AgFirst Farm Credit Bank
& District Associations

Quarterly Report

Second Quarter 2006

SECOND QUARTER 2006

Table of Contents

F. A. Lowrey
Chief Executive Officer

Robert G. Sexton
Chairman of the Board

August 3, 2006

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 and six months ended June 30, 2006. These comments should be read in conjunction with the accompanying financial statements and the 2005 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 Board of Directors.

As of June 30, 2006, the District consisted of AgFirst and twenty-three Agricultural Credit Associations. Prior to 2006, the consolidated financial condition and results of operations included the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation) subsidiary. However, the operations of the Finance Corporation were suspended and placed into inactive status effective December 31, 2005. The Board of Directors of the Finance Corporation determined there was insufficient financial benefit resulting from island-based tax treatment of the corporation to justify continuing operations. All outstanding capital of the Finance Corporation was transferred to AgFirst on December 31, 2005. This has not had a material effect on the financial condition of the District.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District in more detail. The six 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 June 30, 2006 was $17.37 billion, an increase of $1.20 billion, or 7.39 percent compared to December 31, 2005, and an increase of $1.79 billion or 11.49 percent compared to June 30, 2005. General economic conditions within the District remain favorable. Credit quality remains stable despite the District experiencing an active hurricane season during 2005. The increase in loan volume over the past twelve months is attributed to a robust real estate market in rural and residential properties, capital expansion by agribusiness, low interest rate opportunities available to borrowers, purchases of participations/syndications and loans and investments associated with the tobacco buyout program. Year to date, seasonal lending contributed to the increase in loan volume.

Specific segments of the agricultural economy, such as poultry continue to experience lower profits. Low poultry prices resulted from an oversupply of frozen inventories, avian flu concerns overseas and importing countries exploiting the situation. Most poultry companies within the portfolio remain well capitalized following several years of strong profits. The future supply of poultry will be impacted by decreased chick placements. In addition, higher fuel prices could affect borrowers' profitability for all commodities across the District. We could see higher prices for corn as ethanol facilities under construction are completed. Higher corn prices would have a positive impact on grain farmers and a negative impact to the entire meat complex. As of June 30, 2006, the portfolio continues to reflect good credit quality that is supported by a sound farm sector and general economy.

Nonaccrual loan assets for the combined District at June 30, 2006 were 0.31 percent of total loans outstanding compared to 0.51 percent at December 31, 2005 and 0.55 percent at June 30, 2005. Loan classifications as of June 30, 2006 have shown slight improvements compared to December 31, 2005 and June 30, 2005, as illustrated in the following chart:

Asset Quality as of:			
Classification	**June 30, 2006**	**December 31, 2005**	**June 30, 2005**
Acceptable	96.27%	95.75%	95.15%
OAEM *	2.42%	2.67%	3.21%
Substandard	1.30%	1.46%	1.43%
Doubtful/loss	0.01%	0.12%	0.21%

* Other Assets Especially Mentioned

Diversification of the portfolio remains similar to a year ago 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 June 30, 2006 of $72.4 million, or 0.42 percent of gross loan volume, reflects management's estimate of losses inherent in the portfolio. By comparison, the allowance for losses at December 31, 2005 was $87.6 million, or 0.54 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 June 30, 2006, AgFirst and all District Associations exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $6.52 billion, or 26.33 percent of total assets, at June 30, 2006, compared to $5.94 billion, or 26.10 percent, as of December 31, 2005. Investments increased $2.34 billion compared to June 30, 2005 levels. Investments increased primarily in response to the Farm Credit Administration's (FCA) revision to liquidity regulations, which increased the maximum allowable level of investments from 30 to 35 percent of total loans. In addition, the FCA approved a new Mission-Related Investments program (discussed below), under which AgFirst had $1.30 billion in Rural Housing Mortgage-Backed Securities (RHMBS) at June 30, 2006. Except as noted below, all investment securities were classified as being available-for-sale. At June 30, 2006, AgFirst had 191 days of liquidity coverage as defined by FCA regulations.

Investment securities at June 30, 2006 included $1.43 billion in investments classified as being held-to-maturity. These held-to-maturity investments were primarily RHMBS purchased under a Mission-Related Investment pilot program approved by the FCA, as discussed further under *Mission-Related Investments*.

The primary source of funds for the District is the issuance of Systemwide Debt securities through the Federal Farm Credit Banks Funding Corporation. At June 30, 2006, AgFirst had $20.80 billion in total debt outstanding compared to $18.88 billion at December 31, 2005. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock (MRPS) for the same periods. Total interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

Capital Resources

Total District shareholders' equity increased $118.6 million from December 31, 2005 to June 30, 2006. 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 June 30, 2006, AgFirst and each of the District Associations exceeded the applicable permanent capital, core surplus, total surplus and net collateral ratio requirements established by the FCA Regulations.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated a program to stimulate economic growth and development in rural areas. Recognizing that different investment strategies are needed for agricultural and rural communities, the FCA outlined a program to allow System institutions to hold investments, subject to approval by the FCA on a case-by-case basis. FCA has approved the Rural Housing Mortgage-Backed Securities pilot program, the Rural America Bond pilot and the Tobacco Buyout programs under the mission-related investments umbrella, as described below.

Rural Housing Mortgage-Backed Securities

In May 2005, AgFirst received approval from the FCA to purchase and hold RHMBS under its Mission-Related Investments Pilot Program. This program is intended to increase liquidity for rural housing loans resulting in more cost-effective credit to homeowners in rural America by providing an incentive to lenders to create RHMBS for sale in the secondary market. The FCA approved the program for a three-year pilot period. The RHMBS must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMBS must be conforming first-lien residential mortgage loans originated by non-Farm Credit System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), or eligible rural housing loans originated by System lenders under FCA Regulations. Investment securities at June 30, 2006 included $1.30 billion in RHMBS classified as held-to-maturity.

Rural America Bonds

In October 2005, FCA authorized AgFirst and the Associations to make investments in Rural America Bonds. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through investments in Rural America Bonds. Under this investment program, AgFirst and the Associations may make investments in Rural America Bonds issued by public and private enterprises, corporations, cooperatives, other financing institutions, and rural lenders. The FCA approved the Rural America Bonds investment program for a three-year pilot period. As of June 30, 2006, the AgFirst District Associations had $1.5 million in the Rural America Bond program. AgFirst and the Associations are actively planning to evaluate more opportunities in 2006.

Tobacco Buyout Program

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are therefore eligible to participate in the Tobacco Buyout. The goal of this program is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve.

On June 30, 2006, thirteen District Associations held loan assignments for Tobacco Buyout borrowers and/or Successor-in-Interest Contracts (SIIC). As of June 30, 2006, the District Associations held Tobacco Buyout loan assignments of $84.3 million and SIIC of $393.4 million. In addition, the District Associations also had commitments to purchase SIIC of $2.2 million. The SIIC are classified as Other Investments on the Combined Balance Sheets.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2006 was $164.3 million, an increase of $14.4 million or 9.58 percent compared to the three months ended June 30, 2005. Net interest income for the six months ended June 30, 2006 was $325.6 million, an increase of $31.3 million or 10.64 percent compared to the same period ended June 30, 2005. The increases in net interest income for the three months and six months ended June 30, 2006 can be attributed primarily to increases in loan volume and investments. The District's conservative interest rate risk position is reflected in the low change in net interest income due to rate movement.

The following table illustrates the changes in net interest income:

	For the three months ended June 30, 2006 vs. June 30, 2005			**For the six months ended June 30, 2006 vs. June 30, 2005**		
	Increase (decrease) due to changes in:			**Increase (decrease) due to changes in:**		
(dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 27,799	$ 40,939	$ 68,738	$ 50,635	$ 81,578	$ 132,213
Investments	23,910	32,217	56,127	43,092	60,339	103,431
Total Interest Income	$ 51,709	$ 73,156	$ 124,865	$ 93,727	$ 141,917	$ 235,644
Interest Expense:						
Systemwide Debt Securities	$ 35,608	$ 74,889	$ 110,497	$ 63,065	$ 141,269	$ 204,334
Changes in Net Interest Income	$ 16,101	$ (1,733)	$ 14,368	$ 30,662	$ 648	$ 31,310

Provision for Loan Losses

The provision for loan losses for the three and six months ended June 30, 2006 reflected reversals of $15.0 million and $14.9 million, respectively, compared to a provision of $283 thousand and a reversal of $982 thousand, respectively, for the same periods in 2005. The majority of the reversal for the six months ended June 30, 2006 was attributed to a single account, as well as the net decrease in risk exposure across the District reflected by an improvement in credit quality.

Noninterest Income

Noninterest income for the three months ended June 30, 2006 was $19.4 million, an increase of $2.3 million compared to the same period in 2005. For the six months ended June 30, 2006, noninterest income was $32.7 million, which reflected an increase of $2.8 million compared to the same period in 2005.

The following table illustrates the changes in noninterest income:

(dollars in thousands)	**For the three months ended June 30, 2006**	**For the six months ended June 30, 2006**
Decrease in loan fees	$ (2,870)	$ (4,660)
Increase in fees for financially related services	23	410
Decrease in realized gains on investments, net	(272)	(377)
Increase in recognized gains on derivatives, net	8,306	9,797
Decrease in gain on sale of rural home loans	(56)	(127)
Decrease in gain on sale of mortgage servicing assets	(1,631)	(1,631)
Decrease in other noninterest income	(1,235)	(625)
Increase in noninterest income	$ 2,265	$ 2,787

The decrease in loan fees for the three and six months ended June 30, 2006 was due to reductions of $2.5 million and $3.0 million, respectively, in net participations/syndications fee income and reductions of $533 thousand and $1.3 million, respectively, in prepayment penalty income.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2006 was $76.7 million, an increase of $5.0 million compared to the same period in 2005. For the six months ended June 30, 2006, noninterest expense was $152.6 million, an increase of $11.2 million compared to the same period in 2005.

The following table illustrates the changes in noninterest expense:

(dollars in thousands)	**For the three months ended June 30, 2006**	**For the six months ended June 30, 2006**
Increase in salaries and employee benefits	$ 1,144	$ 1,851
Increase in occupancy and equipment	492	1,449
Increase in Insurance Fund premium	4,528	8,838
Increase in other operating expenses	224	2,727
Decrease in Intra-System financial assistance expenses	(1,369)	(3,233)
Decrease in called debt expense	(83)	(558)
Increase in other noninterest expense	72	165
Increase in noninterest expense	$ 5,008	$ 11,239

The increase in Insurance Fund premiums for the three and six months ended June 30, 2006 resulted from an increase in premium rates from 5 to 15 basis points on accrual loans beginning January 1, 2006.

Key results of operations comparisons:

	Annualized for the six months ended June 30, 2006	**For the year ended December 31, 2005**
Return on Average Assets	1.93%	1.86%
Return on Average Shareholders' Equity	13.76%	12.05%
Net Interest Income as a Percentage of Average Earning Assets	2.85%	3.07%
Chargeoffs, Net of (Recoveries), to Average Loans	0.002%	0.009%

NOTE: 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)	June 30, 2006	December 31, 2005
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 642,578	$ 640,830
Investment securities:		
Available for sale (amortized cost of $4,466,072 and $3,888,889 respectively)	4,446,218	3,886,318
Held to maturity (fair value of $1,351,657 and $1,384,390 respectively)	1,431,859	1,416,647
Total investment securities	5,878,077	5,302,965
Loans	17,367,261	16,171,572
Less: allowance for loan losses	72,384	87,551
Net loans	17,294,877	16,084,021
Other investments	393,355	237,239
Accrued interest receivable	221,664	179,970
Investments in other Farm Credit System institutions	8,602	8,756
Premises and equipment, net	113,362	107,063
Other property owned	1,611	3,646
Deferred tax assets, net	1,691	1,691
Other assets	213,694	208,379
Total assets	$ 24,769,511	$ 22,774,560
Liabilities		
Bonds and notes	$ 20,800,898	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	163,991	133,855
Dividends and patronage refunds payable	12,569	99,665
Postretirement benefits other than pensions	104,799	102,681
Other liabilities	199,302	189,010
Total liabilities	21,506,559	19,630,175
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Protected borrower equity	6,500	7,628
Capital stock and participation certificates	118,170	120,370
Retained earnings		
Allocated	867,044	925,919
Unallocated	2,141,496	1,943,444
Accumulated other comprehensive income	(20,258)	(2,976)
Total shareholders' equity	3,262,952	3,144,385
Total liabilities and equity	$ 24,769,511	$ 22,774,560

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2006	For the three months ended June 30, 2005	For the six months ended June 30, 2006	For the six months ended June 30, 2005
Interest Income				
Investment securities	$ 82,943	$ 32,480	$ 154,900	$ 61,947
Loans	315,961	247,223	608,688	476,475
Other	5,664	—	10,478	—
Total interest income	404,568	279,703	774,066	538,422
Interest Expense	240,245	129,748	448,472	244,138
Net interest income	164,323	149,955	325,594	294,284
Provision for (reversal of) loan losses	(14,975)	283	(14,874)	(982)
Net interest income after provision for (reversal of) loan losses	179,298	149,672	340,468	295,266
Noninterest Income				
Loan fees	8,351	11,221	15,553	20,213
Fees for financially related services	932	909	2,396	1,986
Realized gains (losses) on investments, net	—	272	(5)	372
Recognized gains (losses) on derivatives, net	8,306	—	9,797	—
Gain (loss) on sale of rural home loans	741	797	1,326	1,453
Gain (loss) on sale of mortgage servicing assets	—	1,631	—	1,631
Other noninterest income	1,094	2,329	3,658	4,283
Total noninterest income	19,424	17,159	32,725	29,938
Noninterest Expenses				
Salaries and employee benefits	46,316	45,172	91,588	89,737
Occupancy and equipment	7,148	6,656	14,723	13,274
Insurance Fund premium	6,005	1,477	11,718	2,880
Other operating expenses	16,689	16,465	33,480	30,753
Intra-System financial assistance expenses	—	1,369	—	3,233
Called debt expense	—	83	—	558
Other noninterest expense	569	497	1,129	964
Total noninterest expenses	76,727	71,719	152,638	141,399
Income before income taxes	121,995	95,112	220,555	183,805
Provision (benefit) for income taxes	157	186	441	256
Net income	$ 121,838	$ 94,926	$ 220,114	$ 183,549

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, 2004	$150,000	$ 10,123	$ 125,089	$ 849,626	$ 1,861,476	$ 3,331	$ 2,999,645
Comprehensive income							
Net income					183,549		183,549
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $372						(9,632)	(9,632)
Change in fair value of derivative instruments, includes reclassification adjustments of $43						5,166	5,166
Total comprehensive income							179,083
Protected borrower equity retired		(2,116)					(2,116)
Capital stock/participation certificates issued/retired, net			(3,197)				(3,197)
Dividends declared/paid			183		(183)		—
Perpetual preferred stock dividends paid					(5,475)		(5,475)
Patronage distribution							
Cash					(9,813)		(9,813)
Allocated retained earnings				2,033	(2,033)		—
Retained earnings retired				(53,722)			(53,722)
Patronage distribution adjustment				—	1,312		1,312
Balance at June 30, 2005	$150,000	$ 8,007	$ 122,075	$ 797,937	$ 2,028,833	$ (1,135)	$ 3,105,717
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					220,114		220,114
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $(5)						(17,282)	(17,282)
Total comprehensive income							202,832
Protected borrower equity retired		(1,128)					(1,128)
Capital stock/participation certificates issued/retired, net			(2,405)				(2,405)
Dividends declared/paid			205		(205)		—
Perpetual preferred stock dividends paid					(5,475)		(5,475)
Patronage distribution							
Cash					(10,358)		(10,358)
Retained earnings retired				(60,886)			(60,886)
Patronage distribution adjustment				2,011	(6,024)		(4,013)
Balance at June 30, 2006	$150,000	$ 6,500	$ 118,170	$ 867,044	$ 2,141,496	$ (20,258)	$ 3,262,952

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 220,114	$ 183,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	8,492	6,997
Provision for (reversal of) loan losses	(14,874)	(982)
(Gains) losses from sale of premises and equipment, net	(878)	(1,736)
(Gains) losses on other property owned, net	672	154
Realized (gains) losses on investments, net	5	(372)
Recognized (gains) losses on derivatives, net	(9,797)	(43)
Realized (gains) losses on mortgage servicing assets	—	(1,631)
Realized (gains) losses on mortgage loans held for sale	(1,326)	(1,453)
Proceeds from sale of mortgage loans held for sale	3,552	3,269
Purchases of mortgage loans held for sale (net of principal repayment)	(137,165)	(123,066)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(41,694)	(38,117)
(Increase) decrease in deferred tax assets, net	—	(559)
(Increase) decrease in other assets	2,455	5,857
Increase (decrease) in accrued interest payable	30,136	20,758
Increase (decrease) in postretirement benefits other than pensions	2,118	4,471
Increase (decrease) in other liabilities	(236)	7,228
Total adjustments	(158,540)	(119,225)
Net cash provided by (used in) operating activities	61,574	64,324
Cash flows from investing activities:		
Investment securities purchased	(1,636,469)	(1,294,119)
Investment securities sold or matured	1,044,070	1,041,511
Net (increase) decrease in loans	(1,061,285)	(621,697)
(Increase) decrease in investments in other Farm Credit System institutions	154	(152)
Net (increase) decrease in other investments	(156,116)	—
Purchase of premises and equipment, net	(15,299)	(14,446)
Proceeds from sale of premises and equipment, net	1,386	3,290
Proceeds from sale of other property owned	1,598	2,279
Net cash provided by (used in) investing activities	(1,821,961)	(883,334)
Cash flows from financing activities:		
Bonds and notes issued	24,122,800	19,044,485
Bonds and notes retired	(22,189,000)	(18,147,974)
Protected borrower equity retired	(1,128)	(2,116)
Capital stock and participation certificates issued/retired, net	(2,405)	(3,197)
Patronage refunds and dividends paid	(101,771)	(80,631)
Dividends paid on perpetual preferred stock	(5,475)	(5,475)
Retained earnings retired	(60,886)	(53,722)
Net cash provided by (used in) financing activities	1,762,135	751,370
Net increase (decrease) in cash and cash equivalents	1,748	(67,640)
Cash and cash equivalents, beginning of period	640,830	522,862
Cash and cash equivalents, end of period	$ 642,578	$ 455,222
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 328	$ 116
Loans transferred to other property owned	563	2,750
Patronage refund and dividends payable	10,358	9,813
Change in unrealized gains (losses) on investments, net	(17,282)	(9,632)
Change in fair value of derivative instruments	—	5,166
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 7	$ 32
Increase (decrease) in bonds and notes	(12,866)	(12,727)
Decrease (increase) in other assets	(7,770)	(857)
Increase (decrease) in other liabilities	10,832	8,343
Supplemental information:		
Interest paid	$ 418,336	$ 223,380
Taxes paid, net	467	1,252

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 accounts of 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.

Prior to 2006, the consolidated financial condition and results of operations included the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation) subsidiary. However, the operations of the Finance Corporation were suspended and placed into inactive status effective December 31, 2005. The Board of Directors of the Finance Corporation determined there was insufficient financial benefit resulting from island-based tax treatment of the corporation to justify continuing the operations. All outstanding capital of the Finance Corporation was transferred to AgFirst on December 31, 2005. This has not had a material effect on the financial condition of the District.

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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited second quarter 2006 financial statements should be read in conjunction with the 2005 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 six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

In the first quarter of 2006, AgFirst implemented trade date accounting for investment securities. Previously, the investments were accounted for on the settlement dates. There was no impact on the financial statements at June 30, 2006 as a result of this change.

The District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of June 30, 2006, the allowances for losses are 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 six months ended June 30,	
	2006	**2005**
Balance at beginning of period	$ 87,551	$ 95,419
Provision for (reversal of) loan losses	(14,874)	(982)
Loans (charged off), net of recoveries	(293)	(365)
Balance at end of period	$ 72,384	$ 94,072

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 $122.26 billion at June 30, 2006.

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 six months ended June 30:

	Pension Benefits	
	2006	**2005**
Service cost	$ 8,154	$ 6,748
Interest cost	13,649	13,050
Expected return on plan assets	(18,339)	(15,811)
Amortization of prior service costs	630	317
Recognized net (gain) loss	6,823	6,078
Net periodic benefit cost	$ 10,917	$ 10,382

As of June 30, 2006, no contributions had been made for 2006 to the defined benefit plans. Actuarial projections as of the last plan measurement date (September 30, 2005) projected plan contributions of $1.3 million for 2006. 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 six months, the District expensed $2.2 million in 2006 compared to $2.1 million in 2005. Effective January 1, 2006, the Districtwide 401(k) Plan, known as the AgFirst Farm Credit Employee Thrift Plan, merged with the Farm Credit Bank of Texas Thrift Plus Plan. The new plan is known as the AgFirst/FCBT 401(k) Employee Benefit Plan.

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 other postretirement benefits expenses:

	Other Postretirement Benefits	
	2006	**2005**
Service cost	$ 1,341	$ 1,454
Interest cost	3,242	4,287
Expected return on plan assets	–	–
Amortization of prior service costs	(1,418)	(141)
Recognized net (gain) loss	1,462	1,904
Net periodic benefit cost	$ 4,627	$ 7,504

Contributions of $2.1 million were made to the other postretirement benefit plans during the first six months of 2006, and the District anticipates contributing an additional $3.1 million during the remainder of 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 $218 thousand to these plans during the first six months of 2006, and anticipates making additional contributions of $218 thousand to these supplemental retirement and deferred compensation plans during the remainder of 2006.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

	6/30/06 *(unaudited)*	**12/31/05** *(audited)*
Cash and investment securities	$ 6,370,976	$ 5,813,627
Loans	15,739,296	14,411,050
Less: allowance for loan losses	–	10,114
Net loans	15,739,296	14,400,936
Other assets	286,751	268,468
Total assets	$ 22,397,023	$ 20,483,031
Bonds and notes	$ 20,800,898	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	251,429	340,639
Total liabilities	21,277,327	19,445,603
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	225,068	224,554
Retained earnings	764,482	665,445
Accumulated other comprehensive income (loss)	(19,854)	(2,571)
Total shareholders' equity	1,119,696	1,037,428
Total liabilities and equity	$ 22,397,023	$ 20,483,031

Statement of Income Data

(unaudited)

	For the three months ended June 30,		**For the six months ended June 30,**	
	2006	**2005**	**2006**	**2005**
Interest income	$ 294,160	$ 180,133	$ 556,660	$ 343,627
Interest expense	240,016	129,709	448,078	244,063
Net interest income	54,144	50,424	108,582	99,564
Provision for (reversal of) loan losses	(10,114)	(39)	(10,114)	(610)
Net interest income after provision for loan losses	64,258	50,463	118,696	100,174
Noninterest expense, net	(3,138)	(7,401)	(14,091)	(18,786)
Net income	$ 61,120	$ 43,062	$ 104,605	$ 81,388