

FIRST QUARTER 2007

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Gary D. Keith
Chief Executive Officer



Howard Moore
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 Chattanooga Agricultural Credit Association (the Association) for the period 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 accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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 poultry, dairy, livestock and produce. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of March 31, 2007, was \$150,381, an increase of \$7,516, as compared to \$142,865 at December 31, 2006. Net loans outstanding at March 31, 2007, were \$149,767 as compared to \$142,285 at December 31, 2006. Net loans accounted for 94.08 percent of total assets at March 31, 2007, as compared to 93.87 percent of total assets at December 31, 2006. The increase in gross and net loan volume during the reporting period is partly attributable to an increase in new borrowers financing real estate and the purchase of loans from other financial institutions.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$289 at December 31, 2006, to \$243 at March 31, 2007. This decrease is primarily the result of the payoff of one account and payments received in the normal course of business.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2007, was \$614 compared to \$580 at December 31, 2006, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2007

Net income for the three months ended March 31, 2007, totaled \$731, as compared to \$519 for the same period in 2006. Net interest income increased \$94 for the three months ended March 31, 2007, as compared to the same period in 2006. The change in net interest income is the result of higher loan volume, higher interest rates on lendable equity partially offset by higher cost of borrowing.

Noninterest income for the three months ended March 31, 2007, totaled \$440, as compared to \$296 for the same period of 2006, an increase of \$144. The increase is primarily the result of an increase in equity earnings from other Farm Credit institutions and other noninterest income partially offset by a decrease in fees for financially related services.

Noninterest expense for the three months ended March 31, 2007, increased \$6 compared to the same period of 2006. The primary reasons for the increase in noninterest expense were increases in insurance fund premiums and other operating expenses offset by a decrease in salaries and employee benefits.

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 this Standard will have no impact on the 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 balance sheet.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2007, was \$133,760 as compared to \$126,360 at December 31, 2006.

CAPITAL RESOURCES

Total members' equity at March 31, 2007, increased to \$22,077 from the December 31, 2006 total of \$21,335. The increase is primarily attributed to an increase in member owned stock, and the retention of earnings.

Total capital stock and participation certificates were \$3,151 on March 31, 2007, compared to \$3,127 on December 31, 2006. The increase is attributed to an increase in loan volume. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of two percent of the total loan amount or \$2.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2007, the Association's total surplus ratio and core surplus ratio were 10.98 percent and 9.32 percent, respectively, and the permanent capital ratio was 12.72 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 316, or writing Wanda Martin, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 423-624-2169 ext. 18 or writing Sue J. Maiser, Chief Financial Officer, Chattanooga, ACA, P.O. Box 5220, Chattanooga, TN 37406, or accessing the website, www.chattanoogaagcredit.com. 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 end of the fiscal year of the institution.

Chattanooga 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	\$ 590	\$ 321
Investment securities, held to maturity	922	974
Loans	150,381	142,865
Less: allowance for loan losses	614	580
Net loans	149,767	142,285
Other investments, held to maturity	113	131
Accrued interest receivable	2,551	2,054
Investment in other Farm Credit institutions	4,111	3,825
Premises and equipment, net	516	514
Prepaid retirement expense	12	39
Due from AgFirst Farm Credit Bank	336	1,152
Other assets	279	275
Total assets	<u>\$ 159,197</u>	<u>\$ 151,570</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 133,760	\$ 126,360
Accrued interest payable	647	594
Patronage refund payable	23	510
Other liabilities	2,690	2,771
Total liabilities	<u>137,120</u>	<u>130,235</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	3,151	3,127
Retained earnings		
Allocated	7,702	7,674
Unallocated	11,224	10,534
Total members' equity	<u>22,077</u>	<u>21,335</u>
Total liabilities and members' equity	<u>\$ 159,197</u>	<u>\$ 151,570</u>

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

Chattanooga 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	\$ 2,864	\$ 2,285
Investment securities	14	—
Other	2	2
	2,880	2,287
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,887	1,387
Net interest income	993	900
Provision for (reversal of allowance for) loan losses	33	14
	960	886
Noninterest Income		
Loan fees	76	76
Fees for financially related services	3	5
Equity in earnings of other Farm Credit institutions	338	204
Other noninterest income	23	11
	440	296
Noninterest Expense		
Salaries and employee benefits	412	448
Occupancy and equipment	40	40
Insurance Fund premium	49	45
Other operating expenses	168	130
	669	663
Income before income taxes	731	519
Provision (benefit) for income taxes	—	—
	731	519
Net income	\$ 731	\$ 519

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

Chattanooga 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	\$ 3,881	\$ 7,177	\$ 10,129	\$ 21,187
Net income			519	519
Capital stock/participation certificates issued	64			64
Capital stock/participation certificates retired	(83)			(83)
Distribution adjustment		73	(101)	(28)
Balance at March 31, 2006	<u>\$ 3,862</u>	<u>\$ 7,250</u>	<u>\$ 10,547</u>	<u>\$ 21,659</u>
Balance at December 31, 2006	\$ 3,127	\$ 7,674	\$ 10,534	\$ 21,335
Net income			731	731
Capital stock/participation certificates issued	82			82
Capital stock/participation certificates retired	(58)			(58)
Distribution adjustment		28	(41)	(13)
Balance at March 31, 2007	<u>\$ 3,151</u>	<u>\$ 7,702</u>	<u>\$ 11,224</u>	<u>\$ 22,077</u>

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 Chattanooga 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.

Investment Securities: The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association’s investments are classified as held to maturity and accordingly have been reported at amortized cost. Purchased premiums and discounts are amortized or accreted over the term of the respective security.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or permanent. In the event of permanent impairment, the cost basis of the investment would be written down to its fair value, and the realized loss would be included in current earnings.

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	\$ 580	\$ 616
Provision for (reversal of) loan losses	33	14
Recoveries, net of loans charged off	1	2
Balance at end of period	<u>\$ 614</u>	<u>\$ 632</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:

	For the three months ended March 31,	
	2007	2006
Service cost	\$ 28	\$ 31
Interest cost	43	38
Expected return on plan assets	(52)	(48)
Amortization of prior service cost	6	5
Recognized net actuarial (gain) loss	3	9
Net periodic benefit (income) cost	<u>\$ 28</u>	<u>\$ 35</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:

	For the three months ended March 31,	
	2007	2006
Pension	\$ 28	\$ 35
Thrift/deferred compensation	13	17
Other postretirement benefits	23	22
Total	<u>\$ 64</u>	<u>\$ 74</u>