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**AGFIRST FARM CREDIT BANK**

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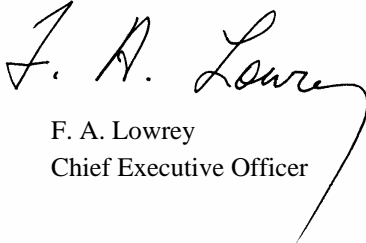
*Quarterly Report*

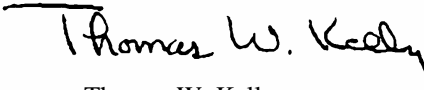
**Third Quarter 2007**

# ***THIRD QUARTER 2007***

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F. A. Lowrey  
Chief Executive Officer

  
Thomas W. Kelly  
Chairman of the Board

November 5, 2007

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# 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 or Bank) for the three and nine month periods ended September 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, neither the three months' nor the nine months' results of operations may 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 September 30, 2007, totaled \$18.69 billion, a \$1.54 billion, or a 8.98 percent increase compared to total loans outstanding at December 31, 2006, and an increase of \$2.43 billion, or 14.93 percent, compared to September 30, 2006. The increase in loan volume over the nine and twelve month periods can be attributed to a number of factors, including an active real estate market, capital expansion by agribusinesses, purchases of participations/syndications and loans, greater utilization of lines of credit by farm supply and livestock borrowers, and the inherent value of patronage paid under the District's cooperative structure.

As of September 30, 2007, the portfolio continued to reflect good credit quality supported by a sound farm sector. To date, the increased volatility in the financial markets experienced over the last several months has not affected either the overall farm sector or AgFirst's customers in a substantially negative way. While overall economic conditions continue to be generally favorable, the future performance of the economy is becoming increasingly uncertain and risk factors having the potential to affect the overall farm economy, certain segments, or individual borrowers in a negative way are increasing. Demand for corn due to increases in ethanol production has impacted 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 will affect borrowers' profitability for all commodities. The impact of the drought in the mid-Atlantic and Southeast states and the impact of fewer housing starts on the forest products industry could put downward pressure on credit quality.

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.

AgFirst has 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 September 30, 2007, the direct notes, loan participations/syndications, and correspondent lending loans amounted to \$14.66 billion, \$3.08 billion, and \$959.7 million, respectively. Direct notes increased \$867.4 million, participations/syndications increased \$1.32 billion, and the correspondent lending portfolio increased \$245.0 million, from September 30, 2006, to September 30, 2007.

As of September 30, 2007, AgFirst's direct note portfolio continued to perform well, as evidenced by good credit quality. As of September 30, 2007, twenty-two of the twenty-three District Associations' direct notes, representing 98.88 percent of the direct note portfolio, were classified acceptable. The remaining direct note representing 1.12 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, which define Association performance criteria for borrowing from AgFirst. Each of the District Associations also 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. Credit quality statistics for the participations/syndications portfolio are shown in the following chart:

<b>Participations/Syndications Credit Quality as of:</b>			
<b>Classification</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>September 30, 2006</b>
Acceptable	98.78%	97.70%	96.67%
OAEM	1.06%	1.53%	2.33%
Substandard	0.16%	0.77%	1.00%
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. 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 September 30, 2007, AgFirst had \$1.04 million 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 September 30, 2007, AgFirst exceeded all applicable regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled \$7.43 billion, or 28.10 percent of total assets at September 30, 2007, compared to \$6.94 billion, or 28.43 percent, as of December 31, 2006. Investments increased \$932.1 million compared to September 30, 2006. Farm Credit Administration (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 September 30, 2007, AgFirst's coverage was 170 days.

Investment securities at September 30, 2007, included \$1.22 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 Bank has low exposure to investments impacted by recent adversity in the subprime borrower mortgage market. Mortgage backed securities with subprime exposure totaled 3.20 percent of the available-for-sale liquidity investment portfolio at September 30, 2007. All securities are rated in one of the two top ratings categories by a Nationally Recognized Statistical Rating Organization and all have credit enhancement features. However, the uncertainty in the mortgage securities markets has adversely impacted the market value of these securities as reflected in Other Comprehensive Income in the Financial Statements.

The primary source of funds for AgFirst is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At September 30, 2007, AgFirst had \$24.39 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 increases in loan and investment volumes previously mentioned.

#### *Capital Resources*

Total shareholders' equity increased \$382.9 million from December 31, 2006, to September 30, 2007. This 32.42 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 \$145.0 million.

As of September 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:

	<b>Regulatory Minimum</b>	<b>AgFirst Ratio as of</b>	
		<b>9/30/07</b>	<b>12/31/06</b>
Permanent Capital Ratio	7.00%	21.17%	19.19%
Total Surplus Ratio	7.00%	21.12%	19.14%
Core Surplus Ratio	3.50%	10.20%	11.46%
Net Collateral Ratio	104.00%	106.57%	105.28%

On October 18, 2007, the FCA notified AgFirst that the June 2007 issuance of \$250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock (see Note 4, *Preferred Stock*, in the Notes to the Financial Statements, for further information) could be included in core surplus up to an amount not to exceed 25% of total core surplus, inclusive of the preferred stock component. Based on this regulatory guidance, applied to core surplus at September 30, 2007, all of the \$250.0 million in preferred stock could have been included. The September 30, 2007, core surplus ratio would have been 13.29% on a proforma basis including the preferred stock.

## RESULTS OF OPERATIONS

### *Net Interest Income*

Net interest income for the three months ended September 30, 2007, was \$67.7 million compared to \$60.1 million for the same period of 2006, an increase of \$7.6 million or 12.61 percent. For the nine months ended September 30, 2007, net interest income was \$187.0 million compared to \$168.7 million for the comparable period of 2006, an increase of \$18.3 million or 10.85 percent. Net interest income increased due to increases in investments and loan volume. The issuance of the additional preferred stock and the corresponding reduction in debt also contributed to the increase in net interest income. Spreads compressed as the cost of interest bearing liabilities increased slightly faster than earning asset yields.

The following table illustrates the changes in net interest income:

<i>(dollars in thousands)</i>	<u>For the three months ended September 30, 2007 vs. September 30, 2006</u>			<u>For the nine months ended September 30, 2007 vs. September 30, 2006</u>		
	<u>Increase (decrease) due to changes in:</u>			<u>Increase (decrease) due to changes in:</u>		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest Income:						
Loans	\$ 35,234	\$ 9,216	\$ 44,450	\$ 105,873	\$ 53,537	\$ 159,410
Investments	11,547	(592)	10,955	33,598	12,480	46,078
Total Interest Income	\$ 46,781	\$ 8,624	\$ 55,405	\$ 139,471	\$ 66,017	\$ 205,488
Interest Expense:						
Systemwide Debt Securities	\$ 34,991	\$ 12,835	\$ 47,826	\$ 109,645	\$ 77,547	\$ 187,192
Changes in Net Interest Income	<u>\$ 11,790</u>	<u>\$ (4,211)</u>	<u>\$ 7,579</u>	<u>\$ 29,826</u>	<u>\$ (11,530)</u>	<u>\$ 18,296</u>

### *Provision for Loan Losses*

The provision for loan losses was \$705 thousand for the nine months ended September 30, 2007, compared to a net provision for loan loss reversal of \$10.1 million for the same period in 2006. The majority of the reversal for the nine months ended September 30, 2006, was attributed to a single account which paid out. See Note 2, *Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

### *Noninterest Income*

Noninterest income for the three months ended September 30, 2007, was \$2.2 million, which reflected an increase of \$3.0 million compared to the same period in 2006. The increase was primarily related to losses on derivatives in the third quarter of 2006 which were netted against other sources of noninterest income. For the nine months ended September 30, 2007, noninterest income was \$8.1 million, which reflected a decrease of \$5.1 million compared to the same period in 2006. The decrease was primarily related to overall net gains on derivatives in the first nine months of 2006.

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	For the three months ended September 30,			For the nine months ended September 30,		
	2007	2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Loan fees	\$ 2,153	\$ 1,532	\$ 621	\$ 5,574	\$ 4,344	\$ 1,230
Realized gains (losses) on investments, net	-	-	-	-	(5)	5
Realized gains (losses) on derivatives, net	-	(2,985)	2,985	-	6,812	(6,812)
Other noninterest income	40	668	(628)	2,526	2,057	469
Noninterest income	<u>\$ 2,193</u>	<u>\$ (785)</u>	<u>\$ 2,978</u>	<u>\$ 8,100</u>	<u>\$ 13,208</u>	<u>\$ (5,108)</u>

### *Noninterest Expense*

Noninterest expense for the three months ended September 30, 2007, was \$17.1 million, which reflected an increase of \$2.6 million compared to the corresponding period in 2006. For the nine months ended September 30, 2007, noninterest expense was \$49.4 million, which reflected an increase of \$6.8 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 September 30,			For the nine months ended September 30,		
	2007	2006	Increase/ (Decrease)	2007	2006	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Salaries and wages	\$ 6,729	\$ 5,943	\$ 786	\$ 19,264	\$ 18,060	\$ 1,204
Occupancy and equipment	2,743	2,707	36	9,262	8,417	845
Insurance Fund premium	1,457	911	546	4,034	2,495	1,539
Other operating expenses	5,166	4,019	1,147	13,717	11,563	2,154
Called debt expense	191	318	(127)	945	318	627
Other noninterest expense	849	611	238	2,147	1,740	407
Noninterest expense	<u>\$ 17,135</u>	<u>\$ 14,509</u>	<u>\$ 2,626</u>	<u>\$ 49,369</u>	<u>\$ 42,593</u>	<u>\$ 6,776</u>

## **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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**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](http://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

<i>(dollars in thousands)</i>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 500,256	\$ 582,764
Investment securities:		
Available for sale (amortized cost of \$5,727,038 and \$5,063,640 respectively)	5,709,390	5,065,621
Held to maturity (fair value of \$1,180,279 and \$1,259,879 respectively)	1,224,801	1,293,061
Total investment securities	6,934,191	6,358,682
Loans	18,693,118	17,152,337
Less: allowance for loan losses	1,040	463
Net loans	18,692,078	17,151,874
Accrued interest receivable	120,024	104,925
Investments in other Farm Credit System institutions	64,003	65,066
Premises and equipment, net	21,243	25,698
Due from associations	29,337	41,692
Other assets	94,412	81,463
Total assets	<b>\$ 26,455,544</b>	<b>\$ 24,412,164</b>
<b>Liabilities</b>		
Bonds and notes	\$ 24,392,537	\$ 22,613,379
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	215,740	188,028
Patronage distribution payable	—	128,377
Postretirement benefits other than pensions	15,364	15,266
Other liabilities	42,952	61,027
Total liabilities	24,891,593	23,231,077
Commitments and contingencies	—	—
<b>Shareholders' Equity</b>		
Perpetual preferred stock	400,000	150,000
Capital stock and participation certificates	330,086	313,353
Retained earnings		
Allocated	252	—
Unallocated	851,261	715,753
Accumulated other comprehensive income (loss)	(17,648)	1,981
Total shareholders' equity	1,563,951	1,181,087
Total liabilities and equity	<b>\$ 26,455,544</b>	<b>\$ 24,412,164</b>

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

## Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
<b>Interest Income</b>				
Investment securities and other	\$ 100,838	\$ 89,883	\$ 288,929	\$ 242,851
Loans	282,343	237,893	800,995	641,585
Total interest income	383,181	327,776	1,089,924	884,436
<b>Interest Expense</b>				
Net interest income	67,680	60,101	186,979	168,683
Provision for (reversal of) loan losses	557	54	705	(10,060)
Net interest income after provision for (reversal of) loan losses	67,123	60,047	186,274	178,743
<b>Noninterest Income</b>				
Loan fees	2,153	1,532	5,574	4,344
Realized gains (losses) on investments, net	—	—	—	(5)
Realized gains (losses) on derivatives, net	—	(2,985)	—	6,812
Other noninterest income	40	668	2,526	2,057
Total noninterest income	2,193	(785)	8,100	13,208
<b>Noninterest Expenses</b>				
Salaries and employee benefits	6,729	5,943	19,264	18,060
Occupancy and equipment	2,743	2,707	9,262	8,417
Insurance Fund premium	1,457	911	4,034	2,495
Other operating expenses	5,166	4,019	13,717	11,563
Called debt expense	191	318	945	318
Other noninterest expense	849	611	2,147	1,740
Total noninterest expenses	17,135	14,509	49,369	42,593
Net income	\$ 52,181	\$ 44,753	\$ 145,005	\$ 149,358

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

## Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	Perpetual	Capital	Retained Earnings		Accumulated	Total
	Preferred Stock	Stock and Participation Certificates	Allocated	Unallocated	Other Comprehensive Income	Shareholders' Equity
Balance at December 31, 2005	\$ 150,000	\$ 224,554	\$ —	\$ 665,445	\$ (2,571)	\$ 1,037,428
Comprehensive income						
Net income				149,358		149,358
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of \$(5)					(724)	(724)
Total comprehensive income						148,634
Capital stock/participation certificates issued/retired, net		4,604				4,604
Perpetual preferred stock dividends paid				(5,475)		(5,475)
Cash patronage				(93)		(93)
Balance at September 30, 2006	<u>\$ 150,000</u>	<u>\$ 229,158</u>	<u>\$ —</u>	<u>\$ 809,235</u>	<u>\$ (3,295)</u>	<u>\$ 1,185,098</u>
Balance at December 31, 2006	\$ 150,000	\$ 313,353	\$ —	\$ 715,753	\$ 1,981	\$ 1,181,087
Comprehensive income						
Net income				145,005		145,005
Unrealized gains (losses) on investments available for sale					(19,629)	(19,629)
Total comprehensive income						125,376
Preferred stock issued	250,000					250,000
Issuance cost on preferred stock				(2,743)		(2,743)
Capital stock/participation certificates issued/retired, net		16,733				16,733
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 September 30, 2007	<u>\$ 400,000</u>	<u>\$ 330,086</u>	<u>\$ 252</u>	<u>\$ 851,261</u>	<u>\$ (17,648)</u>	<u>\$ 1,563,951</u>

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

# Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 145,005	\$ 149,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	6,306	5,914
Provision for (reversal of) loan losses	705	(10,060)
(Gains) losses on other property owned, net	(5)	—
Realized (gains) losses on investments, net	—	5
Realized (gains) losses on mortgage loans held for sale	(130)	58
Proceeds from sale of mortgage loans held for sale	15,131	6,069
Amortization of premium/discount on investment securities	(3,226)	(6,922)
(Increase) decrease in accrued interest receivable	(15,099)	(21,841)
(Increase) decrease in amortized discount on notes	3,750	5,531
(Increase) decrease in due from associations	12,355	1,493
(Increase) decrease in other assets	(5,724)	(6,672)
Increase (decrease) in accrued interest payable and dividend payable	27,712	49,180
Increase (decrease) in postretirement benefits other than pensions	98	162
Increase (decrease) in other liabilities	(3,620)	8,209
Total adjustments	38,253	31,126
Net cash provided by (used in) operating activities	183,258	180,484
<b>Cash flows from investing activities:</b>		
Investment securities purchased	(1,797,649)	(2,302,347)
Investment securities sold or matured	1,205,737	1,562,184
Net (increase) decrease in loans	(1,555,910)	(1,860,580)
(Increase) decrease in investments in other Farm Credit System institutions	1,063	192
Purchase of premises and equipment, net	(1,851)	(6,564)
Proceeds from sale of other property owned	80	—
Net cash provided by (used in) investing activities	(2,148,530)	(2,607,115)
<b>Cash flows from financing activities:</b>		
Bonds and notes issued	37,636,409	36,152,166
Bonds and notes retired	(35,882,756)	(33,555,921)
Preferred stock issued net of issuance cost	247,257	—
Capital stock and participation certificates issued/retired, net	16,733	4,604
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	1,882,764	2,463,055
Net increase (decrease) in cash and cash equivalents	(82,508)	36,424
Cash and cash equivalents, beginning of period	582,764	557,882
Cash and cash equivalents, end of period	\$ 500,256	\$ 594,306
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Change in unrealized gains (losses) on investments and derivative instruments, net	\$ (19,629)	\$ (724)
<b>Non-cash changes related to hedging activities:</b>		
Decrease (increase) in loans	\$ —	\$ 7
Increase (decrease) in bonds and notes	21,755	14,321
Decrease (increase) in other assets	(7,300)	(1,657)
Increase (decrease) in other liabilities	(14,455)	(12,671)
<b>Supplemental information:</b>		
Interest paid	\$ 871,483	\$ 661,042

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 (AgFirst or 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 third 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 nine months ended September 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 September 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:

	<b>For the nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 463	\$ 10,114
Provision for (reversal of) loan losses	705	(10,060)
Loans (charged off), net of recoveries	(128)	—
Balance at end of period	<u>\$ 1,040</u>	<u>\$ 54</u>

## 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 \$146.81 billion at September 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 September 30, 2007, the Bank had made no contributions for 2007 to this defined benefit retirement plan. The Bank does not anticipate making any contributions for the remainder of 2007. 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:

	<b>For the nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Pension	\$ 2,306	\$ 2,838
Thrift/deferred compensation	506	407
Other postretirement benefits	750	832
Total	\$ 3,562	\$ 4,077

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 \$189 thousand to these plans during the first nine months of 2007. The Bank anticipates making additional contributions of \$63 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 \$659 thousand were made to the other postretirement benefit plans during the first nine months of 2007, and the Bank anticipates contributing an additional \$258 thousand during the remainder of 2007.