AgFirst Farm Credit Bank

Quarterly Report

First Quarter 2006

FIRST QUARTER 2006

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F. A. Lowrey
Chief Executive Officer

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Chairman of the Board

April 28, 2006

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

The following discussion reviews the consolidated financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) for the three months ended March 31, 2006. These comments should be read in conjunction with the accompanying consolidated financial statements, the Notes to the Consolidated Financial Statements and the 2005 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District.

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 of the corporation. All outstanding capital of the Finance Corporation was transferred to AgFirst on December 31, 2005. This will not have a material effect on the financial condition of AgFirst.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the three months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's assets.

FINANCIAL CONDITION

Loan Portfolio

Loans outstanding at March 31, 2006 totaled $14.70 billion, a $284.6 million, or 1.98 percent, increase compared to total loans outstanding at December 31, 2005, and an increase of $1.87 billion, or 14.62 percent, compared to March 31, 2005. Loan growth came primarily through the direct notes that fund Association lending activity. Association growth was the result of their purchasing participations in addition to originations within their chartered territories. Association growth in originations is attributable to a seasoned lending staff, the value inherent to patronage paid under their cooperative structure, the direct and indirect payments on Program Crops under the current Farm Bill, an improving world economy coupled with a weaker dollar that helped boost agricultural exports, and borrowers seizing low interest rate opportunities.

The credit quality of the $12.57 billion direct note portfolio remains stable despite the District experiencing an active hurricane season during 2005. AgFirst is closely following the reports of avian influenza in other parts of the world and is optimistic at this point that the trade restrictions and other steps taken by the USDA will adequately protect the poultry industry of the United States. AgFirst will continue to monitor this situation and take appropriate actions, if necessary. In addition, higher fuel prices could affect borrowers' profitability for all commodities across the District. No deterioration of the credit quality of AgFirst's direct notes is expected. As of March 31, 2006, twenty-two of the twenty-three direct notes, representing 98.81 percent of the portfolio, were classified acceptable. The remaining 1.19 percent was classified Other Assets Especially Mentioned (OAEM). All twenty-three of the direct notes are performing and are in compliance with the General Financing Agreement and regulatory requirements for liquidity, earnings, and capital.

The credit quality statistics for the $1.52 billion participations/syndications portfolio is shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**March 31, 2006**	**December 31, 2005**	**March 31, 2005**
Acceptable	96.34%	96.01%	95.22%
OAEM	1.50%	1.65%	1.94%
Substandard	0.99%	1.67%	2.04%
Doubtful	1.17%	0.67%	0.80%

AgFirst's allowance for loan losses of $10.1 million at March 31, 2006, predominately a specified reserve on a single loan, was 0.07 percent of total loans outstanding and 0.66 percent of AgFirst's participations/syndications outstanding. There was no change in the allowance for loan losses since December 31, 2005. See Note 2, *Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

Liquidity and Funding Sources

As of March 31, 2006, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $6.29 billion, or 29.60 percent of total assets at March 31, 2006, compared to $5.81 billion, or 28.38 percent, as of December 31, 2005. Investments increased $2.44 billion compared to March 31, 2005. Investments increased in response to the Farm Credit Administration's (FCA) revision to liquidity regulations, which increased the maximum allowable level of investments from 30 percent of total loans to 35 percent. In addition, the FCA approved a new Mission-Related Investments program (discussed below), under which AgFirst added $1.33 billion in Rural Housing Mortgage-Backed Securities (RHMBS) since March of 2005. Except as noted below, all investment securities were classified as being available-for-sale. At March 31, 2006, AgFirst had 230 days of liquidity coverage as defined by FCA regulations.

The investment securities at March 31, 2006 included $1.35 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. 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. This investment pilot 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 primary source of funds for AgFirst is the issuance of Systemwide Debt securities through the Federal Farm Credit Banks Funding Corporation. At March 31, 2006, AgFirst had $19.60 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 shareholders' equity increased $45.4 million from December 31, 2005 to March 31, 2006. This 4.38 percent net increase is primarily attributed to the increase in retained earnings related to net income of $43.5 million.

As of March 31, 2006, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by the FCA Regulations. At March 31, 2006, AgFirst's permanent capital ratio was 21.07 percent, core surplus was 11.82 percent, total surplus was 21.02 percent, and net collateral was 105.72 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2006 was $54.4 million compared to $49.1 million for the same period of 2005, an increase of $5.3 million or 10.79 percent. Net interest income increased due to increases in investments and loan volume, partially offset by a small decrease in net interest margin.

The following table illustrates the changes in net interest income:

	For the three months ended March 31, 2006 vs. March 31, 2005		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 17,985	$ 38,996	$ 56,981
Investments	16,402	25,623	42,025
Total Interest Income	$ 34,387	$ 64,619	$ 99,006
Interest Expense:			
Systemwide Debt Securities	$ 27,428	$ 66,280	$ 93,708
Changes in Net Interest Income	$ 6,959	$ (1,661)	$ 5,298

Provision for Loan Losses

There was no provision for loan loss expense recorded for the first quarter of 2006, compared to a $571 thousand net reversal of the provision for loan loss expense for the quarter ended March 31, 2005.

Noninterest Income

Noninterest income for the three months ended March 31, 2006 was $3.6 million, which reflected a decrease of $598 thousand as compared to the same period in 2005. The decrease in noninterest income primarily resulted from:

- a $1.4 million decrease in loan fees due to reductions of 759 thousand in prepayment penalty fee income and $517 thousand in net participations/syndications fee income,
- a $105 thousand decrease in net gains/losses on investments, and
- a $910 thousand increase in other noninterest income, primarily related to fair market value adjustment on an interest rate swap.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2006 was $14.5 million, a decrease of $1.0 million as compared to the corresponding period in 2005. The quarterly reduction resulted from decreases in:

- Intra-System financial assistance expense of $1.9 million,
- called debt expense of $475 thousand, and
- salaries and employee benefits of $425 thousand.

Offsetting these decreases were increases of:

- $468 thousand in occupancy and equipment,
- $587 thousand in the Insurance Fund premium, and
- $584 thousand in other operating expenses.

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, 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 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.

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2006	December 31, 2005
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 538,946	$ 557,882
Investment securities:		
Available for sale (amortized cost of $4,403,627 and $3,888,889 respectively)	4,403,033	3,886,318
Held to maturity (fair value of $1,295,208 and $1,337,860 respectively)	1,348,484	1,369,427
Total Investment securities	5,751,517	5,255,745
Loans	14,695,684	14,411,050
Less: allowance for loan losses	10,114	10,114
Net loans	14,685,570	14,400,936
Accrued interest receivable	82,024	75,410
Investments in other Farm Credit System institutions	66,947	67,139
Premises and equipment, net	26,063	25,851
Due from associations	24,377	28,808
Other assets	73,831	71,260
Total assets	$ 21,249,275	$ 20,483,031
Liabilities		
Bonds and notes	$ 19,600,818	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	143,119	133,855
Patronage distribution payable	562	132,226
Postretirement benefits other than pensions	15,056	14,999
Other liabilities (See Note 1)	181,887	59,559
Total liabilities	20,166,442	19,445,603
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	224,554	224,554
Retained earnings	708,873	665,445
Accumulated other comprehensive income (loss)	(594)	(2,571)
Total shareholders' equity	1,082,833	1,037,428
Total liabilities and equity	$ 21,249,275	$ 20,483,031

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

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2006	2005
Interest Income		
Investment securities and other	$ 71,307	$ 29,282
Loans	191,193	134,212
Total interest income	262,500	163,494
Interest Expense	208,062	114,354
Net interest income	54,438	49,140
Provision for (reversal of) loan losses	—	(571)
Net interest income after provision for (reversal of) loan losses	54,438	49,711
Noninterest Income		
Loan fees	1,272	2,675
Realized gains (losses) on investments, net	(5)	100
Other noninterest income	2,324	1,414
Total noninterest income	3,591	4,189
Noninterest Expenses		
Salaries and employee benefits	5,922	6,347
Occupancy and equipment	3,163	2,695
Insurance Fund premium	759	172
Other operating expenses	4,139	3,555
Intra-System financial assistance expenses	—	1,864
Called debt expense	—	475
Other noninterest expense	561	466
Total noninterest expenses	14,544	15,574
Net income	$ 43,485	$ 38,326

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

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2004	$ 150,000	$ 226,200	$ 644,366	$ 3,730	$ 1,024,296
Comprehensive income					
Net income			38,326		38,326
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $100				(8,308)	(8,308)
Change in fair value of derivative instruments, includes reclassification adjustments of ($5)				3,511	3,511
Total comprehensive income					33,529
Cash patronage			(4)		(4)
Balance at March 31, 2005	$ 150,000	$ 226,200	$ 682,688	$ (1,067)	$ 1,057,821
Balance at December 31, 2005	$ 150,000	$ 224,554	$ 665,445	$ (2,571)	$ 1,037,428
Comprehensive income					
Net income			43,485		43,485
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of ($5)				1,977	1,977
Total comprehensive income					45,462
Cash patronage			(57)		(57)
Balance at March 31, 2006	$ 150,000	$ 224,554	$ 708,873	$ (594)	$ 1,082,833

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2006	2005
Cash flows from operating activities:		
Net income	$ 43,485	$ 38,326
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,183	1,424
Provision for (reversal of) loan losses	—	(571)
Realized (gains) losses on investments, net	5	(100)
Realized (gains) losses on derivatives, net	(1,491)	5
Realized (gains) losses on mortgage loans held for sale	46	60
Proceeds from sale of mortgage loans held for sale	2,231	992
Purchases of mortgage loans held for sale (net of principal repayment)	(61,565)	(55,298)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(6,614)	(3,043)
(Increase) decrease in due from associations	4,431	12,482
(Increase) decrease in other assets	278	4,423
Increase (decrease) in accrued interest payable	9,264	11,477
Increase (decrease) in postretirement benefits other than pensions	57	225
Increase (decrease) in other liabilities	117,173	35,178
Total adjustments	65,998	7,254
Net cash provided by (used in) operating activities	109,483	45,580
Cash flows from investing activities:		
Investment securities purchased	(1,031,456)	(518,151)
Investment securities sold or matured	537,656	472,376
Net (increase) decrease in loans	(225,352)	141,400
(Increase) decrease in investments in other Farm Credit System institutions	192	(118)
Purchase of premises and equipment, net	(2,395)	(1,726)
Net cash provided by (used in) investing activities	(721,355)	93,781
Cash flows from financing activities:		
Bonds and notes issued	11,760,657	9,122,929
Bonds and notes retired	(11,036,000)	(9,192,500)
Cash distribution to shareholders	(131,721)	(126,689)
Net cash provided by (used in) financing activities	592,936	(196,260)
Net increase (decrease) in cash and cash equivalents	(18,936)	(56,899)
Cash and cash equivalents, beginning of period	557,882	470,258
Cash and cash equivalents, end of period	$ 538,946	$ 413,359
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ 1,977	$ (8,308)
Change in fair value of derivative instruments	—	3,511
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 6	$ 17
Increase (decrease) in bonds and notes	(3,803)	(24,402)
Decrease (increase) in other assets	(2,849)	968
Increase (decrease) in other liabilities	5,155	19,925
Supplemental information:		
Interest paid	$ 198,798	$ 102,877

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

Notes to the Consolidated Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst) and the accounts of the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation), a wholly owned subsidiary (collectively referred to as the Bank). All prior years transactions and balances among the Bank and the Finance Corporation were eliminated in consolidation. The operations of the Finance Corporation were suspended and placed into inactive status effective December 31, 2005, and all outstanding capital of the Finance Corporation was transferred to AgFirst. This will not have a material effect on the financial condition of AgFirst.

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, 2005, are contained in the 2005 Annual Report. These unaudited first quarter financial statements should be read in conjunction with the 2005 Annual Report.

The accompanying consolidated 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, 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. The impact at March 31, 2006 was $121.4 million in available-for-sale investment securities and a related increase in other liabilities.

The Bank maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2006, the allowance for losses was 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:

Balance at December 31, 2004	$ 14,800
Provision for (reversal of) loan losses	(571)
Recoveries, net of loans charged off	271
Balance at March 31, 2005	$ 14,500
Balance at December 31, 2005	$ 10,114
Provision for (reversal of) loan losses	–
Recoveries, net of loans charged off	–
Balance at March 31, 2006	$ 10,114

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 $115.94 billion at March 31, 2006.

There is no material litigation pending against the Bank.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The Bank participates in a Districtwide defined benefit retirement plan. The costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times each institution's salary expense as a percentage of the District's salary expense. The Bank also participates in Districtwide defined contribution thrift and other postretirement benefit plans.

The following is a table of retirement and postretirement benefit expenses for the three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	**2005**
Pension	$ 953	$ 904
Thrift/deferred compensation	98	132
Other postretirement benefits	277	498
Total	$ 1,328	$ 1,534

As of March 31, 2006, the Bank had made no contributions to the Districtwide defined benefit retirement plan. Actuarial projections as of the last plan measurement date (September 30, 2005) did not anticipate any contributions for 2006. Market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.

The Bank also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the pension and deferred compensation costs above. The Bank contributed $63 thousand to these plans during the first three months of 2006. The Bank anticipates making additional contributions of $189 thousand to these supplemental retirement and deferred compensation plans during the remainder of 2006.

In addition to providing pension benefits, the Bank provides certain health care and life insurance benefits to the retired employees (other postretirement benefits). Contributions of $205 thousand were made to the other postretirement benefit plan during the first quarter of 2006. The Bank anticipates contributing an additional $687 thousand during the remainder of 2006 to the other postretirement benefit plans.

NOTE 5 — AGFIRST FARM CREDIT BANK AND DISTRICT ASSOCIATIONS FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank and the District Associations follows:

Balance Sheet Data

	3/31/06 *(unaudited)*	12/31/05 *(audited)*
Cash and investment securities	$ 6,393,180	$ 5,943,795
Loans	16,479,537	16,171,572
Less: allowance for loan losses	87,480	87,551
Net loans	16,392,057	16,084,021
Other assets	889,168	746,744
Total assets	$ 23,674,405	$ 22,774,560
Bonds and notes	$ 19,600,818	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	649,035	525,211
Total liabilities	20,474,853	19,630,175
Perpetual preferred stock	150,000	150,000
Protected borrower equity	6,694	7,628
Capital stock and participation certificates	118,384	120,370
Retained earnings	2,925,473	2,869,363
Accumulated other comprehensive income (loss)	(999)	(2,976)
Total shareholders' equity	3,199,552	3,144,385
Total liabilities and equity	$ 23,674,405	$ 22,774,560

Statement of Income Data

	For the three months ended March 31, 2006	2005
Interest income	$ 369,498	$ 258,719
Interest expense	208,227	114,390
Net interest income	161,271	144,329
Provision for (reversal of) loan losses	101	(1,265)
Net interest income after provision for loan losses	161,170	145,594
Noninterest expense, net	(62,894)	(56,971)
Net income	$ 98,276	$ 88,623