AGFIRST FARM CREDIT BANK

Quarterly Report

Second Quarter 2006

SECOND QUARTER 2006

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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 consolidated financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) for the three and six months ended June 30, 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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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 AgFirst.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the six 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 June 30, 2006 totaled $15.74 billion, a $1.33 billion, or 9.22 percent, increase compared to total loans outstanding at December 31, 2005, and an increase of $2.17 billion, or 15.98 percent, compared to June 30, 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 the chartered territories. Association growth in originations is attributable to a seasoned lending staff, the value inherent to patronage paid under the cooperative structure, 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 low interest rate opportunities available to borrowers.

The credit quality of the $13.40 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. The potential threat of avian influenza outbreaks in the US diminished with warmer weather and the completion of the semi-annual migration of migratory birds. AgFirst will continue to monitor this situation and take appropriate actions, if necessary. While 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 June 30, 2006, twenty-two of the twenty-three direct notes, representing 98.82 percent of the portfolio, were classified acceptable. The remaining direct note representing 1.18 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 Agreement 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 $1.68 billion participations/syndications portfolio is shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**June 30, 2006**	**December 31, 2005**	**June 30, 2005**
Acceptable	97.71%	96.01%	93.91%
OAEM	1.23%	1.65%	2.12%
Substandard	1.06%	1.67%	3.14%
Doubtful	–	0.67%	0.83%

At June 30, 2006, AgFirst had no allowance for loan loss as a result of the liquidation of a single large impaired account. AgFirst's credit department reviews all acceptable accounts greater than $30.0 million and all criticized accounts quarterly and recommends specific reserves as needed. See Note 2, *Allowance for Loan Losses,* in the Notes to the Consolidated Financial Statements.

Liquidity and Funding Sources

As of June 30, 2006, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $6.37 billion, or 28.45 percent of total assets at June 30, 2006, compared to $5.81 billion, or 28.38 percent, as of December 31, 2005. Investments increased $2.25 billion compared to June 30, 2005, 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). 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 $1.32 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. 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 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.

The primary source of funds for AgFirst 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 shareholders' equity increased $82.3 million from December 31, 2005 to June 30, 2006. This 7.93 percent net increase is primarily attributed to the increase in retained earnings related to net income of $104.6 million.

As of June 30, 2006, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by the FCA Regulations. AgFirst reported the following regulatory ratios at June 30, 2006:

- Permanent capital ratio was 20.56 percent,
- Core surplus was 11.86 percent,
- Total surplus was 20.50 percent and
- Net collateral was 105.60 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2006 was $54.1 million compared to $50.4 million for the same period of 2005, an increase of $3.7 million or 7.38 percent. For the six months ended June 30, 2006, net interest income was $108.6 million compared to $99.6 million for the comparable period of 2005, an increase of $9.0 million or 9.06 percent. Net interest income increased due to increases in investments and loan volume, partially offset by a small decrease in net interest margin. The margin decrease was primarily due to the adverse impact of a flattening yield curve on spreads and a shift in balance sheet composition. While investments became a larger percentage of earning assets, it is a portfolio with low credit risk but thin margins.

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	$ 22,931	$ 41,717	$ 64,648	$ 40,839	$ 80,790	$ 121,629
Investments	20,062	29,317	49,379	36,400	55,004	91,404
Total Interest Income	$ 42,993	$ 71,034	$ 114,027	$ 77,239	$ 135,794	$ 213,033
Interest Expense:						
Systemwide Debt Securities	$ 35,374	$ 74,933	$ 110,307	$ 62,631	$ 141,384	$ 204,015
Changes in Net Interest Income	$ 7,619	$ (3,899)	$ 3,720	$ 14,608	$ (5,590)	$ 9,018

Provision for Loan Losses

A reversal of the provision for loan losses in the amount of $10.1 million was recorded for the second quarter of 2006. See Note 2, *Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

Noninterest Income

Noninterest income for the three months ended June 30, 2006 was $10.7 million, which reflected an increase of $3.6 million compared to the same period in 2005. For the six months ended June 30, 2006, noninterest income was $14.0 million, which reflected an increase of $2.7 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	$ (2,725)	$ (4,446)
Decrease in realized gains on investments, net	(272)	(377)
Increase in recognized gains on derivatives, net	8,306	9,797
Decrease in other noninterest expense	(1,711)	(2,292)
Increase in noninterest income	**$ 3,598**	**$ 2,682**

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 $13.9 million, which reflected a decrease of $665 thousand compared to the corresponding period in 2005. For the six months ended June 30, 2006, noninterest expense was $28.1 million, which reflected a decrease of $2.0 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**
Decrease in salaries and wages	$ (44)	$ (469)
Increase in occupancy and equipment	117	585
Increase in Insurance Fund premium	647	1,234
(Decrease) increase in other operating expenses	(3)	263
Decrease in Intra-System financial assistance expenses	(1,369)	(3,233)
Decrease in called debt expense	(83)	(558)
Increase in other noninterest expense	70	165
Decrease in noninterest expense	**$ (665)**	**$ (2,013)**

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.

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2006	December 31, 2005
	(unaudited)	(audited)
Assets		
Cash and cash equivalents	$ 600,856	$ 557,882
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 $1,244,527 and $1,337,860 respectively)	1,323,902	1,369,427
Total investment securities	5,770,120	5,255,745
Loans	15,739,296	14,411,050
Less: allowance for loan losses	—	10,114
Net loans	15,739,296	14,400,936
Accrued interest receivable	88,666	75,410
Investments in other Farm Credit System institutions	66,946	67,139
Premises and equipment, net	25,931	25,851
Due from associations	23,100	28,808
Other assets	82,108	71,260
Total assets	$ 22,397,023	$ 20,483,031
Liabilities		
Bonds and notes	$ 20,800,898	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	163,991	133,855
Patronage distribution payable	—	132,226
Postretirement benefits other than pensions	15,108	14,999
Other liabilities	72,330	59,559
Total liabilities	21,277,327	19,445,603
Commitments and contingencies	—	—
Shareholders' Equity		
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

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 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 and other	$ 81,661	$ 32,282	$ 152,968	$ 61,564
Loans	212,499	147,851	403,692	282,063
Total 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 (reversal of) loan losses	64,258	50,463	118,696	100,174
Noninterest Income				
Loan fees	1,858	4,583	2,812	7,258
Realized gains (losses) on investments, net	—	272	(5)	372
Recognized gains (losses) on derivatives, net	8,306	—	9,797	—
Other noninterest income	556	2,267	1,389	3,681
Total noninterest income	10,720	7,122	13,993	11,311
Noninterest Expenses				
Salaries and employee benefits	6,195	6,239	12,117	12,586
Occupancy and equipment	2,547	2,430	5,710	5,125
Insurance Fund premium	825	178	1,584	350
Other operating expenses	3,723	3,726	7,544	7,281
Intra-System financial assistance expenses	—	1,369	—	3,233
Called debt expense	—	83	—	558
Other noninterest expense	568	498	1,129	964
Total noninterest expenses	13,858	14,523	28,084	30,097
Net income	$ 61,120	$ 43,062	$ 104,605	$ 81,388

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			81,388		81,388
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					76,922
Capital stock/participation certificates issued/retired, net		(1,646)			(1,646)
Perpetual preferred stock dividends paid			(5,475)		(5,475)
Cash patronage			(4)		(4)
Balance at June 30, 2005	$ 150,000	$ 224,554	$ 720,275	$ (736)	$ 1,094,093
Balance at December 31, 2005	$ 150,000	$ 224,554	$ 665,445	$ (2,571)	$ 1,037,428
Comprehensive income					
Net income			104,605		104,605
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of $(5)				(17,283)	(17,283)
Total comprehensive income					87,322
Capital stock/participation certificates issued/retired, net		514			514
Perpetual preferred stock dividends paid			(5,475)		(5,475)
Cash patronage			(93)		(93)
Balance at June 30, 2006	$ 150,000	$ 225,068	$ 764,482	$ (19,854)	$ 1,119,696

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 104,605	$ 81,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,025	2,987
Provision for (reversal of) loan losses	(10,114)	(610)
Realized (gains) losses on investments, net	5	(372)
Recognized (gains) losses on derivatives, net	(9,797)	(43)
Realized (gains) losses on mortgage loans held for sale	49	(1,584)
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	(13,256)	(7,278)
(Increase) decrease in due from associations	5,708	18,707
(Increase) decrease in other assets	(3,078)	2,569
Increase (decrease) in accrued interest payable	30,136	20,758
Increase (decrease) in postretirement benefits other than pensions	109	436
Increase (decrease) in other liabilities	1,939	(3,658)
Total adjustments	(127,887)	(87,885)
Net cash provided by (used in) operating activities	(23,282)	(6,497)
Cash flows from investing activities:		
Investment securities purchased	(1,565,733)	(1,290,332)
Investment securities sold or matured	1,034,070	1,039,979
Net (increase) decrease in loans	(1,194,689)	(540,471)
(Increase) decrease in investments in other Farm Credit System institutions	193	(118)
Purchase of premises and equipment, net	(4,105)	(3,367)
Net cash provided by (used in) investing activities	(1,730,264)	(794,309)
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)
Capital stock and participation certificates issued/retired, net	514	(1,646)
Cash distribution to shareholders	(132,319)	(126,693)
Dividends paid on perpetual preferred stock	(5,475)	(5,475)
Net cash provided by (used in) financing activities	1,796,520	762,697
Net increase (decrease) in cash and cash equivalents	42,974	(38,109)
Cash and cash equivalents, beginning of period	557,882	470,258
Cash and cash equivalents, end of period	$ 600,856	$ 432,149
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (17,283)	$ (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	$ 417,942	$ 223,305

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 between 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 has not had 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 second 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 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 Bank maintains an allowance for loan loss provisions 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 June 30, 2006, the risk analysis of the Bank's loan portfolios did not identify any impaired loans requiring allowances.

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	$ 10,114	$ 14,800
Provision for (reversal of) loan losses	(10,114)	(610)
Recoveries, net of loans charged off	–	310
Balance at end of period	$ –	$ 14,500

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.

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. 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 six months ended June 30, 2006:

	For the six months ended June 30,	
	2006	**2005**
Pension	$ 1,892	$ 1,807
Thrift/deferred compensation	253	273
Other postretirement benefits	555	996
Total	$ 2,700	$ 3,076

As of June 30, 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 $126 thousand to these plans during the first six months of 2006. The Bank anticipates making additional contributions of $126 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 $366 thousand were made to the other postretirement benefit plans during the first six months of 2006, and the Bank anticipates contributing an additional $526 thousand during the remainder of 2006.

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

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

Balance Sheet Data

	6/30/06 *(unaudited)*	12/31/05 *(audited)*
Cash and investment securities	$ 6,520,655	$ 5,943,795
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 assets	953,979	746,744
Total assets	$ 24,769,511	$ 22,774,560
Bonds and notes	$ 20,800,898	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	480,661	525,211
Total liabilities	21,506,559	19,630,175
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	3,008,540	2,869,363
Accumulated other comprehensive income (loss)	(20,258)	(2,976)
Total shareholders' equity	3,262,952	3,144,385
Total liabilities and equity	$ 24,769,511	$ 22,774,560

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	$ 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 loan losses	179,298	149,672	340,468	295,266
Noninterest expense, net	(57,460)	(54,746)	(120,354)	(111,717)
Net income	$ 121,838	$ 94,926	$ 220,114	$ 183,549