AGFIRST FARM CREDIT BANK

Quarterly Report

Third Quarter 2008

THIRD QUARTER 2008

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2008 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.

Thomas W. Kelly
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Charl L. Butler
Chief Financial Officer

October 31, 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 nine month periods ended September 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 nine 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 $21.259 billion at September 30, 2008, increases of $2.144 billion, or 11.2 percent, compared to total loans outstanding at December 31, 2007, and $2.566 billion, or 13.7 percent, compared to September 30, 2007.

The strong increase in loan volume over both the nine month and the annual periods ended September 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.

Future loan demand is difficult to predict, although some moderation in the growth rate of the loan portfolio is anticipated. Commodity prices have declined significantly just over the last several weeks, which has caused some softening in loan demand, at least in the near term. The anticipated downturn in the general economy should also serve to weaken overall loan demand. However, the future availability of credit from the commercial banking sector for farmers and related operations is very uncertain, and the ultimate effect on loan demand at the Bank and its District Associations cannot be determined.

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 (GFA) between AgFirst and each Association, including the subsidiaries of the Associations. At September 30, 2008, total direct note volume outstanding was $15.237 billion, an increase of $634.8 million, or 4.4 percent, compared to December 31, 2007, and $592.3 million, or 4.0 percent, compared to September 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 September 30, 2008, the participations/syndications portfolio totaled $4.749 billion and the correspondent lending portfolio totaled $1.250 billion. From September 30, 2007, to September 30, 2008, the participations/syndications portfolio increased $1.673 billion, or 54.4 percent, and the correspondent lending portfolio increased $278.4 million, or 28.7 percent. As with the direct notes, some moderation in the rate of growth of these portfolios is anticipated.

As of September 30, 2008, the credit quality of the loan portfolio continued to be satisfactory with adverse movements in some quality measures compared to earlier reporting periods. The increased volatility in the financial markets 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 increased in the third quarter compared to previous reporting periods.

To a large degree, the recent credit quality deterioration has been driven by generally higher input costs. Also, the recent volatility in the financial markets has caused the customers' borrowing costs to increase. Until the government's rescue measures produce the desired stability and trust in the financial markets, the cost of credit will remain relatively high. Higher fuel costs have adversely impacted all producers. Higher feed costs have been problematic for the livestock and poultry industries. However, recently, certain commodity prices, including oil and grain, appear to have peaked. This would prove beneficial to meat complex producers going forward. Industries tied to housing such as forestry, sawmills, sod, and landscape nurseries continue to be impacted by the declining housing market. The global economic slowdown will create less demand for agricultural exports. Both the higher cost of credit and declining exports will have a negative impact on the profitability of production agriculture. Given the fact that some sectors of the general economy are already in a recession, combined with a higher level of unemployment, the credit quality of farmers could also be compromised. Based on the above factors, the overall risk of future credit quality deterioration is increasing.

AgFirst's direct note portfolio continued to perform well. As of September 30, 2008, twenty-one of the twenty-three District Associations' direct notes, representing 95.8 percent of the direct note portfolio, were classified acceptable. The remaining two direct notes, representing 4.2 percent of the total, were classified as Other Assets Especially Mentioned (OAEM). All twenty-three of the direct notes are performing. The GFA defines Association performance criteria for borrowing from AgFirst. One Association failed to meet its standard GFA liquidity covenant at September 30, 2008. The Association has submitted a plan to the Bank as required by its GFA and is currently operating under a special credit arrangement pursuant to that agreement. All other Associations are in compliance with the GFA. All District Associations also met all regulatory capital requirements.

In September 2008, the Boards of Directors of two Associations approved a proposed Plan of Merger (Merger). One of the Association's direct notes is currently classified OAEM. The Merger has received approval by AgFirst, and is subject to approval by the stockholders of both Associations and the Farm Credit Administration (FCA). The Merger has a proposed effective date of December 31, 2008. Based on current conditions, it is anticipated that the direct note of the merged association will be classified as acceptable.

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, 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	**September 30, 2008**	**December 31, 2007**	**September 30, 2007**
Acceptable	93.86%	97.84%	98.78%
OAEM *	3.65%	1.57%	1.06%
Substandard	2.49%	0.53%	0.16%
Doubtful	0.00%	0.06%	0.00%

* *Other Assets Especially Mentioned*

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 September 30, 2008, 99.5 percent of the correspondent lending portfolio was classified as Acceptable, and 0.5 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 September 30, 2008, AgFirst had $2.2 million in general reserves for inherent loan losses in certain loan pools purchased directly from several Associations. Also, the Bank had $8.8 million in specific reserves at September 30, 2008, primarily established for two participation borrower relationships placed in nonaccrual status, one in June 2008 and the other in September 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 September 30, 2008, were $52.2 million compared to $2.5 million at December 31, 2007 and $710 thousand at September 30, 2007. The increase in nonaccrual loans at September 30, 2008 is primarily due to two borrower relationships 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 September 30, 2008, AgFirst had $27.777 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. 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 has obtained a $150.0 million committed line of credit facility from its primary commercial depository bank. The line of credit is tied to AgFirst's master cash management clearing account. AgFirst has not drawn on this credit facility. This facility will allow AgFirst to maintain a lower balance in the account with the line of credit funding any shortfall, in effect creating an overdraft line of credit. AgFirst will be better positioned to manage its exposure to the commercial bank and short term funding activity.

Cash, cash equivalents, and investment securities totaled $8.173 billion, or 27.5 percent of total assets at September 30, 2008, compared to $7.468 billion, or 27.7 percent, as of December 31, 2007. Investment securities increased $997.1 million compared to September 30, 2007. Cash and cash equivalents includes $11.0 million of restricted cash at September 30, 2008, which represents funds held in escrow for the purchase of Farmer Mac preferred stock (see below for further discussion). This total investment of $11.0 million is included in Investments in other Farm Credit institutions at September 30, 2008 on the Balance Sheet.

As of September 30, 2008, 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 liquid investments and Agency-guaranteed rural home loans. At September 30, 2008, AgFirst’s coverage was 140 days.

Investment securities classified as being held-to-maturity totaled $1.738 billion at September 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 $6.193 billion at September 30, 2008. Total unrealized losses of $199.2 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 and illiquidity stemming from adversity in the subprime mortgage market. Available-for-sale investments at September 30, 2008 included $4.112 billion in Agency Collateralized Mortgage Obligations (CMO’s), $1.464 billion in Agency Adjustable Rate Mortgages, $523.7 million in whole loan CMO’s, and $93.2 million in asset-backed securities.

The Bank has low exposure to investments backed by subprime mortgages. Asset-backed securities with subprime exposure totaled $93.2 million, which represented 1.5 percent of the available-for-sale liquidity investment portfolio and 1.2 percent of the total investment security portfolio at September 30, 2008. The amortized cost of these investment securities totaled $149.2 million and the market value adjustment decrease for asset-backed securities of $56.0 million was included in the total $199.2 million of unrealized losses reflected in AOCI at September 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 September 30, 2008, totaled $84.4 million (amortized cost value of $128.2 million). This included all but two of the eleven asset-backed securities held by the Bank at September 30, 2008. The two asset-backed securities rated at the minimum for investment grade by one of the NRSROs, totaling $8.7 million (amortized cost value of $21.0 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 experienced significant market pricing volatility. Whole loan CMO’s totaled $523.7 million, which represented 8.5 percent of the available-for-sale liquidity investment portfolio and 6.6 percent of the total investment security portfolio at September 30, 2008. The amortized cost of these investment securities totaled $580.7 million and the market value adjustment decrease for whole loan CMO’s of $57.0 million was included in the total $199.2 million of unrealized losses reflected in AOCI at September 30, 2008 as discussed above. All of the Bank’s CMO securities were rated in the top category (AAA/ Aaa) by the NRSROs at September 30, 2008.

The Bank performs periodic credit reviews, including other-than-temporary impairment analysis, on its entire 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. Each security identified for additional analysis is analyzed using a cash flow model with key assumptions, which include credit default rate, constant prepayment rate, and loss severity. The objective is to quantify any future possible loss of principal or interest due on each identified security. For each of the cash flow analyses, 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. In the case of the asset-backed securities covered by insurers, the models are run with insurance and without to quantify the extent of reliance on their guarantee. Based on the results of all analyses, 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, 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 uses a price or "mark" provided by a third party pricing service. However, following additional guidance and clarification issued by the Financial Accounting Standards Board (FASB) in October 2008 regarding the determination of fair value of a financial asset when the market for that asset is not active, the Bank is considering utilizing an internal pricing model to determine the fair value of the asset-backed securities impacted by inactive trading or distressed sales. The pricing model for this portfolio would include the Bank's own assumptions when relevant observable inputs are not available or not 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.

On September 30, 2008, the Farm Credit System banks made a collective $60.0 million investment in Farmer Mac. As part of this collective investment, AgFirst purchased 11 million shares of Farmer Mac senior cumulative perpetual preferred stock, series B-1, with a par value of $1 dollar per share, for a total investment of $11.0 million. At September 30, 2008, AgFirst also owned $15.5 million of Farmer Mac MBS investment securities, $1.2 million of its common stock and had $121.7 million of loans guaranteed by Farmer Mac. The System banks' preferred stock investment permitted Farmer Mac to maintain its capital position in compliance with its statutory minimum capital requirement at September 30, 2008.

Capital Resources

Total shareholders' equity increased $56.0 million from December 31, 2007, to September 30, 2008. This 3.8 percent net increase is primarily attributed to an increase in unallocated retained earnings from net income of $184.2 million and a net increase in capital stock issued of $47.1 million, which were offset by an increase of $161.4 million in unrealized losses on investments available-for-sale, a component of AOCI. Total unrealized losses on investments available-for-sale were $199.2 million at September 30, 2008.

As of September 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	**9/30/08**	**12/31/07**
Permanent Capital Ratio	7.00%	17.38%	20.59%
Total Surplus Ratio	7.00%	17.34%	20.54%
Core Surplus Ratio	3.50%	10.44%	13.04%
Net Collateral Ratio	104.00%	106.07%	106.02%

The decrease in the Bank's permanent capital, total surplus, and core surplus ratios at September 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.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2008 was $78.2 million, compared to $52.2 million at September 30, 2007, an increase of $26.0 million, or 49.8 percent. For the nine months ended September 30, 2008, net income was $184.2 million, compared to $145.0 million at September 30, 2007, an increase of $39.2 million, or 27.0 percent. These overall increases are discussed below.

Net Interest Income

Net interest income for the three months ended September 30, 2008 was $98.0 million compared to $67.7 million for the same period of 2007, an increase of $30.3 million or 44.7 percent. For the nine months ended September 30, 2008, net interest income was $262.9 million compared to $187.0 million for the same period of 2007, an increase of $76.0 million or 40.6 percent. Net interest margin was 1.33 percent and 1.25 percent in the current year three and nine month periods respectively, an improvement of 29 basis points and 24 basis points 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. 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 Sept. 30, 2008 vs. Sept. 30, 2007			**For the nine months ended Sept. 30, 2008 vs. Sept. 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	$ 40,406	$ (64,692)	$ (24,286)	$ 110,045	$ (138,717)	$ (28,672)
Investments & Cash Equivalents	12,002	(35,736)	(23,734)	31,690	(89,433)	(57,743)
Total Interest Income	$ 52,408	$ (100,428)	$ (48,020)	$ 141,735	$ (228,150)	$ (86,415)
Interest Expense:						
Interest-Bearing Liabilities	$ 46,908	$ (125,203)	$ (78,295)	$ 120,081	$ (282,458)	$ (162,377)
Changes in Net Interest Income	$ 5,500	$ 24,775	$ 30,275	$ 21,654	$ 54,308	$ 75,962

Provision for Loan Losses

The provision for loan losses was $9.5 million for the nine months ended September 30, 2008, compared to $705 thousand for the same period in 2007. The provision for the nine months ended September 30, 2008, primarily related to specific reserves for two participation borrower relationships placed in nonaccrual status in 2008. See Note 2, *Allowance for Loan Losses*, 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 September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2008**	**2007**	**Increase/ (Decrease)**	**2008**	**2007**	**Increase/ (Decrease)**
Loan fees	$ 2,117	$ 2,153	$ (36)	$ 6,818	$ 5,574	$ 1,244
Realized gains (losses) on investments, net	–	–	–	(71)	–	(71)
Recognized gains (losses) on termination of derivatives, net	(54)	–	(54)	(54)	–	(54)
Gains (losses) on sale of rural home loans, net	2	48	(46)	37	130	(93)
Patronage refunds from other Farm Credit institutions	20	29	(9)	246	264	(18)
Other noninterest income	1,702	(37)	1,739	3,515	2,132	1,383
Total noninterest income	$ 3,787	$ 2,193	$ 1,594	$ 10,491	$ 8,100	$ 2,391

Noninterest income for the three months ended September 30, 2008, was $3.8 million, which reflected an increase of $1.6 million compared to the same period in 2007. The increase for the three month period was due to the increase in income from outside sources (included in other noninterest income), primarily for services to Associations and other Farm Credit System entities. One new significant servicing arrangement began in the third quarter of 2008. For the nine months ended September 30, 2008, noninterest income was $10.5 million, which reflected an increase of $2.4 million compared to the same period in 2007. The increase for the nine month period primarily resulted from the increase in loan fees and the increase in income from outside sources as discussed above.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**2008**	**2007**	**Increase/ (Decrease)**	**2008**	**2007**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 6,722	$ 6,729	$ (7)	$ 20,838	$ 19,264	$ 1,574
Occupancy and equipment	3,183	2,743	440	10,519	9,262	1,257
Insurance Fund premium	3,722	1,457	2,265	7,623	4,034	3,589
Other operating expenses	5,261	5,166	95	15,428	13,717	1,711
Called debt expense	611	191	420	22,484	945	21,539
Correspondent lending servicing expense	1,221	521	700	2,615	1,477	1,138
Other noninterest expense	69	328	(259)	208	670	(462)
Total noninterest expense	$ 20,789	$ 17,135	$ 3,654	$ 79,715	$ 49,369	$ 30,346

Noninterest expense for the three months ended September 30, 2008 was $20.8 million, which reflected an increase of $3.7 million compared to the corresponding period in 2007. For the nine months ended September 30, 2008, noninterest expense was $79.7 million, which reflected an increase of $30.3 million compared to the corresponding period in 2007. The increase in noninterest expense for the nine month period was primarily related to an increase of $21.5 million in called debt expense. Call options were exercised on bonds totaling $14.7 billion during the first nine months 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. Called debt activity significantly declined in the third quarter, with called debt expense totaling $611 thousand for the three month period.

Salaries and employee benefits increased $1.6 million (8.2 percent) for the nine month period due to normal salary increases and reduced deferrals associated with the cost of internal project development and other factors. The decrease of $7 thousand (0.1 percent) for the three month period was primarily due to increased deferrals associated with the cost of internal project development.

Occupancy and equipment expenses increased $440 thousand (16.0 percent) and $1.3 million (13.6 percent) for the three and nine month periods, respectively, primarily as the result of technology upgrading and renovation aimed at improving AgFirst's infrastructure and upgrades to various systems and related higher depreciation expense.

The Insurance Fund premiums increased $2.3 million (155.5 percent) and $3.6 million (89.0 percent) for the three and nine month periods, respectively, due to the increase in loan volume of the participations/syndications and correspondent lending portfolios 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. For the current quarter (and year to date), the increase in insurance premiums relating to the change in assessment methodology totaled $1.5 million. Also, the annual premium rate, which has been 15 basis points for the first nine months of 2008, 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 for 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 $95 thousand (1.8 percent) and $1.7 million (12.5 percent) for the three and nine month periods, respectively, primarily from higher general insurance premiums, supervisory and examination fees, professional fees, and timing of payments.

The increase in correspondent lending servicing expense of $700 thousand (134.4 percent) and $1.1 million (77.1 percent) for the three and nine 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 $259 thousand (79.0 percent) and $462 thousand (69.0 percent) for the three and nine month periods, respectively, due to certain previously deferred issuance costs being completely amortized into expense during the latter part of 2007.

Key results of operations comparisons:

	Annualized for the nine months ended Sept. 30, 2008	**For the year ended December 31, 2007**	**Annualized for the nine months ended Sept. 30, 2007**
Return on average assets	0.87%	0.76%	0.77%
Return on average shareholders' equity	16.67%	13.58%	14.30%
Net interest income as a percentage of average earning assets	1.25%	1.04%	1.01%
Net chargeoffs (recoveries) to average loans	0.011%	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, Director of Financial Reporting, 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)	September 30, 2008	December 31, 2007
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents (includes restricted cash of $11,000 and $0 respectively)	$ 241,539	$ 558,770
Investment securities:		
Available for sale (amortized cost of $6,392,261 and $5,646,683 respectively)	6,193,084	5,608,929
Held to maturity (fair value of $1,709,796 and $1,277,999 respectively)	1,738,213	1,299,868
Total investment securities	7,931,297	6,908,797
Loans	21,258,763	19,114,517
Less: allowance for loan losses	10,964	2,816
Net loans	21,247,799	19,111,701
Accrued interest receivable	119,659	114,508
Investments in other Farm Credit System institutions	74,750	64,221
Premises and equipment, net	19,591	20,750
Due from associations	29,708	42,701
Other assets	111,509	105,173
Total assets	$ 29,775,852	$ 26,926,621
Liabilities		
Bonds and notes	$ 27,777,054	$ 24,847,248
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	190,009	179,578
Patronage distribution payable	—	153,103
Other liabilities	70,343	64,211
Total liabilities	28,262,406	25,469,140
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	400,000	400,000
Capital stock and participation certificates	411,819	364,759
Retained earnings		
Allocated	616	705
Unallocated	901,011	730,724
Accumulated other comprehensive income (loss)	(200,000)	(38,707)
Total shareholders' equity	1,513,446	1,457,481
Total liabilities and equity	$ 29,775,852	$ 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 September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Interest Income				
Investment securities and other	$ 77,104	$ 100,838	$ 231,186	$ 288,929
Loans	258,057	282,343	772,323	800,995
Total interest income	335,161	383,181	1,003,509	1,089,924
Interest Expense	237,206	315,501	740,568	902,945
Net interest income	97,955	67,680	262,941	186,979
Provision for (reversal of) loan losses	2,799	557	9,524	705
Net interest income after provision for (reversal of) loan losses	95,156	67,123	253,417	186,274
Noninterest Income				
Loan fees	2,117	2,153	6,818	5,574
Realized gains (losses) on investments, net	—	—	(71)	—
Recognized gains (losses) on termination of derivatives, net	(54)	—	(54)	—
Gain on sale of rural home loans	2	48	37	130
Patronage refunds from other Farm Credit institutions	20	29	246	264
Other noninterest income	1,702	(37)	3,515	2,132
Total noninterest income	3,787	2,193	10,491	8,100
Noninterest Expenses				
Salaries and employee benefits	6,722	6,729	20,838	19,264
Occupancy and equipment	3,183	2,743	10,519	9,262
Insurance Fund premium	3,722	1,457	7,623	4,034
Other operating expenses	5,261	5,166	15,428	13,717
Called debt expense	611	191	22,484	945
Correspondent lending servicing expense	1,221	521	2,615	1,477
Other noninterest expense	69	328	208	670
Total noninterest expenses	20,789	17,135	79,715	49,369
Net income	$ 78,154	$ 52,181	$ 184,193	$ 145,005

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				145,005		145,005
Unrealized gains (losses) on investments available for sale					(19,629)	(19,629)
Total comprehensive income						125,376
Preferred stock issued	250,000					250,000
Issuance cost on preferred stock				(2,743)		(2,743)
Capital stock/participation certificates issued/retired, net		16,733				16,733
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 September 30, 2007	$ 400,000	$ 330,086	$ 252	$ 851,261	$ (17,648)	$ 1,563,951
Balance at December 31, 2007	$ 400,000	$ 364,759	$ 705	$ 730,724	$ (38,707)	$ 1,457,481
Comprehensive income						
Net income				184,193		184,193
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of ($71)					(161,423)	(161,423)
Total comprehensive income						22,770
Capital stock/participation certificates issued/retired, net		47,060				47,060
Perpetual preferred stock dividends paid				(13,706)		(13,706)
Cash patronage				(261)		(261)
Employee benefit plans adjustments (Note 5)				(138)	130	(8)
Patronage distribution adjustment			(89)	199		110
Balance at September 30, 2008	$ 400,000	$ 411,819	$ 616	$ 901,011	$ (200,000)	$ 1,513,446

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2008	2007
Cash flows from operating activities:		
Net income	$ 184,193	$ 145,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	7,170	6,306
Premium amortization/discount accretion on investment securities	4,083	(3,226)
Premium amortization/discount accretion on bonds and notes	7,700	8,093
Provision for (reversal of) loan losses	9,524	705
(Gains) losses on other property owned, net	—	(5)
Realized (gains) losses on investments, net	71	—
Recognized (gains) losses on termination of derivatives, net	54	—
(Gains) losses on sales of rural home loans, net	(37)	(130)
Net change in loans held for sale	21,181	36,346
(Increase) decrease in accrued interest receivable	(5,151)	(15,099)
(Increase) decrease in due from associations	12,993	12,355
(Increase) decrease in other assets	(1,081)	(5,724)
Increase (decrease) in accrued interest payable	10,431	27,712
Increase (decrease) in other liabilities	5,769	(3,522)
Total adjustments	72,707	63,811
Net cash provided by (used in) operating activities	256,900	208,816
Cash flows from investing activities:		
Investment securities purchased	(2,565,075)	(1,797,649)
Investment securities sold or matured	1,376,998	1,205,737
Net (increase) decrease in loans	(2,166,766)	(1,577,125)
(Increase) decrease in investments in other Farm Credit System institutions	(10,529)	1,063
(Increase) decrease in restricted cash	(11,000)	—
Purchase of premises and equipment, net	(6,011)	(1,851)
Proceeds from sale of other property owned	—	80
Net cash provided by (used in) investing activities	(3,382,383)	(2,169,745)
Cash flows from financing activities:		
Bonds and notes issued	85,684,062	37,632,066
Bonds and notes retired	(82,766,910)	(35,882,756)
Preferred stock issued net of issuance cost	—	247,257
Capital stock and participation certificates issued/retired, net	47,060	16,733
Cash distribution to shareholders	(153,254)	(129,404)
Dividends paid on perpetual preferred stock	(13,706)	(5,475)
Net cash provided by (used in) financing activities	2,797,252	1,878,421
Net increase (decrease) in cash and cash equivalents	(328,231)	(82,508)
Cash and cash equivalents, net of restricted cash, beginning of period	558,770	582,764
Cash and cash equivalents, net of restricted cash, end of period	$ 230,539	$ 500,256
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (161,423)	$ (19,629)
Employee benefit plans adjustments	(8)	—
Non-cash changes related to hedging activities:		
Increase (decrease) in bonds and notes	$ 4,954	$ 21,755
Decrease (increase) in other assets	(5,255)	(7,300)
Increase (decrease) in other liabilities	244	(14,455)
Supplemental information:		
Interest paid	$ 722,437	$ 871,483

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 third 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 nine months ended September 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 September 30, 2008, the risk analysis of the Bank's loan portfolios identified impaired participation loans requiring specific reserves of $8.8 million. The Bank also maintains a general allowance of $2.2 million related to certain loan pools purchased from several District Associations. As of September 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 nine months ended September 30,	
	2008	**2007**
Balance at beginning of period	$ 2,816	$ 463
Provision for (reversal of) loan losses	9,524	705
Loans (charged off), net of recoveries	(1,376)	(128)
Balance at end of period	$ 10,964	$ 1,040

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 September 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 September 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 September 30, 2008 include the Bank's mortgage-related asset-backed investment portfolio, which has 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 September 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 September 30, 2008 for each of the fair value hierarchy levels:

	September 30, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investments available-for-sale	$ -	$ 6,099,915	$ 93,169	$ 6,193,084
Federal funds sold, securities purchased under resale agreements, and other	-	132,978	-	132,978
Interest rate swaps and other financial instruments	-	38,442	-	38,442
Assets held in trust funds	3,280	-	-	3,280
Total Assets	$ 3,280	$ 6,271,335	$ 93,169	$ 6,367,784
Liabilities:				
Interest rate swaps and other financial instruments	$ -	$ 2,804	$ -	$ 2,804
Standby letters of credit	-	-	2,073	2,073
Total Liabilities	$ -	$ 2,804	$ 2,073	$ 4,877

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	(37,905)	-
Purchases, sales, issuances and settlements, net	(35,477)	(249)
Transfers in and/or out of level 3	-	-
Balance at September 30, 2008	$ 93,169	$ 2,073

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 $173.636 billion at September 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 nine months Ended September 30, 2008	2007
Pension	$ 1,673	$ 2,306
401k	602	506
Other postretirement benefits	647	750
Total	$ 2,922	$ 3,562

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.

	Actual YTD Through 9/30/08	Projected Contributions for Remainder Of 2008	Projected Total Contributions 2008
Pensions	$ 189	$ 63	$ 252
Other postretirement benefits	668	193	861
Total	$ 857	$ 256	$ 1,113

As of September 30, 2008, no contributions have been made to the qualified pension plan for 2008. Actuarial calculations as of the last plan measurement date (September 30, 2007) projected no contributions for 2008. However, a new funding policy adopted during 2008 and a declining investment market, which has impacted the discount rate and the return on plan assets, increase the probability of a contribution to the qualified pension plan prior to the next plan measurement date at December 31, 2008. The contribution amount would be determined by the plan's Sponsor Committee.

As mentioned above, the funding policy for the qualified pension plan was changed for 2008 such that the aggregate contribution of all participating District institutions is 7 percent of considered payroll. This aggregate contribution will be allocated to the participating District institutions, including the Bank, based upon each institutions pro rata share of service cost.

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 nine months of 2008, $130 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.