

FIRST QUARTER 2007

Management's Discussion and Analysis of
Financial Condition and Results of Operations..... 2

Consolidated Financial Statements

Consolidated Balance Sheets..... 5

Consolidated Statements of Income..... 6

Consolidated Statements of Changes in Members' Equity..... 7

Notes to the Consolidated Financial Statements..... 8



Neil L. Jordan
Chief Executive Officer



Charles L. Bostdorff
Chairman of the Board

April 27, 2007

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Ag Credit, Agricultural Credit Association (Association) for the three months ended March 31, 2007. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2006 annual report of the Association.

The Association obtains funding from AgFirst Farm Credit Bank (the Bank). Shareholder investment and the Association could be materially affected by the financial condition and results of operations of the Bank. Copies of the AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, www.agfirst.com or may be obtained at no charge by calling 1-800-845-1745, extension 316, or writing Wanda Martin, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's quarterly and annual reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1022, or writing Greg Siebenaller, Assistant Treasurer at Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the Association's fiscal yearend.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including general cash grain crops, livestock and horticultural products. These commodities totaled approximately \$582,743 or 82.27 percent of the loan portfolio as of March 31, 2007. Farm size varies and many of the Association's borrowers have diversified operations. These factors, along with non-farm income and the use of loan guarantees somewhat reduces the level of commodity concentration risk in the Association's loan portfolio.

Gross loan volume of the Association as of March 31, 2007 was \$708,337, an increase of \$503 as compared to \$707,834 at December 31, 2006. The slight increase in loan volume is related to an increase in real estate mortgage volume, processing and marketing volume and production and

intermediate-term volume, which were offset by reductions in farm-related business, rural residential and lease volume. The increase in production and intermediate term volume is atypical for the first three months of the year. This may suggest members are extending grain marketing plans due to recent increases in grain prices. Operating loans typically decrease during the first quarter of the year as borrowers pay down loan balances. Net loans outstanding at March 31, 2007 were \$704,711 as compared to \$704,402 at December 31, 2006. Net loans accounted for 95.3 percent of total assets at March 31, 2007 as compared to 94.2 percent at December 31, 2006.

There is an inherent risk in the extension of any type of credit. There are no significant potential credit risks identified within the loan portfolio that could adversely impact the performance of the portfolio in the near future. Portfolio credit quality remains strong and credit administration is satisfactory. Nonaccrual loans decreased by \$17 from \$651 at December 31, 2006 to \$634 at March 31, 2007.

Association management maintains an allowance for loan losses sufficient to cover the possible losses in the loan portfolio based on current and expected future conditions. During the first three months of 2007 the Association recorded a provision for loan losses of \$172 and recognized net recoveries of \$22. For the same period of 2006, the Association recognized net recoveries of \$21 and did not record a provision for loan losses. The allowance for loan losses was \$3,626 at March 31, 2007 compared to \$3,432 at December 31, 2006.

The Association continues to emphasize the use of loan guarantees to help manage capital and credit risk in the loan portfolio and to help reduce the potential for future loan losses. The guaranteed portion of loan volume outstanding as of March 31, 2007 was \$182,672 or 25.79% of loans.

What risk factors are on the immediate horizon? The primary risk factors impacting future farm income and debt repayment ability continue to be increasing federal deficits, interest rates, high energy prices, higher input costs and land values along with the potential for reductions in governmental farm support payments. While the Association does not anticipate these factors to have a near-term adverse impact on farmers, the Association is cognizant of the potential impact and is positioning itself to manage the impact by using loan guarantees and sound lending and risk management practices.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2007 (Q1 2007) was \$4,576 for an increase of \$449 or 10.88 percent when compared to the net income of \$4,127 for the same period in 2006 (Q1 2006). The increase in net income was primarily due to an increase in net interest income, an increase in noninterest income and a reduction in noninterest expense, which was partially offset by the provision for loan losses.

Net interest income increased by \$466 or 9.10 percent for Q1 2007 as compared to Q1 2006. The increase was mainly due to increased loan volume and increased earnings on the Association's own funds in loans.

The Association recorded a provision for loan losses of \$172 during Q1 2007 but did not record a provision for loan losses during Q1 2006.

Noninterest income is comprised of loan fee income, fees for financially related services (FRS), equity in earnings from the Bank and other non-interest income. The increase in noninterest income of \$16 is primarily attributed to a \$123 increase in equity in earnings from the Bank offset by a \$66 decrease in loan fee income and a \$46 decrease in FRS income. Loan fee income recognition decreased primarily as a result of the implementation of Statement of Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91) and lower participation loan origination fees. Rather than recording loan origination fees as loan fee income, FAS 91 amortizes loan origination fees into loan interest income over the life of the respective loans. The Association implemented FAS 91 accounting prospectively effective January 1, 2007. Prior to this time, the Association determined that FAS 91 accounting was immaterial to the Association's results of operations. FRS income decreased due to higher crop insurance income in Q1 2006 resulting from the timing of a commission payment from the insurance company. This timing issue did not occur in Q1 2007. The equity in earnings from the Bank increased as a result of increase borrowing from the Bank to fund the increased loan activity.

Noninterest expense is comprised of salaries and employee benefits, occupancy and equipment expense, Insurance Fund premiums and general operating expenses. Salaries and benefits for Q1 2007 decreased by \$119 when compared to Q1 2006 due primarily to decreased retirement expense and decreases resulting from the implementation of FAS 91 as previously discussed. FAS 91 accounting establishes deferred costs for each new loan originated. These deferred costs reduce salary and benefit expenses and amortize to reduce the yield on loans (interest income) over the life of the respective loans. The Association did have scheduled increases in salaries, salary related benefits and group

health insurance expense during Q1 2007. Occupancy and equipment expenses increased by \$37 primarily due to increased maintenance and repairs expense, depreciation and cost of space expenses. The Insurance Fund expenses increased due to increased loan volume, which were partially offset by increased guaranteed loan volume. The Association does not pay any insurance premium on guaranteed loan volume. Other operating expenses decreased due to decreased FSA guarantee fees paid, miscellaneous insurance expenses, advertising, training, printing and supplies, FCA supervisory and data processing expenses incurred during Q1 2007.

The provision for income taxes was \$39 and \$52 for Q1 2007 and Q1 2006, respectively.

Key Results of Operations Ratios:

	3/31/07	3/31/06
Return on average assets	2.49%	2.49%
Return on average equity	15.02%	14.61%
Net interest margin	3.15%	3.22%

The changes in these ratios are directly related to the changes in income discussed in the Results of Operations section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Capital Resources section.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement (GFA) utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. Additional information on the GFA and the funding process is found on pages 13 and 14 of the 2006 Annual Report. The total notes payable to the Bank at March 31, 2007 was \$601,941 as compared to \$614,175 at December 31, 2006. The \$12,234 or 1.99 percent decrease is primarily attributed to earnings, the pay down of loan interest, the reduction of cash and the receipt of the Bank's 2006 patronage refund to the Association totaling \$5,188.

CAPITAL RESOURCES

Total members' equity increased by \$3,414 to \$122,717 at March 31, 2007 as compared to the December 31, 2006 total of \$119,303. The increase is primarily related to current year earnings offset by equity adjustments made for the actual patronage refund amounts compared to the estimated amounts used in the December 31, 2006 equity balances.

At March 31, 2007, the Association's permanent capital ratio, total surplus ratio and core surplus ratio exceeded the regulatory minimum requirements of 7 percent, 7 percent and 3.5 percent, respectively. These ratios are calculated in accordance with Farm Credit Administration (FCA) regulations and are defined below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. As of March 31, 2007 our ratio was 19.09 percent.
- The total surplus ratio is average unallocated and allocated surplus less any deductions made in the permanent capital divided by average risk-adjusted assets. As of March 31, 2007 was 17.52 percent.
- The core surplus ratio is average unallocated surplus and eligible allocated surplus less the Association's average investment in the Bank divided by average risk-adjusted assets. As of March 31, 2007 our ratio was 15.32 percent.

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of the Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

Ag Credit Agricultural Credit Association
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
Assets		
Cash	\$ 5,209	\$ 7,741
Loans	708,337	707,834
Less: allowance for loan losses	3,626	3,432
Net loans	704,711	704,402
Accrued interest receivable	16,091	18,295
Investment in other Farm Credit institutions	9,638	9,638
Premises and equipment, net	1,642	1,615
Other property owned	133	—
Prepaid retirement expense	400	521
Due from AgFirst Farm Credit Bank	1,138	5,188
Other assets	531	375
Total assets	<u>\$ 739,493</u>	<u>\$ 747,775</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 601,941	\$ 614,175
Accrued interest payable	2,820	2,756
Patronage refund payable	—	4,965
Other liabilities	12,015	6,576
Total liabilities	<u>616,776</u>	<u>628,472</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	9,274	9,241
Retained earnings		
Allocated	57,417	58,986
Unallocated	56,026	51,076
Total members' equity	<u>122,717</u>	<u>119,303</u>
Total liabilities and members' equity	<u>\$ 739,493</u>	<u>\$ 747,775</u>

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

Ag Credit Agricultural Credit Association
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2007	2006
Interest Income		
Loans	\$ 13,791	\$ 11,680
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	8,197	6,553
Other	5	4
	8,202	6,557
Total interest expense		
Net interest income	5,589	5,123
Provision for loan losses	172	—
	5,417	5,123
Net interest income after provision for loan losses		
Noninterest Income		
Loan fees	83	149
Fees for financially related services	41	87
Equity in earnings of other Farm Credit institutions	1,138	1,015
Gains (losses) on other property owned, net	—	(2)
Other noninterest income	35	32
	1,297	1,281
Total noninterest income		
Noninterest Expense		
Salaries and employee benefits	1,300	1,419
Occupancy and equipment	153	116
Insurance Fund premium	195	184
Other operating expenses	451	506
	2,099	2,225
Total noninterest expense		
Income before income taxes	4,615	4,179
Provision for income taxes	39	52
	4,576	4,127
Net income	\$ 4,576	\$ 4,127

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

Ag Credit Agricultural Credit Association
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2005	\$ 10,420	\$ 49,673	\$ 51,039	\$ 111,132
Net income			4,127	4,127
Capital stock/participation certificates issued	177			177
Capital stock/participation certificates retired	(668)			(668)
Stock dividends declared/paid	(1)		(50)	(51)
Distribution adjustment		377	(876)	(499)
Balance at March 31, 2006	\$ 9,928	\$ 50,050	\$ 54,240	\$ 114,218
Balance at December 31, 2006	\$ 9,241	\$ 58,986	\$ 51,076	\$ 119,303
Net income			4,576	4,576
Capital stock/participation certificates issued	285			285
Capital stock/participation certificates retired	(249)			(249)
Stock dividends declared/paid	(3)		(44)	(47)
Retained earnings retired		(3)		(3)
Distribution adjustment		(1,566)	418	(1,148)
Balance at March 31, 2007	\$ 9,274	\$ 57,417	\$ 56,026	\$ 122,717

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

Notes to the Consolidated Financial Statements

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Ag Credit Agricultural Credit Association (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited first quarter 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this Standard. It is anticipated that the impact from the implementation of this Standard will have no impact on the consolidated income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material or significant impact on the consolidated balance sheet.

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 generally accepted accounting principles. 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.

Certain amounts in prior period consolidated financial statements may have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2007, the allowance for losses is 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:

	For the three months ended March 31,	
	2007	2006
Balance at beginning of period	\$ 3,432	\$ 3,039
Provision for (reversal of) loan losses	172	–
Recoveries, net of loans charged off	22	21
Balance at end of period	<u>\$ 3,626</u>	<u>\$ 3,060</u>

NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association participates in a defined benefit retirement plan with three other District associations. Pension costs were determined by an actuary on a separate entity basis.

The following is a table of the components of net periodic benefit (income) cost for the defined benefit retirement plan:

	For the three months ended March 31,	
	2007	2006
Service cost	\$ 97	\$ 108
Interest cost	142	125
Expected return on plan assets	(165)	(153)
Amortization of prior service cost	31	29
Recognized net actuarial (gain) loss	17	41
Net periodic benefit (income) cost	<u>\$ 122</u>	<u>\$ 150</u>

As of March 31, 2007, no contributions have been made to the pension plan for 2007. Actuarial projections as of the last plan measurement date (September 30, 2006) did not anticipate any contributions for 2007; however, 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 Association also participates in Districtwide thrift and other postretirement benefit plans. The other postretirement benefit plan provides certain benefits (primarily health care) to its retirees.

The following is a table of retirement and postretirement benefit expense:

	For the three months ended March 31,	
	2007	2006
Pension	\$ 122	\$ 150
Thrift/deferred compensation	52	49
Other postretirement benefits	76	72
Total	<u>\$ 250</u>	<u>\$ 271</u>