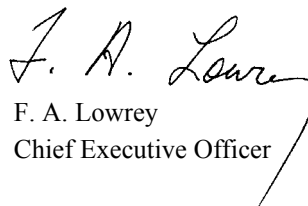



# ***THIRD QUARTER 2005***

## **Table of Contents**

Management's Discussion and Analysis of Financial Condition and Results of Operations .....	2
Combined Financial Statements:	
Combined Balance Sheets .....	6
Combined Statements of Income .....	7
Combined Statements of Changes in Shareholders' Equity .....	8
Combined Statements of Cash Flows .....	9
Notes to the Combined Financial Statements .....	10

  
F. A. Lowrey  
Chief Executive Officer

  
Robert G. Sexton  
Chairman of the Board

October 28, 2005

---

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

*(dollars in thousands, except as noted)*

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, for the three and nine months ended September 30, 2005. These comments should be read in conjunction with the accompanying financial statements and the 2004 Annual Report of AgFirst Farm Credit Bank and District Associations.

As of September 30, 2005, the District consisted of AgFirst, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-three Agricultural Credit Associations. The operations of the Farm Credit Finance Corporation of Puerto Rico subsidiary will be discontinued effective January 1, 2006. This will have no material effect on the financial condition of AgFirst.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District in more detail. The nine months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of the District's assets.

## FINANCIAL CONDITION

### *Loan Portfolio*

Gross loan volume at September 30, 2005 was \$16.1 billion, an increase of \$1.3 billion, or 8.78 percent as compared to December 31, 2004, and an increase of \$1.4 billion or 9.52 percent compared to September 30, 2004. The general economy remains strong, with continued high demand for country lifestyle properties. Additionally, AgFirst and the District Associations have executed aggressive marketing plans, calling on referral sources throughout the country. As a result, loan volume and asset quality continue to trend higher.

During the third quarter of 2005, hurricane activity caused damage across the AgFirst District. Louisiana, Mississippi, Alabama and southern Florida were the areas impacted. Crop and commodity damage was severe, but the impact on repayment of loans will not be known, in most cases, for several months. However, risk of loss appears to be mitigated by insurance proceeds, disaster relief and the overall financial health of the borrowers' balance sheets.

Nonaccrual loan assets for the combined District at September 30, 2005 were 0.52 percent of total loans outstanding as compared to 0.69 percent at December 31, 2004 and 0.71 percent at September 30, 2004. Loan classifications as of September 30, 2005 have shown slight improvements compared to December 31, 2004 and September 30, 2004, as illustrated in the following chart:

<b>Asset Quality as of:</b>			
<b>Classification</b>	<b>September 30, 2005</b>	<b>December 31, 2004</b>	<b>September 30, 2004</b>
Acceptable	95.51%	94.50%	93.40%
OAEM *	2.74%	3.32%	4.08%
Substandard	1.55%	1.99%	2.42%
Doubtful/loss	0.20%	0.19%	0.10%

\* Other Assets Especially Mentioned

Business conditions remain favorable for most commodities financed in the District and non-farm income remains strong. These factors have contributed to improvement in credit quality.

The allowance for loan losses at September 30, 2005 of \$93.0 million, or 0.58 percent of gross loan volume, reflects management's estimate of losses inherent in the portfolio. By comparison, the allowance for losses at December 31, 2004 was \$95.4 million, or 0.64 percent of gross loan volume. See Note 2, Allowance for Loan Losses, in the Notes to the Combined Financial Statements.

#### *Liquidity and Funding Sources*

As of September 30, 2005, AgFirst and all District Associations exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled \$5.1 billion or 23.49 percent of total assets at September 30, 2005, compared to \$3.8 billion or 20.08 percent as of December 31, 2004. Except as noted below, all investment securities were classified as being available-for-sale. At September 30, 2005, AgFirst had 187 days of liquidity coverage as defined by the System's common liquidity policy.

The investment securities at September 30, 2005 included \$1.2 billion in investments classified as being held-to-maturity. In this group of held-to-maturity investments were \$1.1 billion in Rural Housing Mortgage-backed Securities (RHMS) purchased under a mission-related investment pilot program approved by the Farm Credit Administration (FCA). This investment pilot program is intended to create more demand for rural housing loans by providing an incentive to lenders to create RHMS for sale in the secondary market. Creating demand for rural housing loans should result in more cost-effective, market priced credit to homeowners in rural America.

On July 14, 2005, the FCA Board approved a final rule which, among other things, increased minimum liquidity reserve requirements and increased eligible investment limits for System institutions. The rule became effective on October 24, 2005.

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, 2005, AgFirst had \$17.9 billion in total debt outstanding compared to \$15.4 billion at December 31, 2004. In addition, other interest-bearing liabilities for AgFirst included \$225.0 million in Mandatorily Redeemable Preferred Stock (MRPS) for the same periods. Total interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

#### *Tobacco Buyout Program*

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive 10 years of equal payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that Farm Credit System (System) institutions are "financial institutions" within the meaning of the Tobacco Act and are therefore eligible to participate in the Tobacco Buyout. FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and

producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

During the second quarter 2005, the AgFirst District Associations had loan assignments for Tobacco Buyout borrowers and also incurred commitments to acquire Successor-in-Interest Contracts (SIIC) to start in the fourth quarter 2005. As of September 30, 2005, the District Associations had loan assignments of \$71.3 million and commitments outstanding for SIIC of \$86.0 million.

#### *Capital Resources*

Total District shareholders' equity increased \$176.2 million from December 31, 2004 to September 30, 2005. The increase was primarily the result of \$280.1 million in net income, offset by a net reduction in stock and participation certificates of \$3.9 million, retirements of protected borrower equity of \$2.3 million, retirements of surplus of \$68.9 million, dividends paid of \$5.5 million, and patronage distributions of \$15.3 million.

As of September 30, 2005, AgFirst and each of the District Associations exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by the Farm Credit Administration Regulations.

## **RESULTS OF OPERATIONS**

#### *Net Interest Income*

Net interest income for the three months ended September 30, 2005 was \$156.3 million, an increase of \$12.2 million or 8.47 percent compared to the three months ended September 30, 2004. Net interest income for the nine months ended September 30, 2005 was \$451.7 million, an increase of \$26.2 million or 6.16 percent compared to the same period ended September 30, 2004. The increases in net interest income for the three months and nine months ended September 30, 2005 can be attributed to increases in loan volume and investment securities.

#### *Provision for Loan Losses*

The provision/(reversal) for loan losses for the three and nine months ended September 30, 2005 was \$(349) thousand and \$(1.3) million, respectively, compared to a provision expense of \$1.8 million and \$2.0 million, respectively, for the same periods in 2004. The provision reversal for the nine months ended September 30, 2005 was due primarily to the net decrease in risk exposure across the District.

#### *Noninterest Income*

Noninterest income for the three months ended September 30, 2005 was \$13.1 million, which reflected an increase of \$999 thousand as compared to the same period in 2004. The 2005 quarter-to-date increase in noninterest income was primarily the result of increases in loan fees of \$852 thousand, in gains on the sale of rural home loans of \$572 thousand, in realized gains on investments of \$50 thousand, and \$41 thousand in other noninterest income. Offsetting decreases in noninterest income were additional costs charged against the sale of mortgage servicing assets of \$453 thousand and decreases in fees for financially related services of \$63 thousand.

For the nine months ended September 30, 2005, noninterest income was \$41.9 million, which reflected an increase of \$1.3 million compared to the same period in 2004. Gains on the sale of rural home loans increased \$3.5 million. Gains on sale of secondary mortgage market servicing assets of \$1.2 million also contributed to the increase over 2004. Offsetting the increase for 2005 was a \$4.4 million decrease in other noninterest income, which primarily resulted from the gain in 2004 on the sale of the Farm Credit Leasing Corporation stock of \$3.8 million.

*Noninterest Expense*

Noninterest expense for the three months ended September 30, 2005 was \$73.4 million, an increase of \$6.2 million as compared to the corresponding period in 2004. The Insurance Fund premium increased \$4.2 million. Also contributing to the increase were increases of \$1.2 million in salaries and benefits, \$849 thousand in occupancy and equipment, and \$2.2 million in other operating expenses. The offsetting decreases were primarily attributed to decreases in Intra-System Financial Assistance Corporation (FAC) expenses of \$1.7 million called debt expense of \$339 thousand.

For the nine months ended September 30, 2005, noninterest expense was \$214.8 million, which reflected an increase of \$4.5 million. The increase resulted from increases in salaries and benefits of \$3.9 million, occupancy and equipment of \$1.7 million, and other operating expenses of \$6.4 million. Offsetting the increases were decreases in ACA restructuring charges of \$3.6 million, called debt expense of \$2.0 million, Intra-System financial assistance expenses of \$1.8 million, and other noninterest expense of \$240 thousand.

*Provision for Income Taxes*

The provision/(benefit) for income taxes for the three and nine months ended September 30, 2005 was \$(196) thousand and \$60 thousand, respectively, compared to \$(1,607) thousand and \$(1,191) thousand, respectively, for the same periods in 2004. The year-to-date decrease in the tax benefit was primarily attributable to four Associations receiving large tax refunds in 2004 relating to prior years.

***Key results of operations comparisons:***

	<b>Annualized for the nine months ended September 30, 2005</b>	<b>For the year ended December 31, 2004</b>
Return on Average Assets	1.90%	2.96% *
Return on Average Shareholders' Equity	12.08%	19.31% *
Net Interest Income as a Percentage of Average Earning Assets	3.13%	3.16%
Chargeoffs, Net of (Recoveries), to Average Loans	0.01%	0.05%

\* *The return on average assets and the return on average shareholders' equity was higher for the year ended December 31, 2004 due to the \$215 million loan loss reversal in the fourth quarter of 2004 that resulted from a change in allowance methodologies. Before the \$215 million loan loss reversal, the return on average assets was 1.77% and the return on average shareholders' equity was 11.54%.*

---

**NOTE:** Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Jay Wise, 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](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.

## Combined Balance Sheets

<i>(dollars in thousands)</i>	<b>September 30, 2005</b> <i>(unaudited)</i>	<b>December 31, 2004</b> <i>(audited)</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 472,163	\$ 522,862
Investment securities	4,615,098	3,290,967
Loans	16,125,360	14,836,278
Less: allowance for loan losses	92,969	95,419
Net loans	16,032,391	14,740,859
Accrued interest receivable	210,140	131,402
Investments in other Farm Credit System institutions	8,382	8,229
Premises and equipment, net	105,241	96,603
Other property owned	2,444	3,433
Deferred tax assets, net	2,572	2,229
Other assets	210,409	198,832
Total assets	<b>\$ 21,658,840</b>	<b>\$ 18,995,416</b>
<b>Liabilities</b>		
Bonds and notes	\$ 17,867,257	\$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	111,814	65,854
Dividends and patronage refunds payable	16,223	81,607
Postretirement benefits other than pensions	99,670	92,970
Other liabilities	163,080	127,955
Total liabilities	18,483,044	15,995,771
Commitments and contingencies	—	—
<b>Shareholders' Equity</b>		
Perpetual preferred stock	150,000	150,000
Protected borrower equity	7,820	10,123
Capital stock and participation certificates	121,468	125,089
Retained earnings		
Allocated	782,749	849,626
Unallocated	2,119,777	1,861,476
Accumulated other comprehensive income (loss)	(6,018)	3,331
Total shareholders' equity	3,175,796	2,999,645
Total liabilities and equity	<b>\$ 21,658,840</b>	<b>\$ 18,995,416</b>

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

# Combined Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Interest Income</b>				
Investment securities	\$ 45,445	\$ 19,812	\$ 107,392	\$ 51,360
Loans	269,338	211,203	746,943	605,619
Total interest income	314,783	231,015	854,335	656,979
<b>Interest Expense</b>				
Net interest income	158,473	86,898	402,611	231,521
Provision for (reversal of) loan losses	(349)	1,775	(1,331)	2,037
Net interest income after provision for (reversal of) loan losses	156,659	142,342	453,055	423,421
<b>Noninterest Income</b>				
Loan fees	8,072	7,220	27,155	26,406
Fees for financially related services	2,472	2,535	4,458	4,484
Realized gains (losses) on investments, net	94	44	466	136
Gain (loss) on sale of rural home loans	877	305	2,330	(1,194)
Gain (loss) on sale of mortgage servicing assets	(453)	—	1,178	—
Other noninterest income	2,017	1,976	6,300	10,739
Total noninterest income	13,079	12,080	41,887	40,571
<b>Noninterest Expenses</b>				
Salaries and employee benefits	45,109	43,954	134,846	130,988
Occupancy and equipment	7,095	6,246	20,369	18,661
Insurance Fund premium	2,622	(1,586)	5,502	5,303
Other operating expenses	17,996	15,789	48,749	42,308
Intra-System financial assistance expenses	(12)	1,709	3,221	5,029
Called debt expense	98	437	656	2,689
Restructuring charge	—	53	—	3,645
Other noninterest expense	504	621	1,468	1,708
Total noninterest expenses	73,412	67,223	214,811	210,331
Income before income taxes	96,326	87,199	280,131	253,661
Provision (benefit) for income taxes	(196)	(1,607)	60	(1,191)
Net income	\$ 96,522	\$ 88,806	\$ 280,071	\$ 254,852

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

# Combined Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	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, 2003	\$ 150,000	\$ 12,453	\$ 128,099	\$ 792,168	\$ 1,587,934	\$(108,923)	\$ 2,561,731
Comprehensive income							
Net income					254,852		254,852
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						2,489	2,489
Change in fair value of derivative instruments						8,430	8,430
Minimum pension liability adjustment						(13)	(13)
Total comprehensive income							265,758
Protected borrower equity retired		(2,095)					(2,095)
Capital stock/participation certificates issued/retired, net			(2,370)				(2,370)
Dividends declared/paid			60		(273)		(213)
Perpetual preferred stock dividends paid					(5,475)		(5,475)
Patronage distribution							
Cash					(11,306)		(11,306)
Allocated retained earnings				3,147	(3,147)		—
Retained earnings retired				(71,479)			(71,479)
Patronage distribution adjustment				(379)	(789)		(1,168)
Balance at September 30, 2004	\$ 150,000	\$ 10,358	\$ 125,789	\$ 723,457	\$ 1,821,796	\$ (98,017)	\$ 2,733,383
Balance at December 31, 2004	\$ 150,000	\$ 10,123	\$ 125,089	\$ 849,626	\$ 1,861,476	\$ 3,331	\$ 2,999,645
Comprehensive income							
Net income					280,071		280,071
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(15,515)	(15,515)
Change in fair value of derivative instruments						6,166	6,166
Total comprehensive income							270,722
Protected borrower equity retired		(2,303)					(2,303)
Capital stock/participation certificates issued/retired, net			(3,888)				(3,888)
Dividends declared/paid			267		(267)		—
Perpetual preferred stock dividends paid					(5,475)		(5,475)
Patronage distribution							
Cash					(15,288)		(15,288)
Allocated retained earnings				2,052	(2,052)		—
Retained earnings retired				(68,929)			(68,929)
Patronage distribution adjustment				—	1,312		1,312
Balance at September 30, 2005	\$ 150,000	\$ 7,820	\$ 121,468	\$ 782,749	\$ 2,119,777	\$ (6,018)	\$ 3,175,796

*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,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 280,071	\$ 254,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	10,846	10,473
Provision for (reversal of) loan losses	(1,331)	2,037
(Gains) on sale of Farm Credit Leasing Corporation stock	—	(3,757)
(Gains) losses on other property owned, net	256	(81)
Realized (gains) losses on investments, net	(466)	(136)
Realized (gains) losses on derivatives, net	(66)	—
Realized (gains) losses on mortgage servicing assets	(1,178)	—
Realized (gains) losses on mortgage loans held for sale	(2,330)	1,194
Proceeds from sale of mortgage loans held for sale	4,259	254,035
Purchases of mortgage loans held for sale (net of principal repayment)	(198,375)	(271,300)
Contributions to defined benefit retirement plan	(28,003)	(106,592)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(78,738)	(44,395)
(Increase) decrease in investments in other Farm Credit System institutions	(153)	(119)
(Increase) decrease in deferred tax assets, net	(343)	(208)
(Increase) decrease in other assets	15,301	(47,927)
Increase (decrease) in accrued interest payable	45,960	8,342
Increase (decrease) in postretirement benefits other than pensions	6,700	9,236
Increase (decrease) in other liabilities	14,383	5,450
Total adjustments	(213,278)	(183,748)
Net cash provided by (used in) operating activities	66,793	71,104
<b>Cash flows from investing activities:</b>		
Investment securities purchased	(2,924,007)	(3,390,204)
Investment securities sold or matured	1,584,827	2,952,753
Proceeds from sale of Farm Credit Leasing Corporation stock	—	12,834
Net (increase) decrease in loans	(1,095,013)	(301,347)
Purchase of premises and equipment, net	(19,484)	(17,131)
Proceeds from sale of other property owned	3,123	1,632
Net cash provided by (used in) investing activities	(2,450,554)	(741,463)
<b>Cash flows from financing activities:</b>		
Bonds and notes issued	29,674,004	32,591,242
Bonds and notes retired	(27,179,716)	(31,780,747)
Protected borrower equity retired	(2,303)	(2,095)
Capital stock and participation certificates issued/retired, net	(3,888)	(2,370)
Patronage refunds and dividends paid	(80,631)	(65,993)
Dividends paid on perpetual preferred stock	(5,475)	(5,475)
Retained earnings retired	(68,929)	(71,479)
Net cash provided by (used in) financing activities	2,333,062	663,083
Net increase (decrease) in cash and cash equivalents	(50,699)	(7,276)
Cash and cash equivalents, beginning of period	522,862	494,339
Cash and cash equivalents, end of period	\$ 472,163	\$ 487,063
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Financed sales of other property owned	\$ 861	\$ 498
Loans transferred to other property owned	3,251	3,305
Patronage refund and dividends payable	15,288	11,519
Change in unrealized gains (losses) on investments, net	(15,515)	2,489
Change in fair value of derivative instruments	6,166	8,430
<b>Non-cash changes related to hedging activities:</b>		
Decrease (increase) in loans	\$ 46	\$ (326)
Increase (decrease) in bonds and notes	(29,416)	(2,106)
Decrease (increase) in other assets	1,125	(540)
Increase (decrease) in other liabilities	22,014	924
<b>Supplemental information:</b>		
Interest paid	\$ 356,651	\$ 223,179
Taxes paid, net	1,273	506

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) and the accounts of the District Agricultural Credit Associations (ACAs 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, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited third quarter 2005 financial statements should be read in conjunction with the 2004 Annual Report to Stockholders.

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, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

The District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of September 30, 2005, the allowances for losses are 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:

Balance at December 31, 2003	\$316,735
Provision for loan losses	2,037
Loans (charged off), net of recoveries	<u>(6,427)</u>
Balance at September 30, 2004	<u>\$312,345</u>
Balance at December 31, 2004	\$ 95,419
Provision for (reversal of) loan losses	(1,331)
Loans (charged off), net of recoveries	<u>(1,119)</u>
Balance at September 30, 2005	<u>\$ 92,969</u>

As discussed in the 2004 Annual Report, the Bank and its affiliated Associations recorded loan loss reversals of \$215 million in the fourth quarter of 2004 that resulted from a one-time change in allowance methodologies.

**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 \$108.8 billion at September 30, 2005.

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 — 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:

	<b>Pension Benefits</b>	
	<b>2005</b>	<b>2004</b>
Service cost	\$ 10,122	\$ 10,418
Interest cost	19,575	17,103
Expected return on plan assets	(23,716)	(17,307)
Amortization of prior service costs	475	486
Recognized net (gain) loss	9,117	8,618
Net periodic benefit cost	<u>\$ 15,573</u>	<u>\$ 19,318</u>

The District had not anticipated making contributions in 2005 to the defined benefit retirement plans based upon actuarial projections as of the last plan measurement date (September 30, 2004). However, due to market conditions affecting discount rates and return on plan assets, current actuarial projections indicated that contributions were needed to meet the expected accumulated benefit obligation at September 30, 2005. During the third quarter of 2005, the AgFirst and the District Associations contributed \$28.0 million to the defined benefit retirement plans. The District does not anticipate making any additional contributions for the remainder of 2005.

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. Employer contributions were \$3.0 million and \$2.8 million as of September 30, 2005 and 2004, respectively.

In addition to providing pension benefits, AgFirst and the District Associations provide certain health care and life insurance benefits to the retired employees (other postretirement benefits). The following is a table of other postretirement benefits expenses:

	<b>Other Postretirement Benefits</b>	
	<b>2005</b>	<b>2004</b>
Service cost	\$ 2,181	\$ 2,777
Interest cost	6,430	6,935
Expected return on plan assets	—	—
Amortization of prior service costs	(211)	(138)
Recognized net (gain) loss	2,856	4,216
Net periodic benefit cost	<u>\$ 11,256</u>	<u>\$ 13,790</u>

Contributions of \$4.7 million were made to the other postretirement benefit plans during the first nine months of 2005. The District anticipates contributing an additional \$1.4 million during the remainder of 2005.

The District also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the pension and thrift plan costs above. The District contributed \$327 thousand to these plans during the first nine months of 2005. The District anticipates making additional contributions of \$109 thousand to these supplemental retirement and deferred compensation plans during the remainder of 2005.

**NOTE 5 — BANK ONLY FINANCIAL DATA**

Condensed financial information of AgFirst Farm Credit Bank follows:

**Balance Sheet Data**

	<b>9/30/05</b>	<b>12/31/04</b>
	<i>(unaudited)</i>	<i>(audited)</i>
Cash and investment securities	\$ 5,007,453	\$ 3,748,672
Loans	14,160,160	12,908,249
Less: allowance for loan losses	13,200	14,800
Net loans	14,146,960	12,893,449
Other assets	242,397	245,402
Total assets	\$ 19,396,810	\$ 16,887,523
Bonds and notes	\$ 17,867,257	\$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	175,265	235,842
Total liabilities	18,267,522	15,863,227
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	224,555	226,200
Retained earnings	760,352	644,366
Accumulated other comprehensive income (loss)	(5,619)	3,730
Total shareholders' equity	1,129,288	1,024,296
Total liabilities and equity	\$ 19,396,810	\$ 16,887,523

**Statement of Income Data**

(unaudited)

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Interest income	\$ 209,918	\$ 140,211	\$ 554,675	\$ 394,372
Interest expense	158,402	86,871	402,465	231,450
Net interest income	51,516	53,340	152,210	162,922
Provision for (reversal of) loan losses	(1,300)	—	(1,910)	—
Net interest income after provision for loan losses	52,816	53,340	154,120	162,922
Noninterest expense, net	(12,739)	(12,987)	(32,655)	(32,560)
Net income	\$ 40,077	\$ 40,353	\$ 121,465	\$ 130,362