FIRST QUARTER 2009

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2009 quarterly report of AgFirst Farm Credit Bank, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Paul M. House
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

May 1, 2009

Report on Internal Control Over Financial Reporting

The Bank's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Bank's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Bank concluded that as of March 31, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2009.

F.A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

May 1, 2009

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 month period ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements and the 2008 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

AgFirst's loan portfolio primarily consists of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

AgFirst Loan Portfolio

(dollars in thousands)	March 31, 2009		December 31, 2008		March 31, 2008	
Direct Notes	$ 14,583,303	69.82%	$ 14,997,151	70.61%	$ 14,306,436	73.23%
Participations/Syndications purchased, net	4,891,423	23.42	4,925,744	23.19	4,124,890	21.12
Correspondent Lending	1,407,147	6.73	1,309,285	6.16	1,099,244	5.63
Loans to OFIs	6,000	0.03	7,150	0.04	4,960	0.02
Total	$ 20,887,873	100.00%	$ 21,239,330	100.00%	$ 19,535,530	100.00%

Total loans outstanding were $20.888 billion at March 31, 2009, a decrease of $351.5 million, or 1.65 percent, compared to total loans outstanding at December 31, 2008. For the last several years leading up to and including most of 2008, loan demand for the Bank was very strong. This trend changed in late 2008 and loan demand slowed dramatically. The marked decrease in loan demand continued into the first quarter of 2009, leading to the decrease in total loans outstanding over that period.

The downturn in the general economy has served to weaken overall loan demand. In a number of cases, farmers have delayed planting decisions as they continue to assess anticipated market conditions that will affect the ultimate prices they will receive for their 2009 harvests. Future loan demand is difficult to predict, although the growth rate of the loan portfolio is anticipated to remain at a very moderate level for at least the remainder of 2009.

Credit quality at March 31, 2009 reflected some deterioration compared to prior reporting periods as shown in the table below, although the overall credit quality of the loan portfolio continued to be satisfactory. The increased volatility in the financial markets, farm commodity price levels, and the generally weaker economy have affected the overall farm sector and some of AgFirst's customers. The pace of loans migrating to more adverse classifications continued in the first quarter of 2009. Some additional deterioration is expected.

AgFirst Total Loan Portfolio Credit Quality as of:			
Classification	**March 31, 2009**	**December 31, 2008**	**March 31, 2008**
Acceptable	92.90%	95.57%	96.21%
OAEM *	5.87%	3.44%	3.69%
Substandard	1.23%	0.99%	0.10%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

Credit deterioration was primarily in those agricultural sectors that continue to be impacted most by the volatility in commodity prices, such as the livestock, poultry, dairy, and ethanol sectors. In addition to the negative impact of the decline in the general economy, these sectors have experienced decreases in revenue from lower commodity prices and increases in farm input costs, particularly for borrowers who purchased crops at elevated prices in 2008 for future production.

The recession in the general economy and resulting higher rate of unemployment could potentially compromise the credit quality of part-time farmers. Many borrowers who have historically had stable income from non-farm sources such as stock portfolios and capital gains income from traded assets have seen dramatic reductions in these income sources. AgFirst is routinely reevaluating the credit-worthiness of these borrowers. Continued weakness in the general economy is one of the factors that could further credit quality deterioration during the remainder of 2009.

Loan portfolio credit quality was also adversely affected by deteriorating economic conditions in certain geographic areas included in the Bank's and District's footprint, particularly Florida. The Florida economy slowed after an extended period of significant growth for many years led by increasing real estate values and net population inflows. In 2008, real estate values declined, population growth slowed, and housing foreclosures increased. These conditions continued into the first quarter of 2009.

Direct Notes

AgFirst's primary line of business is to provide funds 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, and the capital and loan loss reserves of the Associations cushion the Bank from possible losses in their respective loan portfolios. Lending terms, including specific Association financial performance criteria, are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

At March 31, 2009, total direct note volume outstanding was $14.583 billion, a decrease of $413.9 million, or 2.86 percent, compared to December 31, 2008. The volume decrease was primarily due to 1) the weakness in the general economy discussed above and 2) an increase in the Bank's purchase of loan pools from certain Associations, which reduced those Associations' borrowing needs under their direct notes

AgFirst's direct note portfolio continued to perform well. As of March 31, 2009, twenty of the twenty-two District Associations' direct notes, representing 94.23 percent of the direct note portfolio, were classified acceptable. The remaining two direct notes, representing 5.77 percent of the total, were classified as Other Assets Especially Mentioned (OAEM). All twenty-two of the direct notes are performing. Twenty Associations, whose direct notes were rated acceptable, met or exceeded the minimum GFA and regulatory requirements for liquidity, earnings, and capital as of March 31, 2009. Prior to 2009, one Association was operating under a special credit arrangement. At December 31, 2008, that Association was in violation of its liquidity requirement as measured under its Borrowing Base Formula as defined in the GFA. The same Association also failed to meet the standard earnings covenant at December 31, 2008. In early 2009, following a review of a business plan submitted by the Association to achieve compliance with the covenants during 2009, the Bank approved a temporary waiver of the defaults and allowed the Association to continue operating under a special credit arrangement pursuant to its GFA. An additional Association also failed to meet its earnings covenant at December 31, 2008. Following review of a business plan submitted in early 2009 by that Association to achieve compliance with the covenant during 2009, the Bank approved a waiver of the default. In both cases the Associations have continued to perform under the GFA, notwithstanding the covenant defaults. All District Associations met all regulatory capital requirements.

Participations/ Syndications

AgFirst has a participations/syndications portfolio, which consists primarily of commercial agricultural and agribusiness loans. As of March 31, 2009, the participations/syndications portfolio totaled $4.891 billion. The size of this portfolio decreased $34.3 million, or 0.70 percent, from December 31, 2008 to March 31, 2009. As with the direct notes, the moderation of borrower demand in this portfolio is anticipated to continue into the near future.

The credit quality of the participations/syndications portfolio showed a 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, commodity exposure limits, and limits on the amounts of loans purchased from a single originator. 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, 2009**	**December 31, 2008**	**March 31, 2008**
Acceptable	87.02%	90.17%	97.64%
OAEM *	7.76%	5.56%	1.92%
Substandard	5.22%	4.27%	0.44%
Doubtful	0.00%	0.00%	0.00%

* *Other Assets Especially Mentioned*

Credit quality deterioration has been driven in large part by the generally higher input costs for meat production and ethanol customers. Higher fuel costs in 2008 adversely impacted all producers. Higher feed costs were problematic for the livestock and poultry industries, which caused significant stress on some borrowers and contributed to the credit quality deterioration in the latter half of 2008. The overall level of stress being experienced by borrowers continued to be elevated in the first quarter of 2009. Recently, certain commodity prices, including oil and grain, have declined significantly, providing better opportunity for positive earnings in the meat production segments for the remainder of 2009. However, industries tied to housing, such as forestry, sawmills, sod, and landscape nurseries, continue to be impacted by the declining housing construction activity and weakness in the general economy. The global economic slowdown could create less demand for agricultural exports. Declining exports and the negative factors discussed above, could impact the profitability of production agriculture for the remainder of the year.

The ethanol industry has experienced stress due to rapidly changing commodity prices, especially corn, declining fuel consumption, and excess production capacity. This combination of factors has forced a number of ethanol producers into bankruptcy and is resulting in consolidation in the industry. The Bank had $78.1 million of loans outstanding and $16.0 million of commitments to lend to ethanol related customers at March 31, 2009. During the first quarter of 2009, the Bank recognized $8.0 million of provision expense and charged off $25.7 million against reserves related to loans in its ethanol portfolio. At March 31, 2009, the Bank had a reserve allowance of $480 thousand related to ethanol credit exposure.

Correspondent Lending

AgFirst also has a correspondent lending portfolio, which consists primarily of first lien residential mortgages. As of March 31, 2009, the correspondent lending portfolio totaled $1.407 billion. From December 31, 2008 to March 31, 2009, this portfolio increased $97.9 million, or 7.47 percent. The increase in volume of this portfolio was primarily due to home purchases and refinancing activity generated by the lower interest rate environment.

Essentially all loans in the correspondent lending portfolio are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (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, 2009, 99.68 percent of the correspondent lending portfolio was classified as Acceptable, and 0.32 percent was classified as OAEM.

Nonaccrual Loans and Allowance for Loan Losses

Nonaccrual loan assets for the Bank at March 31, 2009, were $209.1 million compared to $176.4 million at December 31, 2008 and $3.6 million at March 31, 2008. A loan is classified nonaccrual when there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans increased $32.7 million for the quarter ended March 31, 2009 primarily due to one borrower relationship in the timber industry, which comprises 15.4 percent of the total nonaccrual loan balance at March 31, 2009. The five largest nonaccrual loan relationships accounted for 74.70 percent of the total. These five largest nonaccrual relationships were in the timber (30 percent of the five largest total), poultry (29 percent), ethanol (22 percent), and livestock (19 percent) industries.

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. 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. The Bank increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. The allowance for loan losses was $26.3 million at March 31, 2009, as compared with $44.6 million and $2.2 million at December 31, 2008 and March 31, 2008, respectively. The increase from March 31, 2008 was primarily due to loans moved to nonaccrual status, as discussed above. The decrease during the first quarter of 2009 was primarily due to charge-offs of $35.0 million for loan amounts determined to be uncollectible. Charge-offs were primarily related to the ethanol (73 percent of total) and sawmill (17 percent) industries. The allowance at March 31, 2009 included specific reserves of $14.2 million related to specific credits (primarily livestock and sawmill), and $12.1 million of general reserves attributed to participation loans (primarily timber, ethanol and meat complex). The market segments of the portfolio were reviewed, and particularly stressed segments were identified. Loans in those segments, excluding any loans on which specific reserves had been established, were analyzed collectively and risk rating and potential for loss given default factors were stressed. The general reserves were established based on that collective analysis and stress testing results. See Note 3, *Allowance for Loan Losses and Impaired Loans*, in the Notes to the Financial Statements for further information.

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, 2009, AgFirst had $27.879 billion in total debt outstanding compared to $28.053 billion at December 31, 2008. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities decreased slightly primarily due to the moderation in loan volumes as discussed in this report. Despite the recent adversity in the financial debt markets, the Bank continues to have adequate access to funding through the issuance of Farm Credit System debt.

AgFirst obtained a $150.0 million committed line of credit facility in 2008 from its primary commercial depository bank. The line of credit is tied to AgFirst's master cash management clearing account.

Cash, cash equivalents, and investment securities totaled $8.499 billion, or 28.54 percent of total assets at March 31, 2009, compared to $8.270 billion, or 27.65 percent, as of December 31, 2008. Investment securities increased $1.186 billion compared to March 31, 2008. This increase is primarily related to the growth of total loans as management maintained the investment securities portfolio size generally in line with loan growth in order to maintain adequate liquidity.

As of March 31, 2009, AgFirst exceeded all applicable regulatory liquidity requirements. 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 eligible available-for-sale investments, cash, and other highly liquid assets maintained by the Bank. At March 31, 2009, AgFirst's coverage was 168 days. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation of 168 days.

Investment securities classified as being held-to-maturity totaled $1.673 billion at March 31, 2009. 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 $6.623 billion at March 31, 2009. Total net unrealized losses relating to these securities decreased $56.7 million during the first quarter of 2009 to a total of $299.1 million at March 31, 2009. These net unrealized losses are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized losses are primarily attributed to the market dislocation and illiquidity stemming from adversity in the subprime mortgage market. Available-for-sale investments at March 31, 2009 included $4.386 billion in Agency Collateralized Mortgage Obligations (CMOs), $1.772 billion in Agency Adjustable Rate Mortgages, $397.3 million in non-agency CMOs, and $68.3 million in asset-backed securities. The Bank also recognized credit-related losses of $5.5 million for other-than-temporary impairment on two asset-backed securities and two non-agency CMO securities in its portfolio as discussed below, which reduced net income.

The Bank has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure totaled $68.3 million, which represented 1.03 percent of the available-for-sale liquidity investment portfolio and 0.82 percent of the total investment security portfolio at March 31, 2009. The amortized cost of these investment securities totaled $110.3 million and the market value adjustment decrease for asset-backed securities of $42.0 million was included in the total $299.1 million of net unrealized losses reflected in AOCI at March 31, 2009 as discussed above. The Bank's asset-backed securities rated above the minimum for investment grade (BBB-/Baa3) by the Nationally Recognized Statistical Rating Organizations (NRSROs) at March 31, 2009, totaled $49.2 million (amortized cost value of $84.2 million). The asset-backed securities rated below the minimum for investment grade by the NRSROs, totaled $19.1 million (amortized cost value of $26.1 million) at March 31, 2009. Despite the uncertainty in the mortgage securities markets, which has adversely impacted the market value of all asset-backed securities, these securities continue to perform. All of the Bank's asset-backed securities have credit enhancement features, which may include over-collateralization, the subordination of other security traunches, and/or protection provided by a monoline insurance provider.

Non-agency CMO's have also experienced significant market pricing volatility. Bank non-agency CMOs totaled $397.3 million, which represented 5.99 percent of the available-for-sale liquidity investment portfolio and 4.79 percent of the total investment security portfolio at March 31, 2009. The amortized cost of these investment securities totaled $544.3 million and the market value adjustment decrease for non-agency CMOs of $147.0 million

was included in the total $299.1 million of net unrealized losses reflected in AOCI at March 31, 2009 as discussed above. The Bank's non-agency CMO securities not rated in the highest category (AAA/Aaa) by at least one of the NRSROs at March 31, 2009 had a total fair value of $22.7 million and an amortized cost of $32.2 million.
The Farm Credit Administration (FCA) considers asset-backed and mortgage-backed investment securities rated below AAA/Aaa by the NRSROs to be ineligible and requires System institutions to divest of such investments. However, System institutions may seek approval to continue to hold these investments. For each of the investment securities in the Bank's portfolio at March 31, 2009 rated below AAA/ Aaa (total amortized cost of $128.1 million and fair value of $78.5 million), the Bank has developed and submitted plans for approval by the FCA that provide that the securities may be held to maturity. The FCA has approved with conditions the Banks' plans for all but one, which the FCA is still in the process of reviewing. For purposes of the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities at March 31, 2009 are risk weighted 100 percent instead of the standard 20 percent in calculating the risk adjusted assets amount. These ineligible securities had a fair value of $34.3 million and amortized cost of $58.5 million. Other ineligible securities which must be deducted completely from both capital and risk adjusted assets, based on the extent of its below investment grade rating from NRSROs, had a fair value of $44.1 million and amortized cost of $69.6 million at March 31, 2009. For purposes of the net collateral ratio, all ineligible investments are stated at lower of cost or market. See the Capital Resources section below for further discussion of the regulatory ratios. In addition, all ineligible investments are excluded from liquidity coverage as defined above.

The Bank performs periodic credit reviews, including other-than-temporary impairment analysis, on its entire investment securities portfolio. Additional analysis for each security not rated in the top category by the NRSROs is performed using a cash flow model with key assumptions and performance factors which may include credit default rate, prepayment rate, and loss severity. The objective is to quantify any future possible loss of principal or interest due on each identified security. The credit enhancements specific to the individual security are considered as appropriate, and may include monoline credit insurance, subordination, over-collateralization and excess interest spread. Asset-backed securities covered by insurers are analyzed with insurance and without, to quantify the extent of reliance on their guarantee. Based on the results of all analyses, the Bank recognized other-than-temporary impairment of $18.6 million related to two asset-backed securities and two non-agency CMOs in its portfolio at March 31, 2009, of which $5.5 million was credit related and included in Net Impairment Losses on Investments in the Statements of Income and $13.2 million was noncredit-related and included in AOCI. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. See discussion below regarding new accounting guidance issued in 2009.

For all other investments, the Bank has not recognized any other-than-temporary impairment as it 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 Bank 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, especially after considering insurance guarantees. All securities continue to perform.

For purposes of determining the fair values of the modeled securities and the resulting unrealized gain/ loss impact through AOCI, the Bank considers both a price or "mark" provided by a third party pricing service and also a value determined using the results of the modeling process. The Bank reviews and discusses with the third party pricing services and valuations experts the assumptions used in their pricing models, particularly for the asset-backed and non-agency CMO securities impacted by inactive trading or distressed sales, to ensure when relevant observable inputs are not available, that the price is fairly reflective of the price expected to be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The modeling process was factored into the pricing for the asset-backed security and the non-agency CMO security portfolios.

New accounting guidance issued by the Financial Accounting Standards Board (FASB) in April 2009 impacted the amount of security impairment exposure and the overall valuation of the Bank's security portfolio at March 31, 2009. Only the projected credit loss on an impaired security was reflected in the Statements of Income as discussed above. Previously the entire difference between the fair value and cost of an impaired security was included in income. This change reduces impairment loss expense and increases the amount of valuation adjustment that remains in AOCI. Also, at time of adoption of the FASB guidance, which for the Bank was effective March 31, 2009, the noncredit-related portion of impairment on securities previously recognized in earnings is cumulatively adjusted from retained earnings to AOCI. For the Bank, this resulted in a cumulative-effect adjustment reflected in the Statement of Changes in Shareholders' Equity of $3.5 million from unallocated retained earnings to AOCI for the one asset-backed security impairment of $10.5 million recognized in 2008. This new accounting guidance also allows the Bank to place more reliance on financial modeling to measure the fair value of securities where the market for those securities is not active. The Bank thus placed more reliance on the security values being generated by the modeling approach used by the Bank's valuation consultant and less reliance on the marks provided by the security pricing service for the asset-backed security and the non-agency CMO security portfolios. See Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements,* and Note 4, *Fair Value Measurement,* in the Notes to the Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $116.5 million from December 31, 2008, to March 31, 2009. This 9.4 percent net increase is primarily attributed to an increase in unallocated retained earnings from net income of $52.5 million and a net increase in capital stock issued of $3.7 million, and a decrease of $56.7 million in unrealized losses on investments available-for-sale, a component of AOCI. Total unrealized losses on investments available-for-sale were $299.1 million at March 31, 2009.

As of March 31, 2009, 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	**3/31/09**	**12/31/08**
Permanent Capital Ratio	7.00%	15.93%	17.15%
Total Surplus Ratio	7.00%	15.89%	17.11%
Core Surplus Ratio	3.50%	9.06%	10.43%
Net Collateral Ratio	104.00%	105.82%	105.56%

The decrease in the Bank's permanent capital, total surplus, and core surplus ratios at March 31, 2009 as compared to December 31, 2008 was attributed to the decrease in capital exceeding the decline in assets on both a total and risk adjusted basis. These ratios are calculated using three month average daily balances for both capital and assets.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2009 was $52.5 million, compared to $49.0 million at March 31, 2008, an increase of $3.5 million, or 7.2 percent. This overall increase is discussed below.

Net Interest Income

Net interest income for the three months ended March 31, 2009 was $107.5 million compared to $78.4 million for the same period of 2008, an increase of $29.1 million or 37.1 percent. Net interest margin was 1.49 percent in the current year three month period, an improvement of 30 basis points over the same period of 2008. Net interest income increased as the outstanding balances of both loans and investments increased. 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 partially offset by lower earning asset yields.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2009 vs. March 31, 2008		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 24,565	$ (73,664)	$ (49,099)
Investments & Cash Equivalents	8,883	(38,286)	(29,403)
Total Interest Income	33,448	(111,950)	(78,502)
Interest Expense:			
Interest Bearing Liabilities	30,358	(137,967)	(107,609)
Changes in Net Interest Income	$ 3,090	$ 26,017	$ 29,107

Provision for Loan Losses

The provision for loan losses was $16.7 million for the three months ended March 31, 2009, compared to $660 thousand for the same period in 2008. The provision for the three months ended March 31, 2009, primarily related to specific reserves for four participation borrower relationships, which comprised 79.04 percent of the provision expense. These four borrower relationships were primarily in the ethanol (51 percent of the total provision expense) and sawmill (20 percent) industries. See Note 3, *Allowance for Loan Losses and Impaired Loans,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended March 31,**		
(dollars in thousands)	**2009**	**2008**	**Increase/ (Decrease)**
Loan fees	$ 2,250	$ 2,375	$ (125)
Gains (losses) on investments, net	-	(71)	71
Net impairment losses on investments	(5,453)	-	(5,453)
Gains (losses) on derivatives, net	571	-	571
Gains (losses) on sale of rural home loans, net	-	40	(40)
Patronage refunds from other Farm Credit institutions	758	436	322
Other noninterest income	1,567	624	943
Noninterest income	$ (307)	$ 3,404	$ (3,711)

Noninterest income, net of certain gains and losses as detailed in the above table, for the three months ended March 31, 2009, was ($307) thousand, which reflected a decrease of $3.7 million compared to the same period in 2008. The decrease for the three month period was primarily due to the recognition of credit related other-than-temporary impairment on several of the Bank's investment securities of $5.5 million in the 2009 period as discussed above. This decrease was partially offset by an increase in other noninterest income of $943 thousand primarily from income from outside sources for services to Associations and other Farm Credit System entities and a 2008 captive insurance premium rebate received and recorded in the first quarter of 2009. Also adding to total noninterest income in the 2009 period was a hedging effectiveness gain of $571 thousand related to swap derivatives.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended March 31,**		
(dollars in thousands)	**2009**	**2008**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 9,115	$ 7,162	$ 1,953
Occupancy and equipment	3,212	3,761	(549)
Insurance Fund premium	4,992	1,854	3,138
Other operating expenses	5,217	5,107	110
Called debt expense	13,801	13,608	193
Correspondent lending servicing Expense	1,618	632	986
Other noninterest expense	70	70	-
Total noninterest expense	$ 38,025	$ 32,194	$ 5,831

Noninterest expense for the three months ended March 31, 2009 was $38.0 million, which reflected an increase of $5.8 million compared to the corresponding period in 2008.

Salaries and employee benefits increased $2.0 million (27.27 percent) for the three month period primarily due to increased pension expense resulting from a decrease in the expected return on plan assets and an increase in the amount of actuarial losses amortized for 2009 for the districtwide plan in which the Bank participates. See Note 7, *Employee Benefit Plans*, in the Notes to the Financial Statements, for further information.

The Insurance Fund premiums increased $3.1 million (169.26 percent) for the three month period due to the increase in loan volume of the participations/syndications and correspondent lending portfolios compared to the prior year three month period and a change in assessment of Insurance Fund premiums. 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 was 15 basis points for the first three months of 2008, was increased to 20 basis points for 2009.

The increase in correspondent lending servicing expense of $986 thousand (156.01 percent) for the three month period 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.

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2009	**For the year ended December 31, 2008**	**Annualized for the three months ended March 31, 2008**
Return on average assets	0.72%	0.76%	0.73%
Return on average shareholders’ equity	16.65%	14.59%	13.20%
Net interest income as a percentage of average earning assets	1.50%	1.29%	1.19%
Net (chargeoffs) recoveries to average loans	(0.68)%	(0.01)%	(0.01)%

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 2008 Annual Report of AgFirst Farm Credit Bank 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, Director of Financial Reporting, 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.

Balance Sheets

(dollars in thousands)	March 31, 2009 *(unaudited)*	December 31, 2008 *(audited)*
Assets		
Cash and cash equivalents	$ 202,868	$ 277,003
Investment securities:		
Available for sale (amortized cost of $6,922,233 and $6,619,348 respectively)	6,623,153	6,263,557
Held to maturity (fair value of $1,721,121 and $1,763,185 respectively)	1,673,344	1,729,600
Total investment securities	8,296,497	7,993,157
Loans	20,887,873	21,239,330
Less: allowance for loan losses	26,265	44,565
Net loans	20,861,608	21,194,765
Accrued interest receivable	100,377	106,593
Investments in other Farm Credit System institutions	74,586	75,055
Premises and equipment, net	17,239	18,061
Other property owned	719	540
Due from associations	13,299	40,671
Other assets	211,555	205,206
Total assets	$ 29,778,748	$ 29,911,051
Liabilities		
Bonds and notes	$ 27,879,013	$ 28,053,023
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	102,883	154,143
Patronage distribution payable	—	157,017
Other liabilities	214,279	80,776
Total liabilities	28,421,175	28,669,959
Commitments and contingencies (Note 6)	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	438,672	434,929
Retained earnings		
Allocated	805	805
Unallocated	818,542	762,550
Accumulated other comprehensive income (loss)	(300,446)	(357,192)
Total shareholders' equity	1,357,573	1,241,092
Total liabilities and equity	$ 29,778,748	$ 29,911,051

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, 2009	2008
Interest Income		
Investment securities and other	$ 51,409	$ 80,812
Loans	216,459	265,558
Total interest income	267,868	346,370
Interest Expense	160,321	267,930
Net interest income	107,547	78,440
Provision for (reversal of) loan losses	16,701	660
Net interest income after provision for (reversal of) loan losses	90,846	77,780
Noninterest Income		
Loan fees	2,250	2,375
Gains (losses) on investments, net	—	(71)
Impairment losses on investments (Note 2)	(18,634)	—
Noncredit-related losses on investments not expected to be sold (recognized in other comprehensive income) (Note 2)	13,181	—
Net impairment losses on investments	(5,453)	—
Gains (losses) on derivatives, net	571	—
Gain (loss) on sale of rural home loans, net	—	40
Patronage refunds from other Farm Credit institutions	758	436
Other noninterest income	1,567	624
Total noninterest income	(307)	3,404
Noninterest Expenses		
Salaries and employee benefits	9,115	7,162
Occupancy and equipment	3,212	3,761
Insurance Fund premiums	4,992	1,854
Other operating expenses	5,217	5,107
Called debt expense	13,801	13,608
Correspondent lending servicing expense	1,618	632
Other noninterest expense	70	70
Total noninterest expenses	38,025	32,194
Net income	$ 52,514	$ 48,990

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, 2007	$ 400,000	$ 364,759	$705	$ 730,724	$ (38,707)	$ 1,457,481
Comprehensive income						
Net income				48,990		48,990
Unrealized gains (losses) on investments available for sale					(100,059)	(100,059)
Employee benefit plans adjustments				(138)	43	(95)
Total comprehensive loss						(51,164)
Capital stock/participation certificates issued/(retired), net		28,047				28,047
Cash patronage				(261)		(261)
Balance at March 31, 2008	$ 400,000	$ 392,806	$ 705	$ 779,315	$ (138,723)	$ 1,434,103
Balance at December 31, 2008	$ 400,000	$ 434,929	$ 805	$ 762,550	$ (357,192)	$ 1,241,092
Comprehensive income (loss)						
Net income				52,514		52,514
Unrealized gains (losses) on investments available for sale:						
Other-than-temporarily impaired (Note 2)					(13,181)	
Temporarily impaired (Note 2)					73,366	
Total unrealized gains (losses) on investments available for sale						60,185
Employee benefit plans adjustments					35	35
Total comprehensive income						112,734
Capital stock/participation certificates issued/(retired), net		3,743				3,743
Cumulative-effect adjustment for investment impairment accounting change (Note 2)				3,474	(3,474)	—
Patronage distribution adjustment				4		4
Balance at March 31, 2009	$ 400,000	$ 438,672	$ 805	$ 818,542	$ (300,446)	$ 1,357,573

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, 2009	2008
Cash flows from operating activities:		
Net income	$ 52,514	$ 48,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,069	2,284
Premium amortization/discount accretion on investment securities	1,941	968
Premium amortization/discount accretion on bonds and notes	8,142	2,796
Provision for (reversal of) loan losses	16,701	660
Net impairment losses on investments	5,453	71
(Gains) losses on derivatives, net	(571)	—
(Gains) losses on sales of rural home loans, net	—	(40)
Net change in loans held for sale	14,949	6,793
(Increase) decrease in accrued interest receivable	6,216	2,522
(Increase) decrease in due from associations	27,372	6,471
(Increase) decrease in other assets	(19,347)	(13,081)
Increase (decrease) in accrued interest payable	(51,260)	(33,872)
Increase (decrease) in other liabilities	132,073	(8,024)
Total adjustments	143,738	(32,452)
Net cash provided by (used in) operating activities	196,252	16,538
Cash flows from investing activities:		
Investment securities purchased	(748,253)	(916,778)
Investment securities sold or matured	499,683	614,375
Net (increase) decrease in loans	301,328	(429,037)
(Increase) decrease in investments in other Farm Credit System institutions	469	484
Purchase of premises and equipment, net	(1,247)	(1,375)
Net cash provided by (used in) investing activities	51,980	(732,331)
Cash flows from financing activities:		
Bonds and notes issued	29,425,995	32,030,809
Bonds and notes retired	(29,595,092)	(31,252,510)
Capital stock and participation certificates issued/retired, net	3,743	28,047
Cash distribution to shareholders	(157,013)	(151,536)
Net cash provided by (used in) financing activities	(322,367)	654,810
Net increase (decrease) in cash and cash equivalents	(74,135)	(60,983)
Cash and cash equivalents, beginning of period	277,003	558,770
Cash and cash equivalents, end of period	$ 202,868	$ 497,787
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	$ 179	$ —
Change in unrealized gains (losses) on investments and derivative instruments, net	60,185	(100,059)
Employee benefit plans adjustments	35	(95)
Cumulative-effect adjustment for investment impairment accounting change (Note 2)	(3,474)	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	$ (13,055)	$ 46,575
Decrease (increase) in other assets	12,998	(44,015)
Increase (decrease) in other liabilities	(571)	(2,560)
Supplemental information:		
Interest paid	$ 203,439	$ 299,006

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, 2008 are contained in the 2008 Annual Report to Shareholders. These unaudited first quarter 2009 financial statements should be read in conjunction with the 2008 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, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

Certain amounts in the prior period's financial statements may have been reclassified to conform to the current period's 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 at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs. A review of all individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to assure loss exposure to the Bank has been identified. Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances. The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The Bank considers factors such as credit risk classifications, collateral values, risk concentrations, economic and weather related conditions, among others, when determining the allowance for loan losses.

A specific allowance may be established for impaired loans under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under SFAS No. 5, "Accounting for Contingencies," to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

Effective January 1, 2009, the Bank adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

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 this Statement and related interpretations
c. How derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

The adoption of this Standard did not have an impact on the financial statements; however, the derivative instruments disclosures have been expanded in accordance with SFAS No. 161 (see Note 8).

Effective January 1, 2009, the Bank adopted Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption resulted in additional fair value disclosures (see Note 4), primarily regarding other property owned, but does not have an impact on the Bank's financial condition or results of operations.

In April 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for the fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. FSP 157-4 indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

FSP 157-4 also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Bank early adopted this FSP (see Note 2 and Note 4).

In April 2009, the FASB issued FSP No. 115-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2), which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP 115-2 changes existing impairment guidance under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115) by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity 1) intends to sell the security, 2) more likely than not will be required to sell the security before recovering its cost, or 3) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to in FSP 115-2 as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into 1) the estimated amount relating to credit loss, and 2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly (see Note 2), as well as annually.

This FSP is effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Bank early adopted this FSP and recognized an adjustment to beginning retained earnings in the amount of $3.5 million, and a corresponding adjustment to accumulated other comprehensive income of $3.5 million. If a reporting entity early adopts this FSP, it is required to adopt FSP 157-4 and the same applies if FSP 157-4 is adopted, then FSP 115-2 must also be adopted.

In addition, in April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. The Bank early adopted this FSP (see Note 5).

NOTE 2 — INVESTMENT SECURITIES

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at March 31, 2009 follows:

(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
U.S. Govt. GNMA MBS/CMOs	$3,078,268	$12,198	$ (42,720)	$3,047,746	1.98 %
U.S. Govt. Agency MBS	3,189,399	13,792	(93,403)	3,109,788	2.09
Non-Agency Securities	544,268	-	(146,948)	397,320	0.91
Asset-Backed Securities	110,298	-	(41,999)	68,299	0.72
Total	$6,922,233	$25,990	$(325,070)	$6,623,153	1.93 %

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at March 31, 2009 follows:

(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
U.S. Govt. Agency MBS	$1,453,934	$60,091	$ (333)	$1,513,692	5.21 %
Other	219,410	5,733	(17,714)	207,429	6.14
Total	$1,673,344	$65,824	$(18,047)	$1,721,121	5.33 %

AgFirst's investments include mortgage-backed securities (MBSs), asset backed securities (ABSs), and short-term money market securities. MBSs are collateralized by U.S. government or U.S. agency guaranteed residential mortgages and all were rated in the top category (AAA/Aaa) by the NRSROs at March 31, 2009. All but two of the non-agency CMO securities (fair value of $22.7 million) were rated or split rated in the top category by at least one of the Nationally Recognized Statistical Organizations (NRSROs) at March 31, 2009. All but three of the ABSs (fair value of $19.1 million) are rated above the minimum for investment grade (BBB-/ Baa3) by the NRSROs at March 31, 2009. All ABSs have credit enhancement features including senior/subordinate structure and/or are backed by a bond insurer. Money market securities are short term in nature (from overnight maturities to maturities that range from 30 to 90 days) and are only purchased from financial institutions that carry sound credit ratings.

The fair value of all investments at March 31, 2009 split rated AAA/Aaa or lower by the NRSROs totaled $227.2 million (amortized cost of $350.7 million), which represents approximately 2.7 percent (and 4.1 percent) of total fair value (and amortized cost) of the Bank's total investment portfolio at March 31, 2009.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at March 31, 2009.

	Less than 12 Months		**Greater than 12 Months**		**Total**	
(dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Govt. GNMA MBS/CMOs	$ 1,640,968	$ 28,388	$ 499,393	$ 14,332	$ 2,140,361	$ 42,720
U.S. Govt. Agency MBS	1,130,896	38,823	1,191,245	54,914	2,322,141	93,737
Non-Agency Securities	23,918	5,751	373,401	141,197	397,319	146,948
Asset-Backed Securities	-	-	68,299	41,999	68,299	41,999
Other	25,023	1,106	83,708	16,607	108,731	17,713
Total	$ 2,820,805	$ 74,068	$ 2,216,046	$ 269,049	$ 5,036,851	$ 343,117

On March 31, 2009, the Bank held certain investments having continuous unrealized loss positions for more than 12 months with a fair value totaling $2.216 billion and an unrealized loss position totaling $269.0 million. The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others: 1) the length of time and the extent to which the fair value is less than cost, 2) the financial condition and near-term prospects of the issuer, 3) the estimated cash flow projections compared to contractual cash flows, 4) significant rating agency changes on the issuer, and 5) the Bank's ability and intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments. Based on the results of all analyses, the Bank has recognized total other-than-temporary impairment during the first quarter of 2009 of $18.6 million in connection with two ABS securities and two non-agency CMO securities in its portfolio, which is included in Impairment Losses on Investments in the Statements of Income.

Since the Bank does not intend to sell these four impaired debt securities and is not more likely than not to be required to sell before recovery, the other-than temporary impairment of $18.6 million is separated into 1) the estimated amount relating to credit loss ($5.5 million reflected in Net Income in the Statements of Income), and 2) the amount relating to all other factors ($13.2 million reflected in other comprehensive income in the Statement of Changes in Shareholders' Equity). Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis. In determining the amount of credit loss, the Bank uses the expected present value technique as its best estimate of the present value of cash flows expected to be collected from the debt security. Significant inputs used in this technique to measure the amount related to the credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan to collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. No additional impairment was recognized during the first quarter of 2009 for the one ABS security previously impaired in 2008.

Due to the adoption of FSP 115-2, the Bank recognized the cumulative effect of initially applying this FSP in 2009 as an adjustment to the opening balance of unallocated retained earnings of $3.5 million with the same corresponding adjustment amount to AOCI. The $3.5 million represents the noncredit-related amount of the previous other-than-temporary impairment recognized by the Bank in 2008 of $10.5 million on one ABS security.

For all investments other than the five securities discussed above, the Bank has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from reduced liquidity in the securities markets stemming from general adversity in the financial markets and full payment of principal and interest is expected. The Bank 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, especially after considering credit enhancements. All securities, including the five securities that have been determined to be other-than-temporarily impaired, continue to perform. Substantially all of these investments were in U. S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the first quarter of 2009, net unrealized gains of $73.4 million were recognized in other comprehensive income for temporarily impaired available for sale investments.

A summary of the expected maturity, estimated fair value and amortized cost of investment securities at March 31, 2009 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ –	– %	$ 281	0.72 %	$ 3,047,465	2.00 %	$ 3,047,746	2.00 %
U.S. Govt. Agency MBS	–	–	786	1.12	203,576	1.68	2,905,426	2.18	3,109,788	2.15
Non-Agency Securities	–	–	–	–	–	–	397,320	1.24	397,320	1.24
Asset-Backed Securities	–	–	–	–	–	–	68,299	1.16	68,299	1.16
Total fair value	$ –	– %	$ 786	1.12 %	$ 203,857	1.68 %	$ 6,418,510	2.02 %	$ 6,623,153	2.01 %
Total amortized cost	$ –		$ 792		$ 204,154		$ 6,717,287		$ 6,922,233	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ –	– %	$ 1,453,934	5.21 %	$ 1,453,934	5.21 %
Other	–		63,427	6.49	73,634	5.72	82,349	6.25	219,410	6.14
Total amortized cost	$ –	– %	$ 63,427	6.49 %	$ 73,634	5.72 %	$ 1,536,283	5.26 %	$ 1,673,344	5.33 %
Total fair value	$ –		$ 65,041		$ 74,190		$ 1,581,890		$ 1,721,121	

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings as of March 31, 2009:

(dollars in thousands)	**For the three months ended March 31, 2009**
Beginning balance at January 1, 2009	$ -
Adjustment to beginning balance due to application of investment impairment accounting change	6,991
Adjusted beginning balance at January 1, 2009	6,991
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	5,453
Ending balance at March 31, 2009	$ 12,444

NOTE 3 — ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
(dollars in thousands)	**2009**	**2008**
Balance at beginning of period	$ 44,565	$ 2,816
Provision for (reversal of) loan losses	16,701	660
Charge-offs	(35,001)	(1,429)
Recoveries	-	158
Balance at end of period	$ 26,265	$ 2,205

The following table presents information concerning impaired loans as of March 31,

(dollars in thousands)	**2009**	**2008**
Impaired loans with related allowance	$ 14,250	$ -
Impaired loans with no related allowance	205,175	5,837
Total impaired loans	$ 219,425	$ 5,837
Allowance on impaired loans	$ 14,156	$ -

The following table summarizes impaired loan information for the three months ended March 31,

(dollars in thousands)	**2009**	**2008**
Average impaired loans	$ 194,782	$ 3,531
Interest income recognized on impaired loans	212	38

NOTE 4 — FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Bank adopted SFAS No. 157 “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value and expands the Bank’s fair value disclosure for certain assets and liabilities measured at fair value on a recurring and non-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, standby letters of credit, impaired loans, and other property owned.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

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 Bank’s financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs 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 Bank's Level 1 assets at March 31, 2009 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 Bank'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 Bank'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 Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

The Bank's Level 2 assets and liabilities at March 31, 2009 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 March 31, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established.
Level 3 assets at March 31, 2009 also include the Bank's mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio. Based on the currently illiquid marketplace for non-agency mortgage-backed investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the Bank classified the mortgage-related asset-backed investment portfolio and non-agency CMO investment portfolio as Level 3 assets. The fair value measurement of these assets involved management's

judgment and was based on multiple factors including information obtained from third-party valuation services using both level 2 and level 3 inputs.

Other property owned is classified as a level 3 asset at March 31, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell.

Level 3 liabilities at March 31, 2009 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 March 31, 2009 for each of the fair value hierarchy levels:

(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	$ -	$ 6,157,534	$ 465,619	$ 6,623,153
Federal funds sold, securities purchased under resale agreements, and other	-	83,067	-	83,067
Interest rate swaps and other financial instruments	-	111,984	-	111,984
Assets held in trust funds	2,375	-	-	2,375
Total Assets	$ 2,375	$ 6,352,585	$ 465,619	$ 6,820,579
Liabilities:				
Interest rate swaps and other financial instruments	$ -	$ (102)	$ -	$ (102)
Standby letters of credit	-	-	2,172	2,172
Total Liabilities	$ -	$ (102)	$ 2,172	$ 2,070

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis. Non-agency CMO securities were transferred from level 2 to level 3 assets effective March 31, 2009 as the Bank began adjusting the valuation obtained from a third party pricing service for this portfolio to reflect, in part, the valuation obtained from a cash flow modeling process. Total credit losses of $1.4 million were included in earnings for the first quarter of 2009 for two non-agency CMOs determined to be other-than-temporarily impaired.

(dollars in thousands)	Asset-Backed Investment Securities	Non-Agency CMOs	Standby Letters Of Credit
Balance at January 1, 2009	$ 79,961	$ -	$ 2,301
Total gains or (losses) realized/unrealized:			
Included in earnings	(4,009)	-	-
Included in other comprehensive loss	5,651	-	-
Purchases, sales, issuances and settlements, net	(13,304)	-	(129)
Transfers in and/or out of level 3	-	397,320	-
Balance at March 31, 2009	$ 68,299	$ 397,320	$ 2,172

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below:

(dollars in thousands)	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ -	$ -	$ 94	$ 94	$ (16,748)
Other Property Owned	$ -	$ -	$ 719	$ 719	$ -

NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Bank's financial instruments at March 31, 2009.

Quoted market prices are generally not available for certain Systemwide Debt securities, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	March 31, 2009	
(dollars in thousands)	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net of allowance	$ 20,861,608	$ 21,156,119
Derivative assets	$ 111,984	$ 111,984
Cash and cash equivalents	$ 202,868	$ 202,868
Investment securities	$ 8,296,497	$ 8,344,274
Assets held in trust funds	$ 2,375	$ 2,375
Financial liabilities:		
Systemwide Debt Securities	$ 27,879,013	$ 28,049,631
Derivative liabilities	$ (102)	$ (102)

A description of the methods and assumptions used to estimate the fair value of each class of the Bank's financial instruments for which it is practicable to estimate that value follows:

A. **Loans:** Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using the Bank's current interest rates at which similar loans would be made to borrowers with similar credit risk.

   For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. The carrying value of accrued interest approximates its fair value.

B. **Cash and Cash Equivalents:** The carrying value is primarily a reasonable estimate of fair value.

C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service. See additional information in Note 4.

D. **Systemwide Debt Securities:** Bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity Treasury notes, assuming a constant estimated spread relationship between Systemwide bonds and notes and comparable Treasury notes.

E. **Derivative Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through dealer quotes. See additional information in Note 4.

F. **Assets Held In Trust Funds:** See Note 4 for discussion of estimation of fair value for this instrument.

NOTE 6 — 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 $179.187 billion at March 31, 2009.

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

NOTE 7 — 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,	
(dollars in thousands)	**2009**	**2008**
Pension	$ 2,121	$ 558
401k	216	194
Other postretirement benefits	221	216
Total	$ 2,558	$ 968

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 December 31, 2008.

(dollars in thousands)	**Actual YTD Through 3/31/09**	**Projected Contributions for Remainder Of 2009**	**Projected Total Contributions 2009**
Pensions	$ 63	$ 193	$ 256
Other postretirement benefits	230	693	923
Total	$ 293	$ 886	$ 1,179

As of March 31, 2009, no contributions have been made for 2009 by the Bank to the qualified District pension plan in which the Bank participates. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of $52.0 million to the qualified District pension plan for all participating institutions for 2009. The funding policy for this plan is to fund the service cost with a seven year amortization schedule using the discount rate determined as of December 31st of the preceding year. This aggregate contribution will be allocated to the participating District institutions, including the Bank, based upon each institutions pro rata share of service cost. Market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2009, the Bank adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133.

The Bank maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged variable-rate assets and liabilities, respectively, will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Bank's gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The Bank enters into derivatives, particularly interest rate swaps, to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps allow the Bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. Under interest rate swap arrangements, the Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. The Bank may also purchase interest rate derivatives such as caps in order to reduce the impact of rising interest rates on its floating-rate debt and floors in order to reduce the impact of falling interest rates on its floating-rate assets.

The primary types of derivative instruments used and the amount of activity for the three months ended March 31, 2009 is summarized in the following table:

(dollars in millions)	**Receive-Fixed Swaps**
Balance at beginning of period	$2,223
Additions	-
Maturities/amortization	(200)
Terminations	(50)
Balance at end of period	$1,973

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade credit rating from a major rating agency, and also monitors the credit standing of and levels of exposure to individual counterparties. The estimated credit risk exposure at March 31, 2009 of $79.5 million with seven counterparties represents approximately 4.03 percent of the total notional amount of interest rate swaps. The Bank does not anticipate nonperformance by any of these counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At March 31, 2009, the Bank had not posted collateral with respect to these arrangements but has required two counterparties to post a total of $32.5 million in interest bearing cash collateral.

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. The Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's board of directors through the Bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedge item attributable to the hedged risk are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the gain on interest rate swaps recognized in interest expense for the quarter ended March 31, 2009 was $13.0 million, while the amount of the loss on the Systemwide Debt Securities was ($13.0) million. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

(dollars in thousands)	**Balance Sheet Classification - Assets**	**3/31/09 Fair Value**	**Balance Sheet Classification - Liabilities**	**3/31/09 Fair Value**
Derivatives designated as hedging instruments under SFAS No. 133:				
Receive-fixed swaps	Other Assets	$ 111,984	Other Liabilities	$ (102)
Total		$ 111,984		$ (102)

The following table sets forth the effect of derivative instruments on the Statement of Income for the period ended March 31, 2009:

(dollars in thousands)	**Location of Gain or (Loss) Recognized in the Statement of Income**	**Amount of Gain or (Loss) Recognized in the Statement of Income**
Derivatives – Fair Value Hedging Relationships:		
Receive-fixed swaps	Other Income	$ 571
Total		$ 571