settlements, net	(19,982)	(66)
Transfers in and/or out of level 3	-	-
Balance at June 30, 2008	$ 111,671	$ 5,139

NOTE 4 — 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 $175.429 billion at June 30, 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 5 — EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2008	**2007**
Pension	$ 6,213	$ 8,771
401k	2,778	2,500
Other postretirement benefits	3,899	4,352
Total	$ 12,890	$ 15,623

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 6/30/08	**Projected Contributions for Remainder of 2008**	**Projected Total Contributions 2008**
Pensions	$ 236	$ 1,045	$ 1,281
Other postretirement benefits	2,757	2,883	5,640
Total	$ 2,993	$ 3,928	$ 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 the primary qualified pension plan was changed for 2008. The aggregate contribution of all participating District institutions will 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 six months of 2008, $4.6 million has been recognized as a credit to AOCI 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 6 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

	6/30/08 *(unaudited)*	**12/31/07** *(audited)*
Cash and investment securities	$ 8,346,816	$ 7,467,567
Loans	20,780,999	19,114,517
Less: allowance for loan losses	8,269	2,816
Net loans	20,772,730	19,111,701
Other assets	337,104	347,353
Total assets	$ 29,456,650	$ 26,926,621
Bonds and notes	$ 27,540,439	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	246,660	396,892
Total liabilities	28,012,099	25,469,140
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	398,567	364,759
Retained earnings	823,474	731,429
Accumulated other comprehensive income (loss)	(177,490)	(38,707)
Total shareholders’ equity	1,444,551	1,457,481
Total liabilities and equity	$ 29,456,650	$ 26,926,621

Statement of Income Data
(unaudited)

	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Interest income	$ 321,978	$ 359,663	$ 668,348	$ 706,743
Interest expense	235,432	299,610	503,362	587,444
Net interest income	86,546	60,053	164,986	119,299
Provision for (reversal of) loan losses	6,065	(114)	6,725	148
Net interest income after provision for loan losses	80,481	60,167	158,261	119,151
Noninterest expense, net	(23,432)	(12,758)	(52,222)	(26,327)
Net income	$ 57,049	$ 47,409	$ 106,039	$ 92,824