AgFirst Farm Credit Bank

Quarterly Report

Second Quarter 2008

SECOND QUARTER 2008

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August 1, 2008

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) for the three 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. 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, 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 AgFirst's business.

FINANCIAL CONDITION

Loan Portfolio

Total loans outstanding were $20.781 billion at June 30, 2008, increases of $1.666 billion, or 8.7 percent, compared to total loans outstanding at December 31, 2007, and $2.727 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 Bank and its District Associations to compete effectively for this expanded business while retaining current members and their business relationships.

AgFirst's primary line of business is to provide funding to the District Associations. AgFirst has a revolving line of credit, referred to as a direct note, in place with each of the Associations to support their loan growth and other operating needs. Substantially all the assets of the Associations secure the direct notes. Lending terms are specified in a separate General Financing Agreement between AgFirst and each Association, including the subsidiaries of the Associations. At June 30, 2008, total direct note volume outstanding was $15.142 billion, an increase of $537.0 million, or 3.7 percent, compared to December 31, 2007, and $670.2 million, or 4.6 percent, compared to June 30, 2007. Those growth factors were muted by the Bank's purchase of loan pools from certain Associations, which reduced those Associations' borrowing needs under their direct notes, and the sale of a participation in one of the direct notes to another Farm Credit System bank.

AgFirst also has a participations/syndications portfolio (which consists primarily of agricultural loans), and a correspondent lending portfolio (which consists primarily of first lien residential mortgages). As of June 30, 2008, the participations/syndications portfolio totaled $4.451 billion and the correspondent lending portfolio totaled $1.188 billion. From June 30, 2007, to June 30, 2008, the participations/syndications portfolio increased $1.756 billion, or 65.1 percent, and the correspondent lending portfolio increased $290.3 million, or 32.4 percent.

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 AgFirst'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 AgFirst loan portfolio has been only slightly negatively impacted to date by the factors mentioned above, the risk of future deterioration is increasing.

AgFirst's direct note portfolio continued to perform well. As of June 30, 2008, twenty-one of the twenty-three District Associations' direct notes, representing 95.6 percent of the direct note portfolio, were classified acceptable. The remaining two direct notes, representing 4.4 percent of the total, were classified as Other Assets Especially Mentioned (OAEM). All twenty-three of the direct notes are performing. One Association failed to meet its General Financing Agreement (GFA) liquidity covenant at June 30, 2008. The GFA defines Association performance criteria for borrowing from AgFirst. The Association has submitted a plan to the Bank to achieve compliance with the covenant requirement. The Bank has approved the plan and agreed to a temporary waiver of the covenant requirement. All other Associations are in compliance with the GFA. All District Associations also met all regulatory capital requirements.

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

Participations/Syndications Credit Quality as of:			
Classification	**June 30, 2008**	**December 31, 2007**	**June 30, 2007**
Acceptable	95.12%	97.84%	98.28%
OAEM *	3.80%	1.57%	1.54%
Substandard	1.08%	0.53%	0.18%
Doubtful	0.00%	0.06%	0.00%

* *Other Assets Especially Mentioned*

Essentially all loans in the correspondent lending portfolio are guaranteed by Fannie Mae and/or Farmer Mac, thereby limiting credit risk to AgFirst. Technically, the guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the "guarantor" at par. At June 30, 2008, 99.6 percent of the correspondent lending portfolio was classified as Acceptable, and 0.4 percent was classified as OAEM.

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolios. At June 30, 2008, AgFirst had $2.1 million in general reserves for inherent loan losses in certain loan pools purchased directly from several Associations. Also, the Bank had $6.1 million in specific reserves at June 30, 2008, primarily established for a participation loan placed on nonaccrual status in June 2008. As a part of the overall risk management program, AgFirst management has established a process which includes a review of all portfolios each quarter. Reserves are established as needed based upon that analysis. See Note 2, *Allowance for Loan Losses*, in the Notes to the Financial Statements.

Nonaccrual loan assets for the Bank at June 30, 2008, were $37.1 million compared to $2.5 million at December 31, 2007 and $446 thousand at June 30, 2007. The increase in nonaccrual loans at June 30, 2008 is primarily due to one borrower as mentioned above.

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 June 30, 2008, AgFirst had $27.540 billion in total debt outstanding compared to $24.847 billion at December 31, 2007. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock in both periods. Total interest-bearing liabilities increased primarily to fund the increases in loan and investment volumes as discussed in this report.

Cash, cash equivalents, and investment securities totaled $8.347 billion, or 28.3 percent of total assets at June 30, 2008, compared to $7.468 billion, or 27.7 percent, as of December 31, 2007. Investment securities increased $1.201 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 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 $1.745 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 $6.192 billion at June 30, 2008. Total unrealized losses of $176.6 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 $4.186 billion in Agency Collateralized Mortgage Obligations (CMO's), $1.343 billion in Agency Adjustable Rate Mortgages, $551.0 million in whole loan CMO's, and $111.7 million in asset-backed securities.

The Bank 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 for asset-backed securities of $53.0 million was included in the total $176.6 million of unrealized losses reflected in AOCI at June 30, 2008 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 June 30, 2008, totaled $99.3 million (amortized cost value of $142.0 million). This included all but two of the eleven asset-backed securities held by the Bank 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 Bank'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 $551.0 million, which represented 8.9 percent of the available-for-sale liquidity investment portfolio and 6.9 percent of the total investment security portfolio at June 30, 2008. The amortized cost of these investment securities totaled $600.3 million and the market value adjustment decrease for whole loan CMO's of $49.3 million was included in the total $176.6 million of unrealized losses reflected in AOCI at June 30, 2008 as discussed above. All of the Bank's CMO securities were rated in the top category (AAA/ Aaa) by the NRSROs at June 30, 2008.

The Bank performs periodic credit reviews on its investment securities portfolio, including asset-backed securities and whole loan CMO's, placing special emphasis on those investments not rated in the top category by the NRSROs. The Bank has not recognized any other-than-temporary impairment in connection with asset-backed securities, whole loan CMO's, or any other investments, as the Bank has determined that the decline in market value was caused primarily by reduced liquidity in the securities markets stemming from the general adversity in the financial 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. All securities continue to perform.

Capital Resources

Total shareholders' equity decreased $12.9 million from December 31, 2007, to June 30, 2008. This 0.9 percent net decrease is primarily attributed to an increase of $138.9 million in unrealized losses on investments available-for-sale, a component of AOCI, which was offset by an increase in unallocated retained earnings from net income of $106.0 million and a net increase in capital stock issued of $33.8 million. Total unrealized losses on investments available-for-sale were $176.6 million at June 30, 2008.

As of June 30, 2008, AgFirst exceeded the minimum permanent capital, core surplus, total surplus, and net collateral ratio requirements established by FCA Regulations. In conjunction with the issuance of the Mandatorily Redeemable Preferred Stock, FCA requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. AgFirst reported the following regulatory ratios:

	Regulatory	**AgFirst Ratio as of**	
	Minimum	**6/30/08**	**12/31/07**
Permanent Capital Ratio	7.00%	17.64%	20.59%
Total Surplus Ratio	7.00%	17.59%	20.54%
Core Surplus Ratio	3.50%	10.49%	13.04%
Net Collateral Ratio	104.00%	105.84%	106.02%

The decrease in the Bank's permanent capital, total surplus, and core surplus ratios at June 30, 2008 as compared to December 31, 2007 was attributed to the growth in assets on both a total and risk adjusted basis exceeding the increase in capital. Capital at June 30, 2008 only includes six months of unallocated retained earnings as compared to twelve months at December 31, 2007.

RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2008 was $57.0 million, compared to $47.4 million at June 30, 2007, an increase of $9.6 million, or 20.3 percent. For the six months ended June 30, 2008, net income was $106.0 million, compared to $92.8 million at June 30, 2007, an increase of $13.2 million, or 14.2 percent. These overall increases are discussed below.

Net Interest Income

Net interest income for the three months ended June 30, 2008 was $86.5 million compared to $60.1 million for the same period of 2007, an increase of $26.5 million or 44.1 percent. For the six months ended June 30, 2008, net interest income was $165.0 million compared to $119.3 million for the same period of 2007, an increase of $45.7 million or 38.3 percent. Net interest margin was 1.23 percent and 1.21 percent in the current year three and six month periods respectively, an improvement of 0.25 percent and 0.22 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 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 income. However, the benefit of lower debt costs was partially 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, which caused the widening spreads during the first half of 2008, 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	$ 39,071	$ (56,009)	$ (16,938)	$ 69,731	$ (74,117)	$ (4,386)
Investments & Cash Equivalents	12,503	(33,250)	(20,747)	19,712	(53,721)	(34,009)
Total Interest Income	$ 51,574	$ (89,259)	$ (37,685)	$ 89,443	$ (127,838)	$ (38,395)
Interest Expense:						
Interest-Bearing Liabilities	$ 43,065	$ (107,423)	$ (64,178)	$ 73,293	$ (157,375)	$ (84,082)
Changes in Net Interest Income	$ 8,509	$ 17,984	$ 26,493	$ 16,150	$ 29,537	$ 45,687

Provision for Loan Losses

The provision for loan losses was $6.7 million for the six months ended June 30, 2008, compared to $148 thousand for the same period in 2007. The provision for the six months ended June 30, 2008, primarily related to a specific reserve for a participation loan placed on nonaccrual status in June 2008. See Note 2, *Allowance for Loan Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

Noninterest income for the three months ended June 30, 2008, was $3.3 million, which reflected an increase of

$152 thousand compared to the same period in 2007. For the six months ended June 30, 2008, noninterest income was $6.7 million, which reflected an increase of $797 thousand compared to the same period in 2007. The increase in noninterest income for both periods primarily resulted from the increases in loan fees. In the second quarter of 2008, estimated patronage refunds from other Farm Credit institutions were adjusted to reflect actual refunds following receipt of updated information from the payors, which caused the negative patronage refunds amount of $210 thousand for the three month period ended June 30, 2008.

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	$ 2,326	$ 1,694	$ 632	$ 4,701	$ 3,421	$ 1,280
Realized gains (losses) on investments, net	-	-	-	(71)	-	(71)
Gains (losses) on sale of rural home loans, net	(5)	40	(45)	35	82	(47)
Patronage refunds from other Farm Credit institutions	(210)	101	(311)	226	235	(9)
Other noninterest income	1,189	1,313	(124)	1,813	2,169	(356)
Total noninterest income	$ 3,300	$ 3,148	$ 152	$ 6,704	$ 5,907	$ 797

Noninterest Expense

Noninterest expense for the three months ended June 30, 2008 was $26.7 million, which reflected an increase of $10.8 million compared to the corresponding period in 2007. For the six months ended June 30, 2008, noninterest expense was $58.9 million, which reflected an increase of $26.7 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.

Salaries and employee benefits increased $664 thousand (10.6 percent) and $1.6 million (12.6 percent) for the three and six month periods, respectively, due to normal salary increases, increased benefit costs, and reduced deferrals associated with the cost of internal project development and other factors.

Occupancy and equipment expenses increased $219 thousand (6.5 percent) and $817 thousand (12.5 percent) for the three and six month periods, respectively, primarily as the result of technology upgrading and renovation aimed at improving AgFirst's infrastructure and upgrading various systems and related higher depreciation expense.

The Insurance Fund premiums increased $727 thousand (55.1 percent) and $1.3 million (51.4 percent) for the three and six month periods, respectively, due to the increase in loan volume of the participations/syndications and correspondent lending portfolios. 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 $913 thousand (22.0 percent) and $1.6 million (18.9 percent) for the three and six month periods, respectively, primarily from a decrease in cost deferrals related to internal capital project development and other factors in addition to higher general insurance premiums and professional fees and timing of payments.

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 $102 thousand (59.6 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	$ 6,954	$ 6,290	$ 664	$ 14,116	$ 12,535	$ 1,581
Occupancy and equipment	3,575	3,356	219	7,336	6,519	817
Insurance Fund premium	2,047	1,320	727	3,901	2,577	1,324
Other operating expenses	5,060	4,147	913	10,167	8,551	1,616
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	69	171	(102)	139	342	(203)
Total noninterest expense	$ 26,732	$ 15,906	$ 10,826	$ 58,926	$ 32,234	$ 26,692

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	0.77%	0.76%	0.76%
Return on average shareholders' equity	14.46%	13.58%	14.86%
Net interest income as a percentage of average earning assets	1.21%	1.04%	0.99%
Net chargeoffs (recoveries) to average loans	0.016%	0.001%	0.001%

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Balance Sheets

(dollars in thousands)	**June 30, 2008**	**December 31, 2007**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 410,105	$ 558,770
Investment securities:		
Available for sale (amortized cost of $6,368,728 and $5,646,683 respectively)	6,192,105	5,608,929
Held to maturity (fair value of $1,699,211 and $1,277,999 respectively)	1,744,606	1,299,868
Total investment securities	7,936,711	6,908,797
Loans	20,780,999	19,114,517
Less: allowance for loan losses	8,269	2,816
Net loans	20,772,730	19,111,701
Accrued interest receivable	111,507	114,508
Investments in other Farm Credit System institutions	63,749	64,221
Premises and equipment, net	20,172	20,750
Due from associations	25,341	42,701
Other assets	116,335	105,173
Total assets	$ 29,456,650	$ 26,926,621
Liabilities		
Bonds and notes	$ 27,540,439	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	188,593	179,578
Patronage distribution payable	—	153,103
Other liabilities	58,067	64,211
Total liabilities	28,012,099	25,469,140
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	398,567	364,759
Retained earnings		
Allocated	616	705
Unallocated	822,858	730,724
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

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

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 and other	$ 73,270	$ 94,017	$ 154,082	$ 188,091
Loans	248,708	265,646	514,266	518,652
Total 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 (reversal of) loan losses	80,481	60,167	158,261	119,151
Noninterest Income				
Loan fees	2,326	1,694	4,701	3,421
Realized gains (losses) on investments, net	—	—	(71)	—
Gain on sale of rural home loans	(5)	40	35	82
Patronage refunds from other Farm Credit institutions	(210)	101	226	235
Other noninterest income	1,189	1,313	1,813	2,169
Total noninterest income	3,300	3,148	6,704	5,907
Noninterest Expenses				
Salaries and employee benefits	6,954	6,290	14,116	12,535
Occupancy and equipment	3,575	3,356	7,336	6,519
Insurance Fund premium	2,047	1,320	3,901	2,577
Other operating expenses	5,060	4,147	10,167	8,551
Called debt expense	8,265	133	21,873	754
Correspondent lending servicing expense	762	489	1,394	956
Other noninterest expense	69	171	139	342
Total noninterest expenses	26,732	15,906	58,926	32,234
Net income	$ 57,049	$ 47,409	$ 106,039	$ 92,824

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2006	$ 150,000	$ 313,353	$ —	$ 715,753	$ 1,981	$ 1,181,087
Comprehensive income						
Net income				92,824		92,824
Unrealized gains (losses) on investments available for sale					(6,431)	(6,431)
Total comprehensive income						86,393
Preferred stock issued	250,000					250,000
Issuance cost on preferred stock				(2,740)		(2,740)
Capital stock/participation certificates issued/retired, net		(784)				(784)
Perpetual preferred stock dividends paid				(5,475)		(5,475)
Dividends declared/paid				(95)		(95)
Patronage distribution						
Nonqualified allocated retained earnings			252	(252)		—
Cash patronage				(932)		(932)
Balance at June 30, 2007	$ 400,000	$ 312,569	$ 252	$ 799,083	$ (4,450)	$ 1,507,454
Balance at December 31, 2007	$ 400,000	$ 364,759	$ 705	$ 730,724	$ (38,707)	$ 1,457,481
Comprehensive income						
Net income				106,039		106,039
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of ($71)					(138,869)	(138,869)
Total comprehensive income						(32,830)
Capital stock/participation certificates issued/retired, net		33,808				33,808
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Cash patronage				(261)		(261)
Employee benefit plans adjustments (Note 5)				(138)	86	(52)
Patronage distribution adjustment			(89)	200		111
Balance at June 30, 2008	$ 400,000	$ 398,567	$ 616	$ 822,858	$ (177,490)	$ 1,444,551

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 106,039	$ 92,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,682	4,217
Premium amortization/discount accretion on investment securities	2,835	(2,783)
Premium amortization/discount accretion on bonds and notes	7,576	7,658
Provision for (reversal of) loan losses	6,725	148
(Gains) losses on other property owned, net	—	(5)
Realized (gains) losses on investments, net	71	—
(Gains) losses on sales of rural home loans, net	(35)	(82)
Net change in loans held for sale	16,275	25,474
(Increase) decrease in accrued interest receivable	3,001	(6,644)
(Increase) decrease in due from associations	17,360	16,713
(Increase) decrease in other assets	(6,054)	(9,730)
Increase (decrease) in accrued interest payable	9,015	18,230
Increase (decrease) in other liabilities	(6,322)	(11,314)
Total adjustments	55,129	41,882
Net cash provided by (used in) operating activities	161,168	134,706
Cash flows from investing activities:		
Investment securities purchased	(2,220,748)	(1,161,664)
Investment securities sold or matured	1,051,059	780,707
Net (increase) decrease in loans	(1,684,534)	(927,215)
(Increase) decrease in investments in other Farm Credit System institutions	472	334
Purchase of premises and equipment, net	(4,104)	(1,111)
Proceeds from sale of other property owned	—	80
Net cash provided by (used in) investing activities	(2,857,855)	(1,308,869)
Cash flows from financing activities:		
Bonds and notes issued	62,800,203	22,373,868
Bonds and notes retired	(60,119,030)	(21,444,514)
Preferred stock issued net of issuance cost	—	247,260
Capital stock and participation certificates issued/retired, net	33,808	(784)
Cash distribution to shareholders	(153,253)	(129,404)
Dividends paid on perpetual preferred stock	(13,706)	(5,475)
Net cash provided by (used in) financing activities	2,548,022	1,040,951
Net increase (decrease) in cash and cash equivalents	(148,665)	(133,212)
Cash and cash equivalents, beginning of period	558,770	582,764
Cash and cash equivalents, end of period	$ 410,105	$ 449,552
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	$ 540	$ —
Change in unrealized gains (losses) on investments and derivative instruments, net	(138,869)	(6,431)
Employee benefit plans adjustments	(52)	—
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	$ 486,771	$ 564,274

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

Notes to the Financial Statements

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

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

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2007 are contained in the 2007 Annual Report to Shareholders. These unaudited 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 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 in accordance with GAAP. AgFirst's allowance methodology dictates that all loan portfolios are reviewed quarterly and all impaired loans are identified and analyzed to determine if a specific allowance is necessary. As of June 30, 2008, the risk analysis of the Bank's loan portfolios identified impaired participation loans requiring specific reserves of $6.1 million. The Bank also maintains a general allowance of $2.1 million related to certain loan pools purchased from several District Associations. As of June 30, 2008, the allowance for 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 Bank on January 1, 2008 and the adoption did not have an impact on the Bank'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 Bank and District are still evaluating the provisions of SFAS No. 141R, but believe that its adoption will significantly impact its accounting for combinations/acquisitions that may occur in 2009 and beyond.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS No. 161), which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 161, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Bank is currently evaluating the impact of adoption of SFAS No. 161 on its financial statement disclosures.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2008	**2007**
Balance at beginning of period	$ 2,816	$ 463
Provision for (reversal of) loan losses	6,725	148
Loans (charged off), net of recoveries	(1,272)	(128)
Balance at end of period	$ 8,269	$ 483

NOTE 3 — FAIR VALUE MEASUREMENT

As described in Note 1, AgFirst adopted SFAS No. 157 effective January 1, 2008 which expanded the Bank's fair value disclosure. The Bank'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 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 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 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 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 Bank'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 Bank 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	$ -	$ 6,080,434	$ 111,671	$ 6,192,105
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	3,540	-	-	3,540
Total Assets	$ 3,540	$ 6,416,984	$ 111,671	$ 6,532,195
Liabilities:				
Interest rate swaps and other financial instruments	$ -	$ 2,686	$ -	$ 2,686
Standby letters of credit	-	-	2,194	2,194
Total Liabilities	$ -	$ 2,686	$ 2,194	$ 4,880

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	$ 2,322
Total gains or (losses) realized/unrealized:		
Included in earnings	-	-
Included in other comprehensive loss	(34,898)	-
Purchases, sales, issuances and settlements, net	(19,982)	(128)
Transfers in and/or out of level 3	-	-
Balance at June 30, 2008	$ 111,671	$ 2,194

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.

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

NOTE 5 — EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30, 2008	2007
Pension	$ 1,115	$ 1,537
401k	397	327
Other postretirement benefits	431	499
Total	$ 1,943	$ 2,363

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

	Actual YTD Through 6/30/08	Projected Contributions for Remainder Of 2008	Projected Total Contributions 2008
Pensions	$ 126	$ 126	$ 252
Other postretirement benefits	442	419	861
Total	$ 568	$ 545	$ 1,113

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

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

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

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

Upon adoption, SFAS No. 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income (AOCI). These amounts are subsequently recognized as components of net periodic benefit costs over time. For the first six months of 2008, $86 thousand 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.