AgFirst Farm Credit Bank

Quarterly Report

Second Quarter 2007

SECOND QUARTER 2007

Table of Contents

F. A. Lowrey

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Chief Executive Officer

Thomas W. Kelly

Thomas W. Kelly
Chairman of the Board

August 6, 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 and six month period ended June 30, 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 six months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business.

FINANCIAL CONDITION

Loan Portfolio

Loans outstanding at June 30, 2007, totaled $18.05 billion, a $901.7 million, or a 5.26 percent increase compared to total loans outstanding at December 31, 2006, and an increase of $2.31 billion, or 14.71 percent, compared to June 30, 2006. The increase in loan volume over the twelve month period can be attributed to a number of factors, including an active real estate market, capital expansion by agribusinesses, purchases of participations/syndications and loans, and the value inherent of patronage paid under the cooperative structure.

As of June 30, 2007, the portfolio continued to reflect good credit quality supported by a sound farm sector and general economy. While overall economic conditions continue to be favorable, certain risk factors have the potential to affect the overall farm economy, certain segments, or individual borrowers. 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. In addition, volatile fuel and energy prices and adverse weather conditions in some parts of the District could affect borrowers' profitability for all commodities.

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.

At June 30, 2007, the $14.47 billion direct note portfolio was the largest of AgFirst's three loan portfolios, which include the direct notes, loan participations/syndications (which consists primarily of larger commercial loans), and correspondent lending (which consists primarily of rural residential loans). As of June 30, 2007, the direct notes, loan participations/syndications, and correspondent lending loans amounted to $14.47 billion, $2.70 billion, and $0.89 billion, respectively. Direct notes increased $1.07 billion, participations/syndications increased $1.02 billion, and the correspondent lending portfolio increased $0.23 billion, from June 30, 2006, to June 30, 2007.

As of June 30, 2007, AgFirst's loan portfolios continued to perform well, as evidenced by good credit quality supported by a sound farm sector and general economy. As of June 30, 2007, twenty-two of the twenty-three District Associations' direct notes, representing 98.84 percent of the direct note portfolio, were classified acceptable. The remaining direct note representing 1.16 percent of the total 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 each of the District Associations met all 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 payoffs of adversely classified loans. The credit quality statistics for the participations/syndications portfolio is shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**June 30, 2007**	**December 31, 2006**	**June 30, 2006**
Acceptable	98.28%	97.70%	97.71%
OAEM	1.54%	1.53%	1.23%
Substandard	0.18%	0.77%	1.06%
Doubtful	0.00%	0.00%	0.00%

The Correspondent Lending Unit purchases residential and part-time farm loans from a network of correspondents including the Associations. The majority of loans purchased 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 June 30, 2007, AgFirst had $483 thousand in allowance for loan losses. As a part of the overall risk management process, AgFirst management has established a process which includes a review of the credit department's analysis of all portfolios at least quarterly. Reserves are established as needed based upon that analysis. See Note 2, *Allowance for Loan Losses,* in the Notes to the Financial Statements.

Liquidity and Funding Sources

As of June 30, 2007, AgFirst exceeded all applicable regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled $7.19 billion, or 28.12 percent of total assets at June 30, 2007, compared to $6.94 billion, or 28.43 percent, as of December 31, 2006. Investments increased $965.9 million compared to June 30, 2006. The maximum allowable level of investments is dictated by Farm Credit Administration (FCA) regulation, which currently is set at 35 percent of total loans. 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 June 30, 2007, AgFirst's coverage was 193 days.

Investment securities at June 30, 2007, included $1.25 billion in investments classified as being held-to-maturity. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities 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 June 30, 2007, AgFirst had $23.54 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 in both periods. Total interest-bearing liabilities increased primarily to fund the increase in loan and investment volume previously mentioned.

Capital Resources

Total shareholders' equity increased $326.4 million from December 31, 2006, to June 30, 2007. This 27.63 percent net increase is primarily attributed to the issuance of $250.0 million of perpetual non-cumulative preferred stock. See Note 4, *Preferred Stock,* in the Notes to the Financial Statements, for additional information relating to the preferred stock issue. Also contributing to the increase in stockholders' equity was the increase in retained earnings attributable primarily to net income of $92.8 million.

As of June 30, 2007, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by FCA Regulations. In conjunction with 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	AgFirst Ratio as of	
	Minimum	**6/30/07**	**12/31/06**
Permanent Capital Ratio	7.00%	18.66%	19.19%
Total Surplus Ratio	7.00%	18.61%	19.14%
Core Surplus Ratio	3.50%	9.91%	11.46%
Collateral Ratio	104.00%	106.51%	105.28%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2007, was $60.1 million compared to $54.1 million for the same period of 2006, an increase of $5.9 million or 10.91 percent. For the six months ended June 30, 2007, net interest income was $119.3 million compared to $108.6 million for the comparable period of 2006, an increase of $10.7 million or 9.87 percent. Net interest income increased due to increases in investments and loan volume, partially offset by a small decrease in net interest margin. The issuance of the additional preferred stock and a corresponding reduction in debt also contributed to the increase in net interest income. The decreases in net interest margin were partially due to continued competition for high quality loans.

The following table illustrates the changes in net interest income:

	For the three months ended June 30, 2007 vs. June 30, 2006			For the six months ended June 30, 2007 vs. June 30, 2006		
	Increase (decrease) due to changes in:			**Increase (decrease) due to changes in:**		
(dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income:						
Loans	$ 34,750	$ 18,397	$ 53,147	$ 70,379	$ 44,581	$ 114,960
Investments	9,869	2,487	12,356	21,987	13,136	35,123
Total Interest Income	$ 44,619	$ 20,884	$ 65,503	$ 92,366	$ 57,717	$ 150,083
Interest Expense:						
Systemwide Debt Securities	$ 35,503	$ 24,091	$ 59,594	$ 74,177	$ 65,189	$ 139,366
Changes in Net Interest Income	$ 9,116	$ (3,207)	$ 5,909	$ 18,189	$ (7,472)	$ 10,717

Provision for Loan Losses

The provision for loan losses was $148 thousand for the six months ended June 30, 2007, compared to a net allowance for loan loss reversal of $10.1 million for the same period in 2006. The majority of the reversal for the six months ended June 30, 2006, was attributed to a single account which paid out.

Noninterest Income

Noninterest income for the three months ended June 30, 2007, was $3.1 million, which reflected a decrease of $7.6 million compared to the same period in 2006. For the six months ended June 30, 2007, noninterest income was $5.9 million, which reflected a decrease of $8.1 million compared to the same period in 2006. The reason for these decreases was primarily related to the decreases in gains on derivatives.

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended June 30,**			**For the six months ended June 30,**		
(dollars in thousands)	**2007**	**2006**	**Increase/ (Decrease)**	**2007**	**2006**	**Increase/ (Decrease)**
Loan fees	$ 1,694	$ 1,858	$ (164)	$ 3,421	$ 2,812	$ 609
Realized gains (losses) on investments, net	–	–	–	–	(5)	5
Recognized gains (losses) on derivatives, net	–	8,306	(8,306)	–	9,797	(9,797)
Other noninterest income	1,454	556	898	2,486	1,389	1,097
Noninterest income	$ 3,148	$ 10,720	$ (7,572)	$ 5,907	$ 13,993	$ (8,086)

Noninterest Expense

Noninterest expense for the three months ended June 30, 2007, was $15.9 million, which reflected an increase of $2.0 million compared to the corresponding period in 2006. For the six months ended June 30, 2007, noninterest expense was $32.2 million, which reflected an increase of $4.2 million compared to the same period in 2006.

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	**For the three months ended June 30,**			**For the six months ended June 30,**		
(dollars in thousands)	**2007**	**2006**	**Increase/ (Decrease)**	**2007**	**2006**	**Increase/ (Decrease)**
Salaries and wages	$ 6,290	$ 6,195	$ 95	$ 12,535	$ 12,117	$ 418
Occupancy and equipment	3,356	2,547	809	6,519	5,710	809
Insurance Fund premium	1,320	825	495	2,577	1,584	993
Other operating expenses	4,147	3,723	424	8,551	7,544	1,007
Called debt expense	133	–	133	754	–	754
Other noninterest expense	660	568	92	1,298	1,129	169
Noninterest expense	$ 15,906	$ 13,858	$ 2,048	$ 32,234	$ 28,084	$ 4,150

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)	June 30, 2007	December 31, 2006
	(unaudited)	(audited)
Assets		
Cash and cash equivalents	$ 449,552	$ 582,764
Investment securities:		
Available for sale (amortized cost of $5,486,410 and $5,063,640 respectively)	5,481,960	5,065,621
Held to maturity (fair value of $1,189,733 and $1,259,879 respectively)	1,254,031	1,293,061
Total investment securities	6,735,991	6,358,682
Loans	18,054,032	17,152,337
Less: allowance for loan losses	483	463
Net loans	18,053,549	17,151,874
Accrued interest receivable	111,569	104,925
Investments in other Farm Credit System institutions	64,732	65,066
Premises and equipment, net	22,592	25,698
Due from associations	24,979	41,692
Other assets	88,577	81,463
Total assets	$ 25,551,541	$ 24,412,164
Liabilities		
Bonds and notes	$ 23,543,851	$ 22,613,379
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	206,258	188,028
Patronage distribution payable	—	128,377
Postretirement benefits other than pensions	15,333	15,266
Other liabilities	53,645	61,027
Total liabilities	24,044,087	23,231,077
Commitments and contingencies	—	—
Shareholders’ Equity		
Perpetual preferred stock	400,000	150,000
Capital stock and participation certificates	312,569	313,353
Retained earnings		
Allocated	252	—
Unallocated	799,083	715,753
Accumulated other comprehensive income (loss)	(4,450)	1,981
Total shareholders' equity	1,507,454	1,181,087
Total liabilities and equity	$ 25,551,541	$ 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 June 30, 2007	For the three months ended June 30, 2006	For the six months ended June 30, 2007	For the six months ended June 30, 2006
Interest Income				
Investment securities	$ 94,017	$ 81,661	$ 188,091	$ 152,968
Loans	265,646	212,499	518,652	403,692
Total interest income	359,663	294,160	706,743	556,660
Interest Expense	299,610	240,016	587,444	448,078
Net interest income	60,053	54,144	119,299	108,582
Provision for (reversal of) loan losses	(114)	(10,114)	148	(10,114)
Net interest income after provision for (reversal of) loan losses	60,167	64,258	119,151	118,696
Noninterest Income				
Loan fees	1,694	1,858	3,421	2,812
Realized gains (losses) on investments, net	—	—	—	(5)
Recognized gains (losses) on derivatives, net	—	8,306	—	9,797
Other noninterest income	1,454	556	2,486	1,389
Total noninterest income	3,148	10,720	5,907	13,993
Noninterest Expenses				
Salaries and employee benefits	6,290	6,195	12,535	12,117
Occupancy and equipment	3,356	2,547	6,519	5,710
Insurance Fund premium	1,320	825	2,577	1,584
Other operating expenses	4,147	3,723	8,551	7,544
Called debt expense	133	—	754	—
Other noninterest expense	660	568	1,298	1,129
Total noninterest expenses	15,906	13,858	32,234	28,084
Net income	$ 47,409	$ 61,120	$ 92,824	$ 104,605

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	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				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
Balance at December 31, 2006	$ 150,000	$ 313,353	$ —	$ 715,753	$ 1,981	$ 1,181,087
Comprehensive income						
Net income				92,824		92,824
Unrealized gains (losses) on investments available for sale					(6,431)	(6,431)
Total comprehensive income						86,393
Preferred stock issued	250,000					250,000
Issuance cost on preferred stock				(2,740)		(2,740)
Capital stock/participation certificates issued/retired, net		(784)				(784)
Perpetual preferred stock dividends paid				(5,475)		(5,475)
Stock dividends paid				(95)		(95)
Patronage distribution						
Nonqualified allocated retained earnings			252	(252)		—
Cash patronage				(932)		(932)
Balance at June 30, 2007	$ 400,000	$ 312,569	$ 252	$ 799,083	$ (4,450)	$ 1,507,454

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2007	2006
Cash flows from operating activities:		
Net income	$ 92,824	$ 104,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,217	4,025
Provision for (reversal of) loan losses	148	(10,114)
(Gains) losses on other property owned, net	(5)	—
Realized (gains) losses on investments, net	—	5
Recognized (gains) losses on derivatives, net	—	(9,797)
Realized (gains) losses on mortgage loans held for sale	(82)	49
Proceeds from sale of mortgage loans held for sale	9,523	3,552
Amortization of premium/discount on investment securities	(2,783)	(3,801)
(Increase) decrease in accrued interest receivable	(6,644)	(13,256)
(Increase) decrease in amortized discount on notes	4,940	(483)
(Increase) decrease in due from associations	16,713	5,708
(Increase) decrease in other assets	(9,730)	(3,078)
Increase (decrease) in accrued interest payable and dividend payable	18,230	30,136
Increase (decrease) in postretirement benefits other than pensions	67	109
Increase (decrease) in other liabilities	(11,381)	1,939
Total adjustments	23,213	4,994
Net cash provided by (used in) operating activities	116,037	109,599
Cash flows from investing activities:		
Investment securities purchased	(1,161,664)	(1,561,932)
Investment securities sold or matured	780,707	1,034,070
Net (increase) decrease in loans	(911,264)	(1,331,854)
(Increase) decrease in investments in other Farm Credit System institutions	334	193
Purchase of premises and equipment, net	(1,111)	(4,105)
Proceeds from sale of other property owned	80	—
Net cash provided by (used in) investing activities	(1,292,918)	(1,863,628)
Cash flows from financing activities:		
Bonds and notes issued	22,376,586	24,090,414
Bonds and notes retired	(21,444,514)	(22,156,131)
Preferred stock issued net of issuance cost	247,260	—
Capital stock and participation certificates issued/retired, net	(784)	514
Cash distribution to shareholders	(129,404)	(132,319)
Dividends paid on perpetual preferred stock	(5,475)	(5,475)
Net cash provided by (used in) financing activities	1,043,669	1,797,003
Net increase (decrease) in cash and cash equivalents	(133,212)	42,974
Cash and cash equivalents, beginning of period	582,764	557,882
Cash and cash equivalents, end of period	$ 449,552	$ 600,856
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (6,431)	$ (17,283)
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ —	$ 7
Increase (decrease) in bonds and notes	(6,540)	(12,866)
Decrease (increase) in other assets	2,541	(7,770)
Increase (decrease) in other liabilities	3,999	10,832
Supplemental information:		
Interest paid	$ 564,274	$ 418,425

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). AgFirst and its related associations (Associations or District Associations) are collectively referred as the District. 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 second 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 six months ended June 30, 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 losses. 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, 2007, the risk analysis of the Bank's loan portfolios did not identify any impaired loans requiring specific allowances. The Bank maintained a general allowance related to a pool of loans purchased from District Associations since the third quarter of 2006.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	For the six months Ended June 30, 2007	For the six months Ended June 30, 2006
Balance at beginning of period	$ 463	$ 10,114
Provision for (reversal of) loan losses	148	(10,114)
Loans (charged off), net of recoveries	(128)	–
Balance at end of period	$ 483	$ –

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 $140.44 billion at June 30, 2007.

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

NOTE 4 — PREFERRED STOCK

On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and will be payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B-1 Preferred Stock for payment on any dividend Payment Date, then such dividends shall not cumulate and shall cease to accrue and be payable.

NOTE 5 — EMPLOYEE BENEFIT PLANS

The Bank participates in a defined benefit retirement plan along with a majority of its related District Associations. As of June 30, 2007, the Bank had made no contributions for 2007 to this 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 six months ended June 30,	
	2007	**2006**
Pension	$ 1,537	$ 1,892
Thrift/deferred compensation	327	253
Other postretirement benefits	499	555
Total	$ 2,363	$ 2,700

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 2007. The Bank anticipates making additional contributions of $126 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 its retired employees (other postretirement benefits). Contributions of $438 thousand were made to the other postretirement benefit plans during the first six months of 2007, and the Bank anticipates contributing an additional $479 thousand during the remainder of 2007.