AgFirst Farm Credit Bank
& District Associations

Quarterly Report

Third Quarter 2006

THIRD QUARTER 2006

Table of Contents

F. A. Lowrey
Chief Executive Officer

Robert G. Sexton
Chairman of the Board

November 7, 2006

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) 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, 2006. These comments should be read in conjunction with the accompanying financial statements and the 2005 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 Board of Directors.

As of September 30, 2006, the District consisted of AgFirst and twenty-three Agricultural Credit Associations. Prior to 2006, the consolidated financial condition and results of operations included the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation), a wholly owned subsidiary of AgFirst. However, the operations of the Finance Corporation were suspended and placed into inactive status effective December 31, 2005. The Board of Directors of the Finance Corporation determined there was insufficient financial benefit resulting from island-based tax treatment of the corporation to justify continuing operations. All outstanding capital of the Finance Corporation was transferred to AgFirst on December 31, 2005. This had no material effect on the financial condition of the District.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. 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, 2006 was $17.86 billion, an increase of $1.69 billion, or 10.44 percent compared to December 31, 2005, and an increase of $1.73 billion or 10.76 percent compared to September 30, 2005. General economic conditions within the District remain favorable. Credit quality remains stable. The increase in loan volume over the past twelve months is attributed to an active real estate market, capital expansion by agribusiness, relatively low interest rate opportunities available to borrowers, purchases of participations/syndications and loans, a seasoned lending staff and the inherent value to patronage paid under the cooperative structure. Seasonal lending contributed to the increase in loan volume as compared to December 31, 2005.

As of September 30, 2006, the portfolio continues to reflect good credit quality that is supported by a sound farm sector and general economy. While overall economic conditions are favorable, specific segments of the agricultural economy, such as poultry continue to experience lower than normal profits. Low poultry prices resulted from an oversupply, primarily due to avian flu concerns overseas. Most poultry companies within the portfolio remain well capitalized following several years of strong profits. Poultry companies are addressing the oversupply by decreasing chick placements. Demand for corn due to increases in ethanol production and very tight ending corn stocks will impact the profitability of the meat complex and the grain sector. Higher corn prices will have a positive impact on grain farmers and a negative impact to some of the meat sector. In addition, volatile fuel prices could affect borrowers' profitability for all commodities across the District.

Nonaccrual loan assets for the combined District at September 30, 2006 were 0.32 percent of total loans outstanding compared to 0.51 percent at December 31, 2005 and 0.52 percent at September 30, 2005. Loan classifications as of September 30, 2006 have shown slight improvements compared to December 31, 2005 and September 30, 2005, as illustrated in the following chart:

Asset Quality as of:			
Classification	**September 30, 2006**	**December 31, 2005**	**September 30, 2005**
Acceptable	96.23%	95.75%	95.51%
OAEM *	2.53%	2.67%	2.74%
Substandard	1.23%	1.46%	1.55%
Doubtful/loss	0.01%	0.12%	0.20%

* Other Assets Especially Mentioned

Diversification of the portfolio remains similar to a year ago 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, 2006 of $73.3 million, or 0.41 percent of gross loan volume, reflects management's estimate of losses inherent in the portfolio. By comparison, the allowance for losses at December 31, 2005 was $87.6 million, or 0.54 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, 2006, AgFirst and all District Associations exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $6.75 billion, or 26.42 percent of total assets, at September 30, 2006, compared to $5.94 billion, or 26.10 percent, as of December 31, 2005. Investments increased $1.51 billion compared to September 30, 2005 levels. Investments increased primarily in response to the Farm Credit Administration's (FCA) revision to liquidity regulations, which increased the maximum allowable level of investments from 30 to 35 percent of total loans. The basis for the maximum allowable level, total loans, also increased between the periods, which contributed to an increased investment balance. Except as noted below, all investment securities were classified as being available-for-sale. At September 30, 2006, AgFirst had 209 days of liquidity coverage as defined by FCA regulations.

Investment securities at September 30, 2006 included $1.44 billion in investments classified as being held-to-maturity. These held-to-maturity investments were primarily Rural Housing Mortgage-Backed Securities (RHMBS) purchased under a Mission-Related Investment pilot program approved by the FCA in 2005, as discussed further under *Mission-Related Investments*. As of September 30, 2006, AgFirst had $1.27 billion in RHMBS.

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, 2006, AgFirst had $21.50 billion in total debt outstanding compared to $18.88 billion at December 31, 2005. 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.

Capital Resources

Total District shareholders' equity increased $212.6 million from December 31, 2005 to September 30, 2006. The increase was primarily the result of net income, offset by retirements of surplus, patronage distributions, a dividend payment on perpetual preferred stock, a net reduction in stock and participation/syndication certificates, retirements of protected borrower equity and dividends paid. As of September 30, 2006, AgFirst and each of the District Associations exceeded the applicable permanent capital, core surplus, total surplus and net collateral ratio requirements established by FCA Regulations.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA has approved the Rural Housing Mortgage-Backed Securities pilot program, the Rural America Bond pilot and the Tobacco Buyout programs under the mission-related investments umbrella, as described below.

Rural Housing Mortgage-Backed Securities

In May 2005, AgFirst received approval from the FCA to purchase and hold RHMBS under its Mission-Related Investments Pilot Program. This program is intended to increase liquidity for rural housing loans resulting in more cost-effective credit to homeowners in rural America by providing an incentive to lenders to create RHMBS for sale in the secondary market. The FCA approved the program for a three-year pilot period. The RHMBS must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMBS must be conforming first-lien residential mortgage loans originated by non-Farm Credit System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), or eligible rural housing loans originated by System lenders under FCA Regulations. Investment securities at September 30, 2006 included $1.27 billion in RHMBS classified as held-to-maturity.

Rural America Bonds

In October 2005, the FCA authorized AgFirst and the Associations to make investments in *Rural America Bonds* under a three-year pilot period. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. Under this investment program, AgFirst and the Associations may make investments in Rural America Bonds issued by public and private enterprises, corporations, cooperatives, other financing institutions and rural lenders. As of September 30, 2006, AgFirst and the Associations had $44.3 million in the Rural America Bond program. AgFirst and the Associations are actively planning to evaluate more opportunities in the future.

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, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual 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 (Successor-in-Interest Contracts (SIIC)) 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 recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are therefore eligible to participate in the Tobacco Buyout. The goal of this program is to provide quota holders and producers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

On September 30, 2006, thirteen District Associations held $413.5 million of SIIC. In addition, District Associations had loans outstanding secured by assignments of contract payments in the amount of $86.1 million. Also, the District Associations had commitments to purchase SIIC of $4.1 million. The SIIC are classified as Other Investments on the Combined Balance Sheets.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended September 30, 2006 was $176.1 million, an increase of $20.0 million or 12.84 percent compared to the three months ended September 30, 2005. Net interest income for the nine months ended September 30, 2006 was $501.7 million, an increase of $51.3 million or 11.40 percent compared to the same period ended September 30, 2005. The increases in net interest income for the three months and nine months ended September 30, 2006 can be attributed primarily to increases in loan volume and investments. A non-recurring adjustment to interest income from resolution of a nonaccrual loan account increased interest income by $4.5 million and impacts the rate variance. While the District's interest rate risk position results in an increase in net interest income in a rising rate environment, the level of rate risk exposure is very low, as indicated by the amount of impact rate variance has on net interest income. This is consistent with the conservative position of the District with regards to interest rate risk.

The following table illustrates the changes in net interest income:

	For the three months ended September 30, 2006 vs. September 30, 2005			**For the nine months ended September 30, 2006 vs. September 30, 2005**		
	Increase (decrease) due to changes in:			**Increase (decrease) due to changes in:**		
(dollars in thousands)	**Rate**	**Volume**	**Total**	**Rate**	**Volume**	**Total**
Interest Income:						
Loans	$ 45,957	$ 31,375	$ 77,332	$ 127,628	$ 81,917	$ 209,545
Investments	28,166	23,999	52,165	87,711	67,885	155,596
Total Interest Income	$ 74,123	$ 55,374	$ 129,497	$ 215,339	$ 149,802	$ 365,141
Interest Expense:						
Systemwide Debt Securities	$ 72,073	$ 37,389	$ 109,462	$ 213,443	$ 100,353	$ 313,796
Changes in Net Interest Income	$ 2,050	$ 17,985	$ 20,035	$ 1,896	$ 49,449	$ 51,345

Provision for Loan Losses

The provision for loan losses for the three and nine months ended September 30, 2006 reflected a provision of $2.1 million and a reversal of $12.7 million, respectively, compared to reversals of $349 thousand and $1.3 million, respectively, for the same periods in 2005. The majority of the reversal for the nine months ended September 30, 2006 was primarily attributed to a single account.

Noninterest Income

Noninterest income for the three months ended September 30, 2006 was $9.9 million, a decrease of $3.4 million compared to the same period in 2005. For the nine months ended September 30, 2006, noninterest income was $42.6 million, which reflected a decrease of $651 thousand, compared to the same period in 2005.

The following table illustrates the changes in noninterest income:

(dollars in thousands)	**For the three months ended 9/30/06**	**For the nine months ended 9/30/06**
Decrease in loan fees	$ (416)	$ (5,076)
Increase in fees for financially related services	250	660
Decrease in realized gains on investments, net	(94)	(471)
(Decrease)/Increase in realized gains on derivatives, net	(2,985)	6,812
Decrease in gain on sale of rural home loans	(7)	(134)
Increase/(Decrease) in gain on sale of mortgage servicing assets	453	(1,178)
Decrease in other noninterest income	(639)	(1,264)
Decrease in noninterest income	**$ (3,438)**	**$ (651)**

The decrease in loan fees for the nine months ended September 30, 2006 was due to reductions of $2.6 million in net participations/syndications fee income as lines of credit were more fully advanced, resulting in lower fees. In addition, prepayment penalty income was $1.4 million lower between periods as refinance activity slowed in a higher interest rate environment. The $3.0 million decrease in gains on derivates for the three months ending September 30, 2006 represents a decrease in the value of derivatives executed to hedge the funding of certain commitments. The $6.8 million increase in gains on derivatives for the nine months ending September 30, 2006 represents the gain realized on liquidating the derivatives and putting permanent financing in place.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2006 was $76.9 million, an increase of $3.5 million compared to the same period in 2005. For the nine months ended September 30, 2006, noninterest expense was $229.6 million, an increase of $14.8 million compared to the same period in 2005.

The following table illustrates the changes in noninterest expense:

(dollars in thousands)	**For the three months ended 9/30/06**	**For the nine months ended 9/30/06**
(Decrease)/Increase in salaries and employee benefits	$ (696)	$ 1,155
Increase in occupancy and equipment	297	1,746
Increase in Insurance Fund premium	3,724	12,562
(Decrease)/Increase in other operating expenses	(131)	2,596
Increase/(Decrease) in Intra-System financial assistance	12	(3,221)
Increase/(Decrease) in called debt expense	220	(338)
Increase in other noninterest expense	107	272
Increase in noninterest expense	$ 3,533	$ 14,772

The increase in Insurance Fund premiums for the three and nine months ended September 30, 2006 resulted from an increase in premium rates, as set by the Farm Credit System Insurance Corporation.

Key results of operations comparisons:

	Annualized for the nine months ended September 30, 2006	**For the year ended December 31, 2005**
Return on Average Assets	1.81%	1.86%
Return on Average Shareholders' Equity	13.38%	12.05%
Net Interest Income as a Percentage of Average Earning Assets	2.84%	3.07%
Chargeoffs, Net of (Recoveries), to Average Loans	0.009%	0.009%

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. AgFirst and its related Associations are currently evaluating the impact of implementing this Standard. It is anticipated that the implementation of this Standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material impact on the balance sheet. See Note 1, *Organization and Significant Accounting Policies,* in the Notes to the Consolidated Financial Statements for additional information.

NOTE: Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 316, or writing Wanda Martin, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank 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, 2006	December 31, 2005
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 625,600	$ 640,830
Investment securities:		
Available for sale (amortized cost of $4,689,090 and $3,888,889 respectively)	4,685,795	3,886,318
Held to maturity (fair value of $1,404,043 and $1,384,390 respectively)	1,442,455	1,416,647
Total investment securities	6,128,250	5,302,965
Loans	17,859,802	16,171,572
Less: allowance for loan losses	73,283	87,551
Net loans	17,786,519	16,084,021
Other investments	413,450	237,239
Accrued interest receivable	272,657	179,970
Investments in other Farm Credit System institutions	8,604	8,756
Premises and equipment, net	117,540	107,063
Other property owned	3,681	3,646
Deferred tax assets, net	2,263	1,691
Other assets	208,536	208,379
Total assets	$ 25,567,100	$ 22,774,560
Liabilities		
Bonds and notes	$ 21,496,061	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	183,035	133,855
Dividends and patronage refunds payable	17,736	99,665
Postretirement benefits other than pensions	105,851	102,681
Other liabilities	182,472	189,010
Total liabilities	22,210,155	19,630,175
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Protected borrower equity	6,282	7,628
Capital stock and participation certificates	118,352	120,370
Retained earnings		
Allocated	843,223	925,919
Unallocated	2,242,788	1,943,444
Accumulated other comprehensive income	(3,700)	(2,976)
Total shareholders' equity	3,356,945	3,144,385
Total liabilities and equity	$ 25,567,100	$ 22,774,560

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, 2006	For the three months ended September 30, 2005	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Interest Income				
Investment securities	$ 91,653	$ 45,445	$ 246,553	$ 107,392
Loans	346,456	269,124	955,144	745,599
Other	5,957	—	16,435	—
Total interest income	444,066	314,569	1,218,132	852,991
Interest Expense	267,935	158,473	716,407	402,611
Net interest income	176,131	156,096	501,725	450,380
Provision for (reversal of) loan losses	2,146	(349)	(12,728)	(1,331)
Net interest income after provision for (reversal of) loan losses	173,985	156,445	514,453	451,711
Noninterest Income				
Loan fees	7,870	8,286	23,423	28,499
Fees for financially related services	2,722	2,472	5,118	4,458
Realized gains (losses) on investments, net	—	94	(5)	466
Realized gains (losses) on derivatives, net	(2,985)	—	6,812	—
Gain (loss) on sale of rural home loans	870	877	2,196	2,330
Gain (loss) on sale of mortgage servicing assets	—	(453)	—	1,178
Other noninterest income	1,378	2,017	5,036	6,300
Total noninterest income	9,855	13,293	42,580	43,231
Noninterest Expenses				
Salaries and employee benefits	44,413	45,109	136,001	134,846
Occupancy and equipment	7,392	7,095	22,115	20,369
Insurance Fund premium	6,346	2,622	18,064	5,502
Other operating expenses	17,865	17,996	51,345	48,749
Intra-System financial assistance expenses	—	(12)	—	3,221
Called debt expense	318	98	318	656
Other noninterest expense	611	504	1,740	1,468
Total noninterest expenses	76,945	73,412	229,583	214,811
Income before income taxes	106,895	96,326	327,450	280,131
Provision (benefit) for income taxes	126	(196)	567	60
Net income	$ 106,769	$ 96,522	$ 326,883	$ 280,071

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, 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 of $466						(15,515)	(15,515)
Change in fair value of derivative instruments, includes reclassification adjustments of $66						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
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

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, 2006	2005
Cash flows from operating activities:		
Net income	$ 326,883	$ 280,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	12,636	10,846
Provision for (reversal of) loan losses	(12,728)	(1,331)
(Gains) losses from sale of premises and equipment, net	(1,058)	(2,907)
(Gains) losses on other property owned, net	734	256
Realized (gains) losses on investments, net	5	(466)
Recognized (gains) losses on derivatives, net	—	(66)
Realized (gains) losses on mortgage servicing assets	—	(1,178)
Realized (gains) losses on mortgage loans held for sale	(2,196)	(2,330)
Proceeds from sale of mortgage loans held for sale	6,069	4,259
Purchases of mortgage loans held for sale (net of principal repayment)	(196,478)	(198,375)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(92,687)	(78,738)
(Increase) decrease in deferred tax assets, net	(572)	(343)
(Increase) decrease in other assets	1,500	(12,702)
Increase (decrease) in accrued interest payable	49,180	45,960
Increase (decrease) in postretirement benefits other than pensions	3,170	6,700
Increase (decrease) in other liabilities	6,385	14,383
Total adjustments	(226,040)	(216,032)
Net cash provided by (used in) operating activities	100,843	64,039
Cash flows from investing activities:		
Investment securities purchased	(2,406,005)	(2,924,007)
Investment securities sold or matured	1,579,991	1,584,827
Net (increase) decrease in loans	(1,499,698)	(1,095,013)
Increase) decrease in investments in other Farm Credit System institutions	152	(153)
Net (increase) decrease in other investments	(176,211)	—
Purchase of premises and equipment, net	(23,818)	(22,113)
Proceeds from sale of premises and equipment, net	1,763	5,536
Proceeds from sale of other property owned	1,757	3,123
Net cash provided by (used in) investing activities	(2,522,069)	(2,447,800)
Cash flows from financing activities:		
Bonds and notes issued	36,208,776	29,674,004
Bonds and notes retired	(33,607,000)	(27,179,716)
Protected borrower equity retired	(1,346)	(2,303)
Capital stock and participation certificates issued/retired, net	(2,332)	(3,888)
Patronage refunds and dividends paid	(101,771)	(80,631)
Dividends paid on perpetual preferred stock	(5,475)	(5,475)
Retained earnings retired	(84,856)	(68,929)
Net cash provided by (used in) financing activities	2,405,996	2,333,062
Net increase (decrease) in cash and cash equivalents	(15,230)	(50,699)
Cash and cash equivalents, beginning of period	640,830	522,862
Cash and cash equivalents, end of period	$ 625,600	$ 472,163
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 724	$ 861
Loans transferred to other property owned	3,250	3,251
Patronage refund and dividends payable	15,732	15,288
Change in unrealized gains (losses) on investments, net	(724)	(15,515)
Change in fair value of derivative instruments	—	6,166
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 7	$ 46
Increase (decrease) in bonds and notes	14,321	(29,416)
Decrease (increase) in other assets	(1,657)	1,125
Increase (decrease) in other liabilities	(12,671)	22,014
Supplemental information:		
Interest paid	$ 667,227	$ 356,651
Taxes paid, net	675	1,273

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 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.

Prior to 2006, the consolidated financial condition and results of operations included the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation), a wholly owned subsidiary of AgFirst. However, the operations of the Finance Corporation were suspended and placed into inactive status effective December 31, 2005. The Board of Directors of the Finance Corporation determined there was insufficient financial benefit resulting from island-based tax treatment of the corporation to justify continuing the operations. All outstanding capital of the Finance Corporation was transferred to AgFirst on December 31, 2005. This had no material effect on the financial condition of the District.

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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited third quarter 2006 financial statements should be read in conjunction with the 2005 Annual Report to Shareholders.

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Bank and its related Associations will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Bank and its related Associations use a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Bank and its related Associations are currently evaluating the impact of implementing this Standard. It is anticipated that the implementation of this Standard will have no impact on the income statement and, based on the current funded status of the defined benefit plans, it is not expected to have a material impact on the balance sheet.

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, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

In the first quarter of 2006, AgFirst implemented trade date accounting for investment securities. Previously, the investments were accounted for on the settlement dates. There was no impact on the financial statements at September 30, 2006 as a result of this change.

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, 2006, 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:

	For the nine months ended September 30,	
	2006	**2005**
Balance at beginning of period	$ 87,551	$ 95,419
Provision for (reversal of) loan losses	(12,728)	(1,331)
Loans (charged off), net of recoveries	(1,540)	(1,119)
Balance at end of period	$ 73,283	$ 92,969

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 $126.1 billion at September 30, 2006.

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:

	Pension Benefits	
	2006	**2005**
Service cost	$ 12,230	$ 10,122
Interest cost	20,473	19,575
Expected return on plan assets	(27,508)	(23,716)
Amortization of prior service costs	945	475
Recognized net (gain) loss	10,235	9,117
Net periodic benefit cost	$ 16,375	$ 15,573

The District had previously anticipated making a contribution of $1.3 million to its defined benefit retirement plan based upon actuarial projections as of the last plan measurement date (September 30, 2005). However, due to market conditions affecting discount rates and return on plan assets, current actuarial projections indicated that a lower contribution was needed to meet the expected accumulated benefit obligation at September 30, 2006. During the third quarter of 2006, the District contributed $765 thousand to the defined benefit retirement plans. The District does not anticipate making any additional contributions for the remainder of 2006.

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 $3.3 million in 2006 compared to $3.0 million in 2005. Effective January 1, 2006, the Districtwide 401(k) Plan, known as the AgFirst Farm Credit Employee Thrift Plan, merged with the Farm Credit Bank of Texas Thrift Plus Plan. The new plan is known as the AgFirst/FCBT 401(k) Employee Benefit Plan.

The District also sponsors supplemental defined benefit 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 2006, and anticipates making additional contributions of $109 thousand to these supplemental defined benefit retirement and deferred compensation plans during the remainder of 2006.

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	
	2006	**2005**
Service cost	$ 2,011	$ 2,181
Interest cost	4,863	6,430
Expected return on plan assets	–	–
Amortization of prior service costs	(2,127)	(211)
Recognized net (gain) loss	2,192	2,856
Net periodic benefit cost	$ 6,939	$ 11,256

Contributions of $3.4 million were made to the other postretirement benefit plans during the first nine months of 2006, and the District anticipates contributing an additional $1.8 million during the remainder of 2006.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

	9/30/06 (unaudited)	12/31/05 (audited)
Cash and investment securities	$ 6,596,407	$ 5,813,627
Loans	16,265,421	14,411,050
Less: allowance for loan losses	54	10,114
Net loans	16,265,367	14,400,936
Other assets	297,678	268,468
Total assets	$ 23,159,452	$ 20,483,031
Bonds and notes	$ 21,496,061	$ 18,879,964
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	253,293	340,639
Total liabilities	21,974,354	19,445,603
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	229,158	224,554
Retained earnings	809,235	665,445
Accumulated other comprehensive income (loss)	(3,295)	(2,571)
Total shareholders' equity	1,185,098	1,037,428
Total liabilities and equity	$ 23,159,452	$ 20,483,031

Statement of Income Data

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Interest income	$ 327,776	$ 209,704	$ 884,436	$ 553,331
Interest expense	267,675	158,402	715,753	402,465
Net interest income	60,101	51,302	168,683	150,866
Provision for (reversal of) loan losses	54	(1,300)	(10,060)	(1,910)
Net interest income after provision for loan losses	60,047	52,602	178,743	152,776
Noninterest expense, net	(15,294)	(12,525)	(29,385)	(31,311)
Net income	$ 44,753	$ 40,077	$ 149,358	$ 121,465