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:

	For the three months ended September 30, 2007 vs. September 30, 2006			For the nine months ended September 30, 2007 vs. September 30, 2006		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	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	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**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 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	$ 14,468	$ 9,855	$ 4,613	$ 34,509	$ 42,580	$ (8,071)

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	**For the three months ended September 30,**			**For the nine months ended September 30,**		
(dollars in thousands)	**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	**$** 82,631	$ 76,945	$ 5,686	$ 245,697	$ 229,583	$ 16,114

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

(dollars in thousands)	**September 30, 2007**	**December 31, 2006**
	(unaudited)	*(audited)*
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	$ 28,892,970	$ 26,760,718
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	25,123,171	23,452,535
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	3,769,799	3,308,183
Total liabilities and equity	$ 28,892,970	$ 26,760,718

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2007	For the three months ended September 30, 2006	For the nine months ended September 30, 2007	For the nine months ended September 30, 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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
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)

(dollars in thousands)	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	$ 74,262	$ 73,283

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	$ 13,160	$ 16,375

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	$ 6,528	$ 6,939

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 *(unaudited)*	12/31/06 *(audited)*
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	18,692,078	17,151,874
Other assets	329,019	318,844
Total assets	$ 26,455,544	$ 24,412,164
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	24,891,593	23,231,077
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	1,563,951	1,181,087
Total liabilities and equity	$ 26,455,544	$ 24,412,164

Statement of Income Data

(unaudited)

	For the three months ended September 30, 2007	2006	For the nine months ended September 30, 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	$ 52,181	$ 44,753	$ 145,005	$ 149,358