AgFirst Farm Credit Bank & District Associations

Quarterly Report

First Quarter 2006

FIRST QUARTER 2006

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F. A. Lowrey
Chief Executive Officer

Robert G. Sexton
Chairman of the Board

April 28, 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 months ended March 31, 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.

As of March 31, 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 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 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 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, 2006 was $16.48 billion, an increase of $308.0 million, or 1.90 percent as compared to December 31, 2005, and an increase of $1.60 billion or 10.75 percent compared to March 31, 2005. General economic conditions within the District remain favorable. Credit quality remains stable despite the District experiencing an active hurricane season during 2005.

Specific segments of the agricultural economy, such as poultry, are currently experiencing a downturn in profitability. Low poultry prices are related to large supplies, avian flu concerns overseas and other adverse export conditions. Most poultry companies within the portfolio remain well capitalized following several years of strong profits. In addition, higher fuel prices could affect borrowers' profitability for all commodities across the District. However, the portfolio credit quality continues to be excellent, reflecting a strong economy in the District.

Nonaccrual loan assets for the combined District at March 31, 2006 were 0.55 percent of total loans outstanding as compared to 0.51 percent at December 31, 2005 and 0.60 percent at March 31, 2005. Loan classifications as of March 31, 2006 have shown slight improvements compared to December 31, 2005 and March 31, 2005, as illustrated in the following chart:

Asset Quality as of:			
Classification	**March 31, 2006**	**December 31, 2005**	**March 31, 2005**
Acceptable	95.90%	95.75%	94.95%
OAEM *	2.59%	2.67%	3.02%
Substandard	1.39%	1.46%	1.81%
Doubtful/loss	0.12%	0.12%	0.22%

* Other Assets Especially Mentioned

Diversification of the portfolio remains similar to a year ago as to commodities and geography, with a slight increase in the average size loan (from $95 thousand to $104 thousand.) Risk factors are stable as to past-due loans, asset quality, and non-earning assets.

The allowance for loan losses at March 31, 2006 of $87.5 million, or 0.53 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 March 31, 2006, AgFirst and all District Associations exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $6.39 billion or 27.00 percent of total assets at March 31, 2006, compared to $5.94 billion or 26.10 percent as of December 31, 2005. Investments increased $2.48 billion compared 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 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 $1.41 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 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 District shareholders' equity increased $55.2 million from December 31, 2005 to March 31, 2006. The increase was primarily the result of $98.3 million in net income, offset by a net reduction in stock and participation/syndication certificates of $2.0 million, retirements of protected borrower equity of $943 thousand, retirements of surplus of $32.8 million, dividends paid of $105 thousand, and patronage distributions of $5.2 million. As of March 31, 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. 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 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. Investment securities at March 31, 2006 included $1.33 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 March 31, 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, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides 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 FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

On March 31, 2006, thirteen District Associations held loan assignments for Tobacco Buyout borrowers and/or Successor-in-Interest Contracts (SIIC). As of March 31, 2006, the District Associations held Tobacco Buyout loan assignments of $82.7 million and SIIC of $364.8 million. In addition, the District Associations also had commitments to purchase SIIC of $3.1 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 March 31, 2006 was $161.3 million, an increase of $16.9 million or 11.74 percent compared to the three months ended March 31, 2005. 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	$ 22,970	$ 40,505	$ 63,475
Investments	19,278	28,026	47,304
Total Interest Income	$ 42,248	$ 68,531	$ 110,779
Interest Expense:			
Systemwide Debt Securities	$ 27,628	$ 66,209	$ 93,837
Changes in Net Interest Income	$ 14,620	$ 2,322	$ 16,942

Provision for Loan Losses

The provision expense for loan losses for the three months ended March 31, 2006 was $101 thousand, compared to a provision/(reversal) of $(1.3) million for the same period in 2005. The provision reversal for the three months ended March 31, 2005 was due primarily to the net decrease in risk exposure across the District.

Noninterest Income

Noninterest income for the three months ended March 31, 2006 was $13.3 million, which reflected an increase of $522 thousand as compared to the same period in 2005. The 2006 increase in noninterest income resulted primarily from:

- a $387 thousand increase in fees for financially related services and
- a $2.1 million increase in other noninterest income, primarily from a $1.5 million fair market value adjustment on an interest rate swap.

Offsetting the increases in noninterest income were the following decreases:

- loan fees decreased $1.8 million, primarily from reductions of $755 thousand in prepayment income and $1.1 million in fee income related to Correspondent Lending loan servicing income,
- a decrease of $105 thousand in net gains/(losses) on investments, and
- a $71 thousand decrease in net gains/(losses) on the sale of rural home loans.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2006 was $75.9 million, an increase of $6.2 million as compared to the corresponding period in 2005. The following items increased noninterest expense during the period:

- Insurance Fund premium increased $4.3 million due to an increase in premium rates from 5 basis points to 15 basis points on accrual loans beginning January 1, 2006,
- salaries and benefits increased $707 thousand,
- occupancy and equipment increased $957 thousand, and
- other operating expenses increased $2.5 million.

Partially offsetting these increases were decreases in Intra-System Financial Assistance Corporation (FAC) expenses of $1.9 million and called debt expense of $475 thousand.

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2006	**For the year ended December 31, 2005**
Return on Average Assets	1.74%	1.86%
Return on Average Shareholders' Equity	12.48%	12.05%
Net Interest Income as a Percentage of Average Earning Assets	2.91%	3.07%
Chargeoffs, Net of (Recoveries), to Average Loans	.001%	.01%

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 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, 2006	December 31, 2005
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 582,071	$ 640,830
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 $1,353,956 and $1,384,390 respectively)	1,408,076	1,416,647
Total Investment securities	5,811,109	5,302,965
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 investments	364,763	237,239
Accrued interest receivable	188,657	179,970
Investments in other Farm Credit System institutions	8,602	8,756
Premises and equipment, net	112,354	107,063
Other property owned	3,386	3,646
Deferred tax assets, net	1,680	1,691
Other assets	209,726	208,379
Total assets	$ 23,674,405	$ 22,774,560
Liabilities		
Bonds and notes	$ 19,600,818	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	143,119	133,855
Dividends and patronage refunds payable	9,504	99,665
Postretirement benefits other than pensions	103,760	102,681
Other liabilities (See Note 1)	392,652	189,010
Total liabilities	20,474,853	19,630,175
Commitments and contingencies	—	—
Shareholders' Equity		
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		
Allocated	895,143	925,919
Unallocated	2,030,330	1,943,444
Accumulated other comprehensive income	(999)	(2,976)
Total shareholders' equity	3,199,552	3,144,385
Total liabilities and equity	$ 23,674,405	$ 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 March 31, 2006	2005
Interest Income		
Investment securities	$ 71,957	$ 29,467
Loans	292,727	229,252
Other	4,814	—
Total 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 (reversal of) loan losses	161,170	145,594
Noninterest Income		
Loan fees	7,202	8,992
Fees for financially related services	1,464	1,077
Realized gains (losses) on investments, net	(5)	100
Gain (loss) on sale of rural home loans	585	656
Other noninterest income	4,055	1,954
Total noninterest income	13,301	12,779
Noninterest Expenses		
Salaries and employee benefits	45,272	44,565
Occupancy and equipment	7,575	6,618
Insurance Fund premium	5,713	1,403
Other operating expenses	16,791	14,288
Intra-System financial assistance expenses	—	1,864
Called debt expense	—	475
Other noninterest expense	560	467
Total noninterest expenses	75,911	69,680
Income before income taxes	98,560	88,693
Provision (benefit) for income taxes	284	70
Net income	$ 98,276	$ 88,623

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					88,623		88,623
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							83,826
Protected borrower equity retired		(1,841)					(1,841)
Capital stock/participation certificates issued/retired, net			(719)				(719)
Dividends declared/paid			32		(92)		(60)
Patronage distribution							
Cash					(4,172)		(4,172)
Retained earnings retired				(35,544)			(35,544)
Patronage distribution adjustment				2,014	(3,013)		(999)
Balance at March 31, 2005	$150,000	$ 8,282	$ 124,402	$ 816,096	$ 1,942,822	$ (1,466)	$ 3,040,136
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

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, 2006	2005
Cash flows from operating activities:		
Net income	$ 98,276	$ 88,623
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,372	3,431
Provision for (reversal of) loan losses	101	(1,265)
(Gains) losses from sale of premises and equipment, net	(298)	(217)
(Gains) losses on other property owned, net	3	16
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	(585)	(656)
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	(8,687)	(11,878)
(Increase) decrease in deferred tax assets, net	11	(372)
(Increase) decrease in other assets	1,502	7,328
Increase (decrease) in accrued interest payable	9,264	11,477
Increase (decrease) in postretirement benefits other than pensions	1,079	2,242
Increase (decrease) in other liabilities	200,764	106,941
Total adjustments	146,706	62,646
Net cash provided by (used in) operating activities	244,982	151,269
Cash flows from investing activities:		
Investment securities purchased	(1,049,013)	(520,037)
Investment securities sold or matured	542,841	472,536
Net (increase) decrease in loans	(248,423)	9,422
Increase) decrease in investments in other Farm Credit System institutions	154	(153)
Net (increase) decrease in other investments	(127,524)	—
Purchase of premises and equipment, net	(9,891)	(6,424)
Proceeds from sale of premises and equipment, net	526	621
Proceeds from sale of other property owned	456	1,013
Net cash provided by (used in) investing activities	(890,874)	(43,022)
Cash flows from financing activities:		
Bonds and notes issued	11,760,657	9,122,930
Bonds and notes retired	(11,036,000)	(9,192,500)
Protected borrower equity retired	(934)	(1,841)
Capital stock and participation certificates issued/retired, net	(2,086)	(719)
Patronage refunds and dividends paid	(101,687)	(80,699)
Retained earnings retired	(32,817)	(35,544)
Net cash provided by (used in) financing activities	587,133	(188,373)
Net increase (decrease) in cash and cash equivalents	(58,759)	(80,126)
Cash and cash equivalents, beginning of period	640,830	522,862
Cash and cash equivalents, end of period	$ 582,071	$ 442,736
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ —	$ 161
Loans transferred to other property owned	199	1,342
Patronage refund and dividends payable	5,213	4,232
Change in unrealized gains (losses) on investments, 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	$ 198,963	$ 102,913
Taxes paid, net	164	619

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 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 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 first 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 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 related increase in other liabilities.

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 March 31, 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:

Balance at December 31, 2004	$ 95,419
Provision for (reversal of) loan losses	(1,265)
Loans (charged off), net of recoveries	(298)
Balance at March 31, 2005	$ 93,856
Balance at December 31, 2005	$ 87,551
Provision for loan losses	102
Loans (charged off), net of recoveries	(173)
Balance at March 31, 2006	$ 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 $115.94 billion at March 31, 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 three months ended March 31:

	Pension Benefits	
	2006	**2005**
Service cost	$ 4,077	$ 3,374
Interest cost	6,824	6,525
Expected return on plan assets	(9,152)	(7,905)
Amortization of prior service costs	315	158
Recognized net (gain) loss	3,430	3,039
Net periodic benefit cost	$ 5,494	$ 5,191

As of March 31, 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 quarter, the District expensed $1.1 million in 2006 compared to $1.0 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 the retired employees (other postretirement benefits). The following is a table of other postretirement benefits expenses:

	Other Postretirement Benefits	
	2006	**2005**
Service cost	$ 670	$ 727
Interest cost	1,621	2,143
Expected return on plan assets	–	–
Amortization of prior service costs	(709)	(70)
Recognized net (gain) loss	731	952
Net periodic benefit cost	$ 2,313	$ 3,752

Contributions of $1.1 million were made to the other postretirement benefit plan during the first quarter of 2006. The District anticipates contributing an additional $4.1 million during the remainder of 2006 to the other postretirement benefit plans.

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 $111 thousand to these plans during the first three months of 2006. The District anticipates making additional contributions of $325 thousand to these supplemental retirement and deferred compensation plans during 2006.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

	3/31/06 *(unaudited)*	12/31/05 *(audited)*
Cash and investment securities	$ 6,290,463	$ 5,813,627
Loans	14,695,684	14,411,050
Less: allowance for loan losses	10,114	10,114
Net loans	14,685,570	14,400,936
Other assets	273,242	268,468
Total assets	$ 21,249,275	$ 20,483,031
Bonds and notes	$ 19,600,818	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	340,624	340,639
Total liabilities	20,166,442	19,445,603
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

Statement of Income Data

	For the three months ended March 31, 2006	2005
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 loan losses	54,438	49,711
Noninterest expense, net	(10,953)	(11,385)
Net income	$ 43,485	$ 38,326