AgFirst Farm Credit Bank
& District Associations

Quarterly Report

First Quarter 2007

FIRST QUARTER 2007

Table of Contents

F. A. Lowrey
Chief Executive Officer

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Chairman of the Board

May 7, 2007

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, for the three months ended March 31, 2007. These comments should be read in conjunction with the accompanying financial statements and the 2006 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of March 31, 2007, the District consisted of AgFirst and twenty-three Agricultural Credit Associations. Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. The three months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of the District's assets.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2007 was $18.94 billion, an increase of $270.1 million, or 1.45 percent compared to December 31, 2006, and an increase of $2.46 billion or 14.93 percent compared to March 31, 2006. General economic conditions within the District remain favorable. Credit quality remains stable. The increase in loan volume over the past twelve months is attributed to an active real estate market, capital expansion by agribusiness, relatively low interest rate opportunities available to borrowers, purchases of participations/syndications and loans, a seasoned lending staff and the inherent value to patronage paid under the cooperative structure.

As of March 31, 2007, the portfolio continues to reflect good credit quality that is supported by a sound farm sector and general economy. While overall economic conditions are favorable, increases in feed and energy cost will impact the agricultural economy. Avian influenza will continue to pose a threat to the poultry industry, but effective eradication plans in the US coupled with the financial strength of most poultry companies will provide an adequate defense against this threat. Demand for corn due to increases in ethanol production and very tight ending corn stocks will impact the profitability of the meat complex and the grain sector. Higher corn prices will have a positive impact on grain farmers and a negative impact to some of the meat sector. In addition, volatile fuel prices could affect borrowers' profitability for all commodities across the District.

Nonaccrual loan assets for the combined District at March 31, 2007 were 0.36 percent of total loans outstanding compared to 0.41 percent at December 31, 2006 and 0.55 percent at March 31, 2006. Loan classifications as of March 31, 2007 have shown slight improvements compared to December 31, 2006 and March 31, 2006, as illustrated in the following chart:

Asset Quality as of:			
Classification	**March 31, 2007**	**December 31, 2006**	**March 31, 2006**
Acceptable	96.45%	96.39%	95.90%
OAEM *	2.36%	2.31%	2.59%
Substandard	1.19%	1.30%	1.39%
Doubtful/loss	0.00%	0.00%	0.12%

* *Other Assets Especially Mentioned*

Diversification of the portfolio remains similar to December, 2006 with regard to commodities and geography. Risk factors are stable as reflected by past-due loans, asset quality and non-earning assets.

The allowance for loan losses at March 31, 2007 of $72.5 million, or 0.38 percent of gross loan volume, reflects management's estimate of losses inherent in the portfolio. By comparison, the allowance for losses at December 31, 2006 was $71.9 million, or 0.39 percent of gross loan volume. See Note 2, *Allowance for Loan Losses*, in the Notes to the Combined Financial Statements.

Liquidity and Funding Sources

As of March 31, 2007, AgFirst exceeded all applicable regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled $7.13 billion, or 26.43 percent of total assets at March 31, 2007, compared to $7.14 billion, or 26.69 percent, as of December 31, 2006. Investments increased $732.1 million compared to March 31, 2006. The maximum allowable level of investments is dictated by Farm Credit Administration (FCA) regulation, which is a set percentage of total loans. The increase in total loan balances allowed for a higher level of investments. Except as noted below, all investment securities were classified as being available-for-sale. 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 March 31, 2007, AgFirst's coverage was 180 days.

Investment securities at March 31, 2007 included $1.40 billion in investments classified as being held-to-maturity. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities (RHMBS) purchased under a Mission-Related Investment pilot program approved by the FCA in 2005.

The primary source of funds for the District is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At March 31, 2007, the District had $22.77 billion in total debt outstanding compared to $22.61 billion at December 31, 2006. In addition, other interest-bearing liabilities for the District included $225.0 million in Mandatorily Redeemable Preferred Stock (MRPS) for both periods. Total interest-bearing liabilities increased primarily in response to the increase in loan and investment volume previously mentioned.

Capital Resources

Total District shareholders' equity increased $63.0 million from December 31, 2006 to March 31, 2007. The increase was primarily the result of net income, offset by retirements of surplus, patronage distributions, a dividend payment on perpetual preferred stock, a net reduction in stock and participation/syndication certificates, retirements of protected borrower equity and dividends paid. As of March 31, 2007, AgFirst and each of the District Associations exceeded the applicable permanent capital, core surplus, total surplus and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2007 was $173.2 million, an increase of $11.9 million or 7.40 percent compared to the three months ended March 31, 2006. Net interest income was greater than previous periods, primarily due to increases in loan volume and investments. However, margins were compressed due to the adverse impact of flat and inverted yield curves and increased competitive pressures on loan pricing.

The following table illustrates the changes in net interest income:

Change in Net Interest Income *(dollars in thousands)*	**For the three months ended March 31, 2007 vs. March 31, 2006 — Increase (decrease) due to changes in:** Rate	Volume	Total
Interest Income:			
Loans	$ 21,429	$ 46,008	$ 67,437
Investments	10,606	13,783	24,389
Total Interest Income	$ 32,035	$ 59,791	$ 91,826
Interest Expense:			
Systemwide Debt Securities	$ 41,569	$ 38,330	$ 79,899
Changes in Net Interest Income	$ (9,534)	$ 21,461	$ 11,927

Noninterest Income

Noninterest income for the three months ended March 31, 2007 was $6.8 million, a decrease of $6.5 million compared to the same period in 2006.

The following table illustrates the changes in noninterest income:

Change in Noninterest Income *(dollars in thousands)*	**For the three months ended March 31,** 2007	2006	**Increase/ (Decrease)**
Loan fees	$ 4,046	$ 7,202	$ (3,156)
Fees for financially related services	1,137	1,464	(327)
Realized gains (losses) on investments, net	13	(5)	18
Realized gains (losses) on derivatives, net	–	1,491	(1,491)
Gains (losses) on sale of rural home loans	(1,687)	585	(2,272)
Other noninterest income	3,320	2,564	756
Total noninterest income	$ 6,829	$ 13,301	$ (6,472)

The decrease in loan fees for the three months ended March 31, 2007 was primarily the result of a one-time adjustment of $4.5 million for elimination of correspondent lending loan fees between AgFirst and the District Associations. Offsetting this decrease was an increase of $925 thousand in net participations/syndications fee income. The $1.5 million decrease in realized gains on derivatives is primarily due to a fair market adjustment on an interest rate swap recorded during the quarter ended March 31, 2006. The decrease in gains on sale of rural home loans was primarily the result of a one-time adjustment of $2.6 million for elimination of these gains between AgFirst and the District Associations.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2007 was $80.5 million, an increase of $4.6 million compared to the same period in 2006.

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense *(dollars in thousands)*	**For the three months ended March 31,** **2007**	**2006**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 46,568	$ 45,272	$ 1,296
Occupancy and equipment	8,102	7,575	527
Insurance Fund premium	6,637	5,713	924
Other operating expenses	17,977	16,791	1,186
Called debt expense	621	–	621
Other noninterest expense	638	560	78
Noninterest expense	$ 80,543	$ 75,911	$ 4,632

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2007	**For the year ended December 31, 2006**
Return on average assets	1.50%	1.67%
Return on average shareholders' equity	11.89%	12.40%
Net interest income as a percentage of average earning assets	2.68%	2.80%
Net chargeoffs (recoveries) to average loans	0.00%	0.09%

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to the 2006 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 316, or writing Wanda Martin, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at their website, *www.agfirst.com*. AgFirst prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Combined Balance Sheets

(dollars in thousands)	**March 31, 2007**	**December 31, 2006**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 581,863	$ 651,268
Investment securities:		
Available for sale (amortized cost of $5,144,046 and $5,063,640 respectively)	5,147,928	5,065,621
Held to maturity (fair value of $1,362,708 and $1,392,499 respectively)	1,395,272	1,426,481
Total investment securities	6,543,200	6,492,102
Loans	18,939,747	18,669,616
Less: allowance for loan losses	72,459	71,915
Net loans	18,867,288	18,597,701
Other investments	386,019	428,005
Accrued interest receivable	237,194	246,184
Investments in other Farm Credit System institutions	8,701	8,738
Premises and equipment, net	119,514	120,123
Other property owned	3,859	5,122
Deferred tax assets, net	124	163
Other assets	208,501	211,312
Total assets	$ 26,956,263	$ 26,760,718
Liabilities		
Bonds and notes	$ 22,768,344	$ 22,613,379
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	200,376	188,028
Dividends and patronage refunds payable	8,763	115,893
Postretirement benefits other than pensions	108,078	107,178
Other liabilities	274,474	203,057
Total liabilities	23,585,035	23,452,535
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Protected borrower equity	5,664	6,208
Capital stock and participation certificates	123,145	118,817
Retained earnings		
Allocated	960,368	992,227
Unallocated	2,128,528	2,039,308
Accumulated other comprehensive income	3,523	1,623
Total shareholders' equity	3,371,228	3,308,183
Total liabilities and equity	$ 26,956,263	$ 26,760,718

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2007	2006
Interest Income		
Investment securities	$ 95,826	$ 71,957
Loans	360,164	292,727
Other	5,334	4,814
Total interest income	461,324	369,498
Interest Expense	288,126	208,227
Net interest income	173,198	161,271
Provision for (reversal of) loan losses	587	101
Net interest income after provision for (reversal of) loan losses	172,611	161,170
Noninterest Income		
Loan fees	4,046	7,202
Fees for financially related services	1,137	1,464
Realized gains (losses) on investments, net	13	(5)
Recognized gains (losses) on derivatives, net	—	1,491
Gain (loss) on sale of rural home loans	(1,687)	585
Other noninterest income	3,320	2,564
Total noninterest income	6,829	13,301
Noninterest Expenses		
Salaries and employee benefits	46,568	45,272
Occupancy and equipment	8,102	7,575
Insurance Fund premium	6,637	5,713
Other operating expenses	17,977	16,791
Called debt expense	621	—
Other noninterest expense	638	560
Total noninterest expenses	80,543	75,911
Income before income taxes	98,897	98,560
Provision (benefit) for income taxes	289	284
Net income	$ 98,608	$ 98,276

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2005	$150,000	$ 7,628	$ 120,370	$ 925,919	$ 1,943,444	$ (2,976)	$ 3,144,385
Comprehensive income							
Net income					98,276		98,276
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of ($5)						1,977	1,977
Total comprehensive income							100,253
Protected borrower equity retired		(934)					(934)
Capital stock/participation certificates issued/retired, net			(2,086)				(2,086)
Dividends declared/paid			100		(100)		—
Patronage distribution							
Cash					(5,213)		(5,213)
Retained earnings retired				(32,817)			(32,817)
Patronage distribution adjustment				2,041	(6,077)		(4,036)
Balance at March 31, 2006	$150,000	$ 6,694	$ 118,384	$ 895,143	$ 2,030,330	$ (999)	$ 3,199,552
Balance at December 31, 2006	$150,000	$ 6,208	$ 118,817	$ 992,227	$ 2,039,308	$ 1,623	$ 3,308,183
Comprehensive income							
Net income					98,608		98,608
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of ($13)						1,900	1,900
Total comprehensive income							100,508
Protected borrower equity retired		(544)					(544)
Capital stock/participation certificates issued/retired, net			4,221				4,221
Dividends declared/paid			107		(107)		—
Patronage distribution							
Cash					(3,620)		(3,620)
Allocated retained earnings				288	(288)		—
Nonqualified allocated retained earnings				485	(485)		—
Retained earnings retired				(34,490)			(34,490)
Patronage distribution adjustment				1,858	(4,888)		(3,030)
Balance at March 31, 2007	$150,000	$ 5,664	$ 123,145	$ 960,368	$ 2,128,528	$ 3,523	$ 3,371,228

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 98,608	$ 98,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,476	4,372
Amortization of discount on other investments	(5,333)	(4,814)
Provision for (reversal of) loan losses	587	101
(Gains) losses from sale of premises and equipment, net	(887)	(298)
(Gains) losses on other property owned, net	(56)	3
Realized (gains) losses on investments, net	(13)	5
Recognized (gains) losses on derivatives, net	—	(1,491)
Realized (gains) losses on mortgage loans held for sale	1,689	(585)
Proceeds from sale of mortgage loans held for sale	3,319	2,231
Amortization of premium/discount on investment securities	(1,041)	(1,030)
(Increase) decrease in accrued interest receivable	8,990	(8,687)
(Increase) decrease in amortized discount on notes	1,589	(560)
(Increase) decrease in deferred tax assets, net	39	11
(Increase) decrease in other assets	4,312	1,502
Increase (decrease) in accrued interest payable	12,348	9,264
Increase (decrease) in postretirement benefits other than pensions	900	1,079
Increase (decrease) in other liabilities	79,287	200,764
Total adjustments	110,206	201,867
Net cash provided by (used in) operating activities	208,814	300,143
Cash flows from investing activities:		
Investment securities purchased	(417,588)	(1,047,983)
Investment securities sold or matured	369,444	542,841
Net (increase) decrease in loans	(276,140)	(309,988)
(Increase) decrease in investments in other Farm Credit System institutions	37	154
Purchases of other investments	(17,060)	(169,922)
Proceeds from payments received on other investments	64,379	47,212
Purchase of premises and equipment, net	(4,340)	(9,891)
Proceeds from sale of premises and equipment, net	1,360	526
Proceeds from sale of other property owned	2,277	456
Net cash provided by (used in) investing activities	(277,631)	(946,595)
Cash flows from financing activities:		
Bonds and notes issued	10,049,504	11,746,460
Bonds and notes retired	(9,903,559)	(11,021,243)
Protected borrower equity retired	(544)	(934)
Capital stock and participation certificates issued/retired, net	4,221	(2,086)
Patronage refunds and dividends paid	(115,720)	(101,687)
Retained earnings retired	(34,490)	(32,817)
Net cash provided by (used in) financing activities	(588)	587,693
Net increase (decrease) in cash and cash equivalents	(69,405)	(58,759)
Cash and cash equivalents, beginning of period	651,268	640,830
Cash and cash equivalents, end of period	$ 581,863	$ 582,071
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	$ 958	$ 199
Patronage refund and dividends payable	3,620	5,213
Change in unrealized gains (losses) on investments, net	1,900	1,977
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ —	$ 6
Increase (decrease) in bonds and notes	7,431	(3,803)
Decrease (increase) in other assets	(1,501)	(2,849)
Increase (decrease) in other liabilities	(5,930)	5,155
Supplemental information:		
Interest paid	$ 274,189	$ 199,523
Taxes paid, net	(632)	164

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

Notes to the Combined Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, and reflect the investments in and allocated earnings of the service organizations in which AgFirst has a partial ownership interest. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination.

The significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited first quarter 2007 financial statements should be read in conjunction with the 2006 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 accounting principles generally accepted in the United States of America (GAAP). The results for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

The District maintains an allowance for loan loss in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2007, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the three months ended March 31,	
	2007	**2006**
Balance at beginning of period	$ 71,915	$ 87,551
Provision for (reversal of) loan losses	587	101
Loans (charged off), net of recoveries	(43)	(172)
Balance at end of period	$ 72,459	$ 87,480

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each 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 System banks. The total bonds and notes of the System were $137.60 billion at March 31, 2007.

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

NOTE 4 — EMPLOYEE BENEFIT PLANS

The following table of the defined benefit pension plans summarizes the components of net periodic benefit costs for the three months ended March 31:

	Pension Benefits	
	2007	**2006**
Service cost	$ 3,680	$ 4,077
Interest cost	7,561	6,824
Expected return on plan assets	(9,594)	(9,152)
Amortization of prior service costs	413	315
Recognized net (gain) loss	2,322	3,430
Net periodic benefit cost	$ 4,382	$ 5,494

As of March 31, 2007, no contributions had been made for 2007 to the defined benefit plans. Actuarial projections as of the last plan measurement date (September 30, 2006) projected plan contributions of $760 thousand for 2007. Market conditions could impact discount rates and return on plan assets which could change this expectation, making additional contributions necessary before the next plan measurement date.

The District also participates in a districtwide defined contribution thrift plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For the first quarter, the District expensed $1.3 million in 2007 compared to $1.1 million in 2006.

The District also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the retirement costs above. The District contributed $109 thousand to these plans during the first three months of 2007. The District anticipates making additional contributions of $327 thousand to these supplemental retirement and deferred compensation plans during 2007.

In addition to providing pension benefits, AgFirst and the District Associations provide certain health care and life insurance benefits to retired employees (other postretirement benefits). The following is a table of retirement and postretirement benefit expenses for the three months ended March 31, 2006:

	Other Postretirement Benefits	
	2007	**2006**
Service cost	$ 591	$ 670
Interest cost	1,749	1,621
Amortization of prior service costs	(697)	(709)
Recognized net (gain) loss	533	731
Net periodic benefit cost	$ 2,176	$ 2,313

Contributions of $1.1 million were made to the other postretirement benefit plans during the first three months of 2007, and the District anticipates contributing an additional $4.3 million during the remainder of 2007.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

	3/31/07 *(unaudited)*	12/31/06 *(audited)*
Cash and investment securities	$ 6,961,405	$ 6,941,446
Loans	17,215,646	17,152,337
Less: allowance for loan losses	597	463
Net loans	17,215,049	17,151,874
Other assets	303,117	318,844
Total assets	$ 24,479,571	$ 24,412,164
Bonds and notes	$ 22,768,344	$ 22,613,379
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	253,397	392,698
Total liabilities	23,246,741	23,231,077
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	317,830	313,353
Retained earnings	761,119	715,753
Accumulated other comprehensive income (loss)	3,881	1,981
Total shareholders' equity	1,232,830	1,181,087
Total liabilities and equity	$ 24,479,571	$ 24,412,164

Statement of Income Data

	For the three months ended March 31, 2007	2006
Interest income	$ 347,080	$ 262,500
Interest expense	287,834	208,062
Net interest income	59,246	54,438
Provision for (reversal of) loan losses	262	–
Net interest income after provision for loan losses	58,984	54,438
Noninterest expense, net	(13,569)	(10,953)
Net income	$ 45,415	$ 43,485