AgFirst Farm Credit Bank

Quarterly Report

First Quarter 2007

FIRST QUARTER 2007

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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 financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) for the three months ended March 31, 2007. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements and the 2006 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, 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, 2007 totaled $17.22 billion, a $63.3 million, or a 0.37 percent increase compared to total loans outstanding at December 31, 2006, and an increase of $2.52 billion, or 17.15 percent, compared to March 31, 2006. The increase in loan volume over the past twelve months is attributed to an active real estate market, capital expansion by agribusiness, favorable interest rate opportunities available to borrowers, purchases of participations/syndications and loans, a seasoned association lending staff, and the value inherent 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.

AgFirst's primary line of business is to provide funds to District Associations. AgFirst has a revolving line of credit, referred to as a direct note, in place with each of the Associations. Each of the Associations funds most of its lending and general corporate activities by borrowing under its direct note. All assets of the Associations secure the direct notes and lending terms are specified in a separate General Financing Agreement between AgFirst and each Association, including the subsidiaries of the Associations.

The $13.74 billion direct note portfolio is the largest of AgFirst's three loan portfolios: direct notes, loan participations/syndications, and correspondent lending loans. As of March 31, 2007, the direct notes, loan participations/syndications, and correspondent lending loans amounted to $13.74 billion, $2.65 billion, and $0.83 billion, respectively. Direct notes increased $1.17 billion, participations/syndications increased $1.15 billion, and correspondent lending loans increased $0.22 billion, from March 31, 2006, to March 31, 2007.

As of March 31, 2007, AgFirst's loan portfolios continue to perform well, as evidenced by good credit quality that is supported by a sound farm sector and general economy. As of March 31, 2007, twenty-two of the twenty-three direct notes, representing 98.81 percent of the direct note portfolio, were classified acceptable. The remaining direct note representing 1.19 percent was classified as Other Assets Especially Mentioned (OAEM). All twenty-three of the direct notes are performing and are in compliance with the General Financing Agreements and regulatory requirements for liquidity, earnings and capital.

The credit quality of the participations/syndications portfolio improved over the past twelve months. A significant amount of the improvement in credit quality resulted from the payoff of one adversely classified loan. The portfolio also experienced double-digit growth during the period, all in Acceptable quality loans that contributed to higher credit quality. The credit quality statistics for the participations/syndications portfolio is shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**March 31, 2007**	**December 31, 2006**	**March 31, 2006**
Acceptable	98.47%	97.70%	96.34%
OAEM	1.34%	1.53%	1.50%
Substandard	0.19%	0.77%	0.99%
Doubtful	0.00%	0.00%	1.17%

The Correspondent Lending Unit purchases residential and part-time farm loans from a network of correspondents including the Associations. The majority of loans purchased by Correspondent Lending to be "held to maturity" are guaranteed by Fannie Mae and/or Farmer Mac, thereby exposing AgFirst to limited credit risk. Technically, the guarantees are in the form of *Long-Term Standby Commitments to Purchase*, which give AgFirst the right to deliver delinquent loans to the "guarantor" at par.

At March 31, 2007, AgFirst had $597 thousand in allowance for loan losses. AgFirst's risk management department reviews the credit department's analysis of all portfolios at least quarterly and reserves are established as needed. See Note 2, *Allowance for Loan Losses*, in the Notes to the 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 $6.96 billion, or 28.44 percent of total assets at March 31, 2007, compared to $6.94 billion, or 28.43 percent, as of December 31, 2006. Investments increased $662.7 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 $1.27 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 AgFirst is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At March 31, 2007, AgFirst had $22.77 billion in total debt outstanding compared to $22.61 billion at December 31, 2006. In addition, other interest-bearing liabilities for AgFirst 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 shareholders' equity increased $51.7 million from December 31, 2006 to March 31, 2007. This 4.38 percent net increase is primarily attributed to the increase in retained earnings related to net income of $45.4 million.

As of March 31, 2007, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by FCA Regulations. Subsequent to the issuance of the mandatorily redeemable preferred stock, FCA requires AgFirst to maintain a minimum net collateral ratio of 104.00 percent compared to the System regulatory minimum of 103.00 percent. AgFirst reported the following regulatory ratios:

	Regulatory Minimum	AgFirst Ratio as of 3/31/07	AgFirst Ratio as of 12/31/06
Permanent Capital Ratio	7.00%	17.82%	19.19%
Total Surplus Ratio	7.00%	17.77%	19.14%
Core Surplus Ratio	3.50%	9.61%	11.46%
Collateral Ratio	104.00%	105.55%	105.28%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2007 was $59.2 million compared to $54.4 million for the same period of 2006, an increase of $4.8 million or 8.83 percent. Net interest income was greater than previous periods, primarily due to increased loan volume and investments. However, the Bank did experience margin compression due to the adverse impact of flat and inverted yield curves.

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	$ 26,279	$ 35,534	$ 61,813
Investments	10,771	11,996	22,767
Total Interest Income	$ 37,050	$ 47,530	$ 84,580
Interest Expense:			
Systemwide Debt Securities	$ 41,405	$ 38,367	$ 79,772
Changes in Net Interest Income	$ (4,355)	$ 9,163	$ 4,808

Noninterest Income

Noninterest income for the three months ended March 31, 2007 was $2.8 million, which reflected a decrease of $832 thousand 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	$ 1,727	$ 1,272	$ 455
Realized gains (losses) on investments, net	–	(5)	5
Realized gains (losses) on derivatives, net	–	1,491	(1,491)
Other noninterest income	1,032	833	199
Noninterest income	$ 2,759	$ 3,591	$ (832)

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.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2007, was $16.3 million, which reflected an increase of $1.8 million compared to the corresponding 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 wages	$ 6,245	$ 5,922	$ 323
Occupancy and equipment	3,163	3,163	–
Insurance Fund premium	1,257	759	498
Other operating expenses	4,404	4,139	265
Called debt expense	621	–	621
Other noninterest expense	638	561	77
Noninterest expense	$ 16,328	$ 14,544	$ 1,784

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 316, or writing Wanda Martin, Controller, 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.

Balance Sheets

(dollars in thousands)	**March 31, 2007**	**December 31, 2006**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 547,218	$ 582,764
Investment securities:		
Available for sale (amortized cost of $5,144,046 and $5,063,640 respectively)	5,147,927	5,065,621
Held to maturity (fair value of $1,234,708 and $1,259,879 respectively)	1,266,260	1,293,061
Total investment securities	6,414,187	6,358,682
Loans	17,215,646	17,152,337
Less: allowance for loan losses	597	463
Net loans	17,215,049	17,151,874
Accrued interest receivable	108,295	104,925
Investments in other Farm Credit System institutions	64,716	65,066
Premises and equipment, net	24,110	25,698
Due from associations	19,040	41,692
Other assets	86,956	81,463
Total assets	$ 24,479,571	$ 24,412,164
Liabilities		
Bonds and notes	$ 22,768,344	$ 22,613,379
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	200,376	188,028
Patronage distribution payable	77	128,377
Postretirement benefits other than pensions	15,301	15,266
Other liabilities	37,643	61,027
Total liabilities	23,246,741	23,231,077
Commitments and contingencies	—	—
Shareholders' Equity		
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

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

Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2007	2006
Interest Income		
Investment securities and other	$ 94,074	$ 71,307
Loans	253,006	191,193
Total 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 (reversal of) loan losses	58,984	54,438
Noninterest Income		
Loan fees	1,727	1,272
Realized gains (losses) on investments, net	—	(5)
Recognized gains (losses) on derivatives, net	—	1,491
Other noninterest income	1,032	833
Total noninterest income	2,759	3,591
Noninterest Expenses		
Salaries and employee benefits	6,245	5,922
Occupancy and equipment	3,163	3,163
Insurance Fund premium	1,257	759
Other operating expenses	4,404	4,139
Called debt expense	621	—
Other noninterest expense	638	561
Total noninterest expenses	16,328	14,544
Net income	$ 45,415	$ 43,485

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
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
Balance at December 31, 2006	$ 150,000	$ 313,353	$ 715,753	$ 1,981	$ 1,181,087
Comprehensive income					
Net income			45,415		45,415
Unrealized gains (losses) on investments available for sale				1,900	1,900
Total comprehensive income					47,315
Capital stock/participation certificates issued/retired, net		4,477			4,477
Cash patronage			(49)		(49)
Balance at March 31, 2007	$ 150,000	$ 317,830	$ 761,119	$ 3,881	$ 1,232,830

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 45,415	$ 43,485
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,123	2,183
Provision for (reversal of) loan losses	262	—
Realized (gains) losses on investments, net	—	5
Recognized (gains) losses on derivatives, net	—	(1,491)
Realized (gains) losses on mortgage loans held for sale	(42)	46
Proceeds from sale of mortgage loans held for sale	3,319	2,231
Amortization of premium/discount on investment securities	(1,863)	(1,255)
(Increase) decrease in accrued interest receivable	(3,370)	(6,614)
(Increase) decrease in amortized discount on notes	1,590	(560)
(Increase) decrease in due from associations	22,652	4,431
(Increase) decrease in other assets	(3,992)	278
Increase (decrease) in accrued interest payable	12,348	9,264
Increase (decrease) in postretirement benefits other than pensions	35	57
Increase (decrease) in other liabilities	(17,454)	117,173
Total adjustments	15,608	125,748
Net cash provided by (used in) operating activities	61,023	169,233
Cash flows from investing activities:		
Investment securities purchased	(403,939)	(1,030,201)
Investment securities sold or matured	352,197	537,656
Net (increase) decrease in loans	(66,714)	(286,917)
(Increase) decrease in investments in other Farm Credit System institutions	350	192
Purchase of premises and equipment, net	(535)	(2,395)
Net cash provided by (used in) investing activities	(118,641)	(781,665)
Cash flows from financing activities:		
Bonds and notes issued	10,049,504	11,746,460
Bonds and notes retired	(9,903,560)	(11,021,243)
Capital stock and participation certificates issued/retired, net	4,477	—
Cash distribution to shareholders	(128,349)	(131,721)
Net cash provided by (used in) financing activities	22,072	593,496
Net increase (decrease) in cash and cash equivalents	(35,546)	(18,936)
Cash and cash equivalents, beginning of period	582,764	557,882
Cash and cash equivalents, end of period	$ 547,218	$ 538,946
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ 1,900	$ 1,977
Change in fair value of derivative instruments	—	—
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	$ 273,896	$ 199,358

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

Notes to the Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (Bank). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2006, are contained in the 2006 Annual Report. These unaudited first quarter financial statements should be read in conjunction with the 2006 Annual Report.

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 Bank maintains an allowance for loan loss in accordance with GAAP. AgFirst's allowance methodology dictates that all loan portfolios are reviewed quarterly and all impaired loans are identified and analyzed to determine if a specific allowance is necessary. As of March 31, 2007, the risk analysis of the Bank's loan portfolios did not identify any impaired loans requiring specific allowances, but did establish a general allowance for a pool of loans purchased in the first quarter of 2007.

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	$ 463	$ 10,114
Provision for (reversal of) loan losses	262	–
Loans (charged off), net of recoveries	(128)	–
Balance at end of period	$ 597	$ 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 $137.60 billion at March 31, 2007.

There are no material claims pending against the Bank in which money damages are asserted.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The Bank participates in a Districtwide defined benefit retirement plan. As of March 31, 2007, the Bank had made no contributions for 2007 to the Districtwide defined benefit retirement plan. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007. 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 costs of the plan are not segregated by participating entities, but are allocated among the participating entities.

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,	
	2007	**2006**
Pension	$ 768	$ 953
Thrift/deferred compensation	155	98
Other postretirement benefits	250	277
Total	$ 1,173	$ 1,328

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 2007. The Bank anticipates making additional contributions of $189 thousand to these supplemental retirement and deferred compensation plans during the remainder of 2007.

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 $219 thousand were made to the other postretirement benefit plans during the first three months of 2007, and the Bank anticipates contributing an additional $698 thousand during the remainder of 2007.