



**AGFIRST FARM CREDIT BANK
& DISTRICT ASSOCIATIONS**

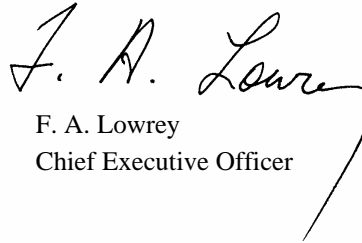
Quarterly Report

Third Quarter 2007

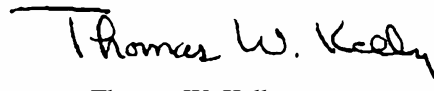
THIRD QUARTER 2007

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F. A. Lowrey
Chief Executive Officer



Thomas W. Kelly
Chairman of the Board

November 5, 2007

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, 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 and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of September 30, 2007, the District consisted of AgFirst and twenty-three District Associations. Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. 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 the District's business.

FINANCIAL CONDITION

Loan Portfolio

Loans outstanding at September 30, 2007, totaled \$20.29 billion, an increase of \$1.63 billion, or 8.70 percent compared to December 31, 2006, and an increase of \$2.44 billion or 13.63 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 within the District 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.

Nonaccrual loan assets for the combined District at September 30, 2007, were 0.37 percent of total loans outstanding compared to 0.41 percent at December 31, 2006, and 0.32 percent at September 30, 2006. Loan classifications as of September 30, 2007, have shown minimal change compared to December 31, 2006, and September 30, 2006, as illustrated in the following chart:

| Asset Quality as of: | | | |
|-----------------------------|---------------------------|--------------------------|---------------------------|
| Classification | September 30, 2007 | December 31, 2006 | September 30, 2006 |
| Acceptable | 96.32% | 96.39% | 96.23% |
| OAEM * | 2.45% | 2.31% | 2.53% |
| Substandard | 1.21% | 1.30% | 1.23% |
| Doubtful/loss | 0.02% | 0.00% | 0.01% |

* *Other Assets Especially Mentioned*

Diversification of the portfolio remains similar to December, 2006, with regard to commodities and geography. Risk factors are stable as reflected by past-due loans, asset quality and non-earning assets. The allowance for loan losses at September 30, 2007, of \$74.3 million, or 0.37 percent of gross loan volume, reflects management's estimate of losses inherent in the portfolio. By comparison, the allowance for losses at December 31, 2006, was \$71.9 million, or 0.39 percent of gross loan volume. See Note 2, *Allowance for Loan Losses*, in the Notes to the Combined Financial Statements.

Liquidity and Funding Sources

Cash, cash equivalents and investment securities totaled \$7.60 billion, or 26.30 percent of total assets at September 30, 2007, compared to \$7.14 billion, or 26.69 percent, as of December 31, 2006. Investments increased \$938.5 million compared to September 30, 2006. Farm Credit Administration (FCA) regulations require a liquidity policy for the Bank 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, exceeding all applicable regulatory liquidity requirements.

Investment securities at September 30, 2007, included \$1.34 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 top two 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 Combined Financial Statements.

The primary source of funds for the District is the issuance of Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation. At September 30, 2007, the District had \$24.39 billion in total debt outstanding compared to \$22.61 billion at December 31, 2006. In addition, other interest-bearing liabilities for the District 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 District shareholders' equity increased \$461.7 million from December 31, 2006, to September 30, 2007. This 13.95% percent net increase was primarily the result of the AgFirst issuance of \$250.0 million of Perpetual Non-cumulative Preferred Stock, net income, and capital stock and participation certificates issued. See Note 4, *Preferred Stock*, in the Notes to the Combined Financial Statements, for additional information relating to the preferred stock issue. These increases were offset by retirements of surplus, patronage distributions, a dividend payment on perpetual preferred stock, retirements of protected borrower equity and dividends paid. As of September 30, 2007, AgFirst and each of the District Associations exceeded the applicable minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by FCA Regulations.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended September 30, 2007, was \$185.6 million, an increase of \$9.5 million or 5.39 percent compared to the three months ended September 30, 2006. Net interest income for the nine months ended September 30, 2007, was \$534.7 million, an increase of \$32.9 million or 6.56 percent compared to the same period ended September 30, 2006. Net interest income increased due to increases in loan volume and investments. The issuance of the additional preferred stock and a 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> | For the three months ended | | | For the nine months ended | | |
|--------------------------------|--|-------------|--------------|--|-------------|--------------|
| | September 30, 2007 vs. September 30, 2006 | | | September 30, 2007 vs. September 30, 2006 | | |
| | Increase (decrease) due to changes in: | | | Increase (decrease) due to changes in: | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest Income: | | | | | | |
| Loans | \$ 46,685 | \$ (212) | \$ 46,473 | \$ 138,967 | \$ 33,404 | \$ 172,371 |
| Investments | 11,848 | (832) | 11,016 | 36,602 | 11,533 | 48,135 |
| Total Interest Income | \$ 58,533 | \$ (1,044) | \$ 57,489 | \$ 175,569 | \$ 44,937 | \$ 220,506 |
| Interest Expense: | | | | | | |
| Systemwide Debt Securities | \$ 35,050 | \$ 12,937 | \$ 47,987 | \$ 109,653 | \$ 77,932 | \$ 187,585 |
| Changes in Net Interest Income | \$ 23,483 | \$ (13,981) | \$ 9,502 | \$ 65,916 | \$ (32,995) | \$ 32,921 |

Provision for Loan Losses

The provision for loan losses for the three and nine months ended September 30, 2007, were \$3.0 million and \$4.6 million, respectively, compared to a provision of \$2.1 million and a reversal of \$12.7 million, respectively, for the same periods in 2006. The majority of the reversal for the nine months ended September 30, 2006, was attributed to a single account, as well as the net decrease in risk exposure across the District reflected by an improvement in credit quality.

Noninterest Income

Noninterest income for the three months ended September 30, 2007, was \$14.5 million, an increase of \$4.6 million compared to the same period in 2006. For the nine months ended September 30, 2007, noninterest income was \$34.5 million, which reflected a decrease of \$8.1 million compared to the same period in 2006.

The following table illustrates the changes in noninterest income:

| Change in Noninterest Income <i>(dollars in thousands)</i> | For the three months ended September 30, | | | For the nine months ended September 30, | | |
|---|---|-----------------|-------------------------|--|------------------|-------------------------|
| | 2007 | 2006 | Increase/ (Decrease) | 2007 | 2006 | Increase/ (Decrease) |
| Loan fees | \$ 9,089 | \$ 7,870 | \$ 1,219 | \$ 20,873 | \$ 23,423 | \$ (2,550) |
| Fees for financially related services | 3,042 | 2,722 | 320 | 6,091 | 5,118 | 973 |
| Realized gains (losses) on investments, net | 1 | - | 1 | 12 | (5) | 17 |
| Realized gains (losses) on derivatives, net | - | (2,985) | 2,985 | - | 6,812 | (6,812) |
| Gain (loss) on sale of rural home loans, net | 501 | 870 | (369) | (605) | 2,196 | (2,801) |
| Gains from sale of premises and equipment, net | 227 | 180 | 47 | 1,336 | 1,058 | 278 |
| Other noninterest income | 1,608 | 1,198 | 410 | 6,802 | 3,978 | 2,824 |
| Noninterest income | <u>\$ 14,468</u> | <u>\$ 9,855</u> | <u>\$ 4,613</u> | <u>\$ 34,509</u> | <u>\$ 42,580</u> | <u>\$ (8,071)</u> |

The increase in loan fees for the three months ended September 30, 2007, was primarily the result of increased loan volume. The increase in realized net gains on derivatives for the three months ended September 30, 2007, was primarily due to the recognition of losses on derivatives during the third quarter of 2006. The decrease in loan fees for the nine months ended September 30, 2007, was primarily the result of an elimination of correspondent lending loan fees between AgFirst and the District Associations in 2007. The decrease in realized net gains on derivatives for the nine months ended September 30, 2007, was primarily due to a gain on the sale on an interest rate swap in 2006. The decrease in gains on sale of rural home loans for the three and nine months ended September 30, 2007, was primarily the result of an elimination of these gains between AgFirst and the District Associations in 2007.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2007, was \$82.6 million, an increase of \$5.7 million compared to the same period in 2006. For the nine months ended September 30, 2007, noninterest expense was \$245.7 million, an increase of \$16.1 million compared to the same period in 2006.

The following table illustrates the changes in noninterest expense:

| Change in Noninterest Expense <i>(dollars in thousands)</i> | For the three months ended September 30, | | | For the nine months ended September 30, | | |
|--|---|------------------|-------------------------|--|-------------------|-------------------------|
| | 2007 | 2006 | Increase/ (Decrease) | 2007 | 2006 | Increase/ (Decrease) |
| Salaries and wages | \$ 47,287 | \$ 44,413 | \$ 2,874 | \$ 142,686 | \$ 136,001 | \$ 6,685 |
| Occupancy and equipment | 7,725 | 7,392 | 333 | 24,120 | 22,115 | 2,005 |
| Insurance Fund premium | 7,252 | 6,346 | 906 | 20,808 | 18,064 | 2,744 |
| Other operating expenses | 19,326 | 17,865 | 1,461 | 54,990 | 51,345 | 3,645 |
| Called debt expense | 191 | 318 | (127) | 945 | 318 | 627 |
| Other noninterest expense | 850 | 611 | 239 | 2,148 | 1,740 | 408 |
| Noninterest Expense | <u>\$ 82,631</u> | <u>\$ 76,945</u> | <u>\$ 5,686</u> | <u>\$ 245,697</u> | <u>\$ 229,583</u> | <u>\$ 16,114</u> |

Key results of operations comparisons:

| | Annualized for the nine months ended September 30, 2007 | For the year ended December 31, 2006 | Annualized for the nine months ended September 30, 2006 |
|--|---|---|---|
| Return on average assets | 1.55% | 1.67% | 1.81% |
| Return on average shareholders' equity | 12.04% | 12.40% | 13.38% |
| Net interest income as a percentage of average earning assets | 2.65% | 2.80% | 2.84% |
| Net chargeoffs (recoveries) to average loans | 0.01% | 0.09% | 0.01% |

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in a District Association is materially 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, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank and District Associations 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.

Combined Balance Sheets

| <i>(dollars in thousands)</i> | September 30, 2007 | December 31, 2006 |
|--|-------------------------------|------------------------------|
| | <i>(unaudited)</i> | <i>(audited)</i> |
| Assets | | |
| Cash and cash equivalents | \$ 532,123 | \$ 651,268 |
| Investment securities: | | |
| Available for sale (amortized cost of \$5,746,401 and \$5,063,640 respectively) | 5,728,671 | 5,065,621 |
| Held to maturity (fair value of \$1,293,333 and \$1,392,499 respectively) | 1,338,112 | 1,426,481 |
| Total investment securities | 7,066,783 | 6,492,102 |
| Loans | 20,294,397 | 18,669,616 |
| Less: allowance for loan losses | 74,262 | 71,915 |
| Net loans | 20,220,135 | 18,597,701 |
| Other investments | 419,306 | 428,005 |
| Accrued interest receivable | 310,561 | 246,184 |
| Investments in other Farm Credit System institutions | 7,964 | 8,738 |
| Premises and equipment, net | 121,020 | 120,123 |
| Other property owned | 8,059 | 5,122 |
| Deferred tax assets, net | 157 | 163 |
| Other assets | 206,862 | 211,312 |
| Total assets | <u>\$ 28,892,970</u> | <u>\$ 26,760,718</u> |
| Liabilities | | |
| Bonds and notes | \$ 24,392,537 | \$ 22,613,379 |
| Mandatorily redeemable preferred stock | 225,000 | 225,000 |
| Accrued interest and dividend payable | 215,740 | 188,028 |
| Dividends and patronage refunds payable | 13,984 | 115,893 |
| Postretirement benefits other than pensions | 109,841 | 107,178 |
| Other liabilities | 166,069 | 203,057 |
| Total liabilities | <u>25,123,171</u> | <u>23,452,535</u> |
| Commitments and contingencies | — | — |
| Shareholders' Equity | | |
| Perpetual preferred stock | 400,000 | 150,000 |
| Protected borrower equity | 5,412 | 6,208 |
| Capital stock and participation certificates | 127,865 | 118,817 |
| Retained earnings | | |
| Allocated | 905,059 | 992,227 |
| Unallocated | 2,349,552 | 2,039,308 |
| Accumulated other comprehensive income | (18,089) | 1,623 |
| Total shareholders' equity | <u>3,769,799</u> | <u>3,308,183</u> |
| Total liabilities and equity | <u>\$ 28,892,970</u> | <u>\$ 26,760,718</u> |

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

Combined 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 |
| Interest Income | | | | |
| Investment securities | \$ 102,684 | \$ 91,653 | \$ 294,135 | \$ 246,553 |
| Loans | 392,929 | 346,456 | 1,127,515 | 955,144 |
| Other | 5,942 | 5,957 | 16,988 | 16,435 |
| Total interest income | 501,555 | 444,066 | 1,438,638 | 1,218,132 |
| Interest Expense | | | | |
| | 315,922 | 267,935 | 903,992 | 716,407 |
| Net interest income | 185,633 | 176,131 | 534,646 | 501,725 |
| Provision for (reversal of) loan losses | 3,001 | 2,146 | 4,641 | (12,728) |
| Net interest income after provision for (reversal of) loan losses | 182,632 | 173,985 | 530,005 | 514,453 |
| Noninterest Income | | | | |
| Loan fees | 9,089 | 7,870 | 20,873 | 23,423 |
| Fees for financially related services | 3,042 | 2,722 | 6,091 | 5,118 |
| Realized gains (losses) on investments, net | 1 | — | 12 | (5) |
| Realized gains (losses) on derivatives, net | — | (2,985) | — | 6,812 |
| Gain (loss) on sale of rural home loans, net | 501 | 870 | (605) | 2,196 |
| Gains from sale of premises and equipment, net | 227 | 180 | 1,336 | 1,058 |
| Other noninterest income | 1,608 | 1,198 | 6,802 | 3,978 |
| Total noninterest income | 14,468 | 9,855 | 34,509 | 42,580 |
| Noninterest Expenses | | | | |
| Salaries and employee benefits | 47,287 | 44,413 | 142,686 | 136,001 |
| Occupancy and equipment | 7,725 | 7,392 | 24,120 | 22,115 |
| Insurance Fund premium | 7,252 | 6,346 | 20,808 | 18,064 |
| Other operating expenses | 19,326 | 17,865 | 54,990 | 51,345 |
| Called debt expense | 191 | 318 | 945 | 318 |
| Other noninterest expense | 850 | 611 | 2,148 | 1,740 |
| Total noninterest expenses | 82,631 | 76,945 | 245,697 | 229,583 |
| Income before income taxes | 114,469 | 106,895 | 318,817 | 327,450 |
| Provision (benefit) for income taxes | 390 | 126 | (243) | 567 |
| Net income | \$ 114,079 | \$ 106,769 | \$ 319,060 | \$ 326,883 |

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

| (dollars in thousands) | Perpetual Preferred Stock | Protected Borrower Equity | Capital Stock and Participation Certificates | Retained Earnings | | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|--|---------------------------------|---------------------------------|---|-------------------|--------------|---|----------------------------------|
| | | | | Allocated | Unallocated | | |
| Balance at December 31, 2005 | \$150,000 | \$ 7,628 | \$ 120,370 | \$ 925,919 | \$ 1,943,444 | \$ (2,976) | \$ 3,144,385 |
| Comprehensive income | | | | | | | |
| Net income | | | | | 326,883 | | 326,883 |
| Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of \$(5) | | | | | | (724) | (724) |
| Total comprehensive income | | | | | | | 326,159 |
| Protected borrower equity retired | | (1,346) | | | | | (1,346) |
| Capital stock/participation certificates issued/retired, net | | | (2,332) | | | | (2,332) |
| Dividends declared/paid | | | 314 | | (314) | | — |
| Perpetual preferred stock dividends paid | | | | | (5,475) | | (5,475) |
| Patronage distribution | | | | | | | |
| Cash | | | | | (15,732) | | (15,732) |
| Retained earnings retired | | | | (84,856) | | | (84,856) |
| Patronage distribution adjustment | | | | 2,160 | (6,018) | | (3,858) |
| Balance at September 30, 2006 | \$150,000 | \$ 6,282 | \$ 118,352 | \$ 843,223 | \$ 2,242,788 | \$ (3,700) | \$ 3,356,945 |
| Balance at December 31, 2006 | \$150,000 | \$ 6,208 | \$ 118,817 | \$ 992,227 | \$ 2,039,308 | \$ 1,623 | \$ 3,308,183 |
| Comprehensive income | | | | | | | |
| Net income | | | | | 319,060 | | 319,060 |
| Unrealized gains (losses) on investments available for sale, net of reclassification adjustments of \$12 | | | | | | (19,712) | (19,712) |
| Total comprehensive income | | | | | | | 299,348 |
| Preferred stock issued | 250,000 | | | | | | 250,000 |
| Issuance cost on preferred stock | | | | | (2,743) | | (2,743) |
| Protected borrower equity retired | | (796) | | | | | (796) |
| Capital stock/participation certificates issued/retired, net | | | 8,528 | | | | 8,528 |
| Dividends declared/paid | | | 520 | | (520) | | — |
| Perpetual preferred stock dividends paid | | | | | (5,475) | | (5,475) |
| Patronage distribution | | | | | | | |
| Cash | | | | | (13,160) | | (13,160) |
| Allocated retained earnings | | | | (12,238) | 12,238 | | — |
| Nonqualified allocated retained earnings | | | | 1,135 | (1,135) | | — |
| Retained earnings retired | | | | (78,248) | | | (78,248) |
| Patronage distribution adjustment | | | | 2,183 | 1,979 | | 4,162 |
| Balance at September 30, 2007 | \$400,000 | \$ 5,412 | \$ 127,865 | \$ 905,059 | \$ 2,349,552 | \$ (18,089) | \$ 3,769,799 |

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

Combined Statements of Cash Flows

(unaudited)

| <i>(dollars in thousands)</i> | For the nine months ended September 30, | |
|---|--|--------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 319,060 | \$ 326,883 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation on premises and equipment | 13,472 | 12,636 |
| Amortization of discount on other investments | 16,988 | 16,435 |
| Provision for (reversal of) loan losses | 4,641 | (12,728) |
| (Gains) losses from sale of premises and equipment, net | (1,336) | (1,058) |
| (Gains) losses on other property owned, net | 109 | 734 |
| Realized (gains) losses on investments, net | (12) | 5 |
| Realized (gains) losses on mortgage loans held for sale | 605 | (2,196) |
| Proceeds from sale of mortgage loans held for sale | 15,131 | 6,069 |
| Amortization of premium/discount on investment securities | (844) | (5,855) |
| (Increase) decrease in accrued interest receivable | (64,377) | (92,687) |
| (Increase) decrease in amortized discount on notes | 3,750 | 5,531 |
| (Increase) decrease in deferred tax assets, net | 6 | (572) |
| (Increase) decrease in other assets | 11,750 | 1,500 |
| Increase (decrease) in accrued interest payable and dividend payable | 27,712 | 49,180 |
| Increase (decrease) in postretirement benefits other than pensions | 2,663 | 3,170 |
| Increase (decrease) in other liabilities | (17,454) | 6,385 |
| Total adjustments | 12,804 | (13,451) |
| Net cash provided by (used in) operating activities | 331,864 | 313,432 |
| Cash flows from investing activities: | | |
| Investment securities purchased | (1,838,065) | (2,400,150) |
| Investment securities sold or matured | 1,244,528 | 1,579,991 |
| Net (increase) decrease in loans | (1,650,653) | (1,696,176) |
| (Increase) decrease in investments in other Farm Credit System institutions | 774 | 152 |
| Purchases of other investments | (72,668) | (239,858) |
| Proceeds from payments received on other investments | 64,379 | 47,212 |
| Purchase of premises and equipment, net | (14,963) | (23,818) |
| Proceeds from sale of premises and equipment, net | 1,930 | 1,763 |
| Proceeds from sale of other property owned | 4,796 | 1,757 |
| Net cash provided by (used in) investing activities | (2,259,942) | (2,729,127) |
| Cash flows from financing activities: | | |
| 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 | — |
| Protected borrower equity retired | (796) | (1,346) |
| Capital stock and participation certificates issued/retired, net | 8,528 | (2,332) |
| Patronage refunds and dividends paid | (115,986) | (101,771) |
| Dividends paid on perpetual preferred stock | (5,475) | (5,475) |
| Retained earnings retired | (78,248) | (84,856) |
| Net cash provided by (used in) financing activities | 1,808,933 | 2,400,465 |
| Net increase (decrease) in cash and cash equivalents | (119,145) | (15,230) |
| Cash and cash equivalents, beginning of period | 651,268 | 640,830 |
| Cash and cash equivalents, end of period | \$ 532,123 | \$ 625,600 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Financed sales of other property owned | \$ 10 | \$ 724 |
| Loans transferred to other property owned | 7,852 | 3,250 |
| Change in unrealized gains (losses) on investments, net | (19,712) | (724) |
| Non-cash changes related to hedging activities: | | |
| 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) |
| Supplemental information: | | |
| Interest paid | \$ 872,530 | \$ 661,696 |
| Taxes paid, net | (2,821) | 675 |

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

Notes to the Combined Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, and reflect the investments in and allocated earnings of the service organizations in which AgFirst has a partial ownership interest. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination.

The significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2006, are contained in the 2006 Annual Report to Shareholders. These unaudited third quarter 2007 financial statements should be read in conjunction with the 2006 Annual Report to Shareholders.

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 District maintains an allowance for loan loss in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 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 nine months ended September 30, | |
|---|--|------------------|
| | 2007 | 2006 |
| Balance at beginning of period | \$ 71,915 | \$ 87,551 |
| Provision for (reversal of) loan losses | 4,641 | (12,728) |
| Loans (charged off), net of recoveries | (2,294) | (1,540) |
| Balance at end of period | <u>\$ 74,262</u> | <u>\$ 73,283</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.

Actions are pending against AgFirst and/or certain District Associations in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the combined financial position of AgFirst and District Associations.

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 following table of the defined benefit pension plans summarizes the components of net periodic benefit costs for the nine months ended September 30:

| | Pension Benefits | |
|-------------------------------------|-------------------------|------------------|
| | 2007 | 2006 |
| Service cost | \$ 11,043 | \$ 12,230 |
| Interest cost | 22,686 | 20,473 |
| Expected return on plan assets | (28,782) | (27,508) |
| Amortization of prior service costs | 1,245 | 945 |
| Recognized net (gain) loss | 6,968 | 10,235 |
| Net periodic benefit cost | <u>\$ 13,160</u> | <u>\$ 16,375</u> |

As of September 30, 2007, the District had contributed \$759 thousand to the defined benefit plans. The District does not anticipate making any additional contributions for the remainder of 2007.

The District also participates in a districtwide defined contribution thrift plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For the first nine months, the District expensed \$3.7 million in 2007 compared to \$3.3 million in 2006.

The District also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the retirement costs above. The District contributed \$327 thousand to these plans during the first nine months of 2007. The District anticipates making additional contributions of \$109 thousand to these supplemental retirement and deferred compensation plans during 2007.

In addition to providing pension benefits, AgFirst and the District Associations provide certain health care and life insurance benefits to retired employees (other postretirement benefits). The following is a table of retirement and postretirement benefit expenses for the nine months ended September 30, 2006:

| | Other Postretirement Benefits | |
|-------------------------------------|--------------------------------------|-----------------|
| | 2007 | 2006 |
| Service cost | \$ 1,773 | \$ 2,011 |
| Interest cost | 5,248 | 4,863 |
| Amortization of prior service costs | (2,090) | (2,127) |
| Recognized net (gain) loss | 1,597 | 2,192 |
| Net periodic benefit cost | <u>\$ 6,528</u> | <u>\$ 6,939</u> |

Contributions of \$3.9 million were made to the other postretirement benefit plans during the first nine months of 2007, and the District anticipates contributing an additional \$1.5 million during the remainder of 2007.

NOTE 6 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

| | 9/30/07 | 12/31/06 |
|---|----------------------|----------------------|
| | <i>(unaudited)</i> | <i>(audited)</i> |
| Cash and investment securities | \$ 7,434,447 | \$ 6,941,446 |
| Loans | 18,693,118 | 17,152,337 |
| Less: allowance for loan losses | 1,040 | 463 |
| Net loans | <u>18,692,078</u> | <u>17,151,874</u> |
| Other assets | 329,019 | 318,844 |
| Total assets | <u>\$ 26,455,544</u> | <u>\$ 24,412,164</u> |
| Bonds and notes | \$ 24,392,537 | \$ 22,613,379 |
| Mandatorily redeemable preferred stock | 225,000 | 225,000 |
| Other liabilities | 274,056 | 392,698 |
| Total liabilities | <u>24,891,593</u> | <u>23,231,077</u> |
| Perpetual preferred stock | 400,000 | 150,000 |
| Capital stock and participation certificates | 330,086 | 313,353 |
| Retained earnings | 851,513 | 715,753 |
| Accumulated other comprehensive income (loss) | (17,648) | 1,981 |
| Total shareholders' equity | <u>1,563,951</u> | <u>1,181,087</u> |
| Total liabilities and equity | <u>\$ 26,455,544</u> | <u>\$ 24,412,164</u> |

Statement of Income Data

(unaudited)

| | For the three months ended September 30, 2007 | | For the nine months ended September 30, 2006 | |
|--|--|------------------|---|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest income | \$ 383,181 | \$ 327,776 | \$ 1,089,924 | \$ 884,436 |
| Interest expense | 315,501 | 267,675 | 902,945 | 715,753 |
| 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 loan losses | 67,123 | 60,047 | 186,274 | 178,743 |
| Noninterest expense, net | (14,942) | (15,294) | (41,269) | (29,385) |
| Net income | <u>\$ 52,181</u> | <u>\$ 44,753</u> | <u>\$ 145,005</u> | <u>\$ 149,358</u> |