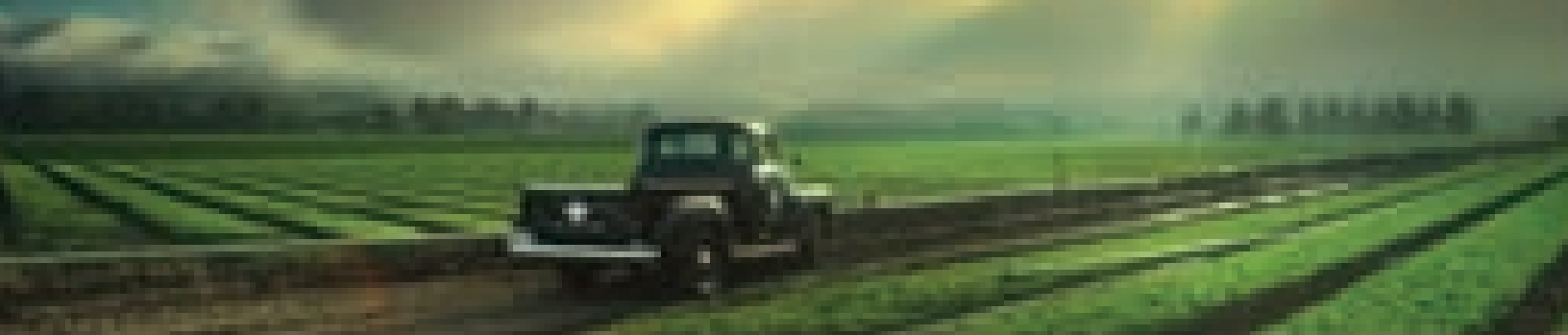




# American AgCredit

## Money for Agriculture



## AMERICAN AGCREDIT AWARDED PRESIDENT'S MEDALLION

### ■ SANTA ROSA JUNIOR COLLEGE

recently awarded American AgCredit the President's Medallion. Over the last ten years, American AgCredit has supported SRJC programs, students and services. Ron Carli and Terry Lindley have been instrumental in developing and nurturing the relationship between the company and SRJC.

Through their advocacy and support, American AgCredit has established an SRJC Foundation endowment as well as a scholarship that benefits SRJC agriculture students transferring to four-year educational institutions. The company also supports the Warren G. Dutton Endowment for the Future of Agriculture, SRJC Foundation Bear Cub Athletic Trust activities, and the college's Summer Repertory Theatre.

Ron Carli, CEO and President of American AgCredit, has held this position for the past twenty-five years. Ron graduated from Cal Poly, San Luis Obispo with a degree in Dairy Science. In 1973 he received his Secondary Teaching Credential from U.C. Davis and went on to teach agriculture in high school. Continuing his education, he earned a Masters Degree in Agricultural Science from Cal Poly San Luis Obispo. Returning to Sonoma

County, Ron's dedication to agriculture education has continued. He has been an SRJC instructor teaching Agriculture Finance, an active member of the Sonoma County 4H leadership, and on the 4H Foundation board of directors for over 15 years.

Terry Lindley, Senior Vice President of Marketing, was born and raised in Northern California on a sheep and cattle ranch. He attended SRJC with a degree in Agri-Business in 1976 and then joined American AgCredit. For more than 30 years Terry has remained engaged in production agriculture and presently runs the Lindley Cattle Company. Terry taught Agricultural Finance at SRJC and has served on the college's Agri-Business Advisory Committee. He is also past president of the Sonoma County Junior College District Board of Trustees, serving as a member from 1994 to 2004. A donor and volunteer for the SRJC Foundation, he has been instrumental in the success of the Foundation's Ag Trust



Left to right: Ron Carli, Terry Lindley and Dr. Robert Agrella, SRJC Superintendent

Committee. Terry is also President of the Sonoma County Vitners Foundation, a Farm Bureau member, a California Cattlemen Association member, and past president of the Sonoma County Harvest Fair.

Terry has also been recognized as the "Marketer of the Year" by the National Farm Credit System. ♦



# A MESSAGE FROM RON CARLI, PRESIDENT AND CEO

## ■ FINANCIAL AND OPERATING PERFORMANCE

With three solid quarters behind us, we enter the fourth quarter of 2006 well poised for a robust year. Continuing 2006 trends, net income is up both quarter-over-quarter and year-over-year, as is loan volume. Credit quality, already high, continues to improve. The Association is strong, both financially and operationally.

We have some exciting developments to talk about this quarter, so please read on.

## ■ PROJECT MAGELLAN

While we are proud of our accomplishments, we are passionate about finding areas for improvement. The board of directors and management have embarked on a companywide initiative to improve loan origination processes, the outcome of which will include increased customer satisfaction, improved internal efficiencies, reduced costs, and increased job satisfaction for American AgCredit employees.

Project Magellan encompasses four major phases: Phase I – defining customer needs and competitor issues; Phase II – defining the current environment, including processes, technology and workflow; Phase III – designing an ideal state of delivery, including use of technology and integration within the organization; and, Phase IV – implementation.

We are launching the first phase now and, as the project progresses, I'll share important updates with you. If you have suggestions for improvement, please share them with your board representative or loan officer.

## ■ FINANCIAL RESULTS – NINE MONTHS ENDED SEPTEMBER 30, 2006

**Earnings:** Net income for the nine months ended September 30, 2006 totaled \$44.5 million, a \$7.9 million (21.6%) increase over the same period of 2005. The major portion (\$4.1 million) of this is associated with the third quarter 2006 income tax benefit.

**Net interest income:** Net interest income for the first nine months of 2006 totaled \$61.0 million, up \$7.8 million (14.8%) over the first nine months of 2005. The increase is primarily the result of higher market interest rates.

**Total income:** Total income before op-

erating expenses equaled \$74.7 million, \$9.4 million (14.5%) above the first nine month's result of 2005. The US AgBank patronage dividend of \$8.9 million for the first nine months of 2006 is up \$1.6 million (21.7%) from the same period of the prior year.

**Operating expenses:** Total operating expenses equaled \$34.7 million for the first nine months of 2006, \$1.4 million (4.3%) higher than the first nine months of 2005's result. The increase in operating expenses was substantially less than the proportionate increase in revenues, indicating increased efficiency.

**Loan volume:** At September 30, 2006, total accrual loans (before reserves) equaled \$2,680.0 million, 5.2% (\$132.8 million) above the total accrual loans at September 30, 2005. Increased volume during the third quarter of 2006 is noted in both commercial loans (3%) and mortgage loans (13%).

**Credit quality:** At only \$7.0 million at September 30, 2006, non-accrual loans represent less than one percent of the Association's total loan volume. This represents a \$5.4 million improvement over September 30, 2005's total non-accrual loans of \$12.4 million.

**Capital:** The Association's capital remains strong, with the regulatory capital ratio at September 30, 2006 at 17.22% in contrast to the minimum required ratio of 7.0%.

## ■ FINANCIAL RESULTS – QUARTER ENDED SEPTEMBER 30, 2006

**Earnings:** Net income for the third quarter of 2006 totaled \$17.7 million, up \$4.2 million or 31.0% over third quarter 2005's net income of \$13.5 million. This quarter's net income was boosted by a \$4.1 million income tax benefit realized during the quarter.

**Net interest income:** Net interest income for the quarter ended September 30, 2006 was \$20.8 million, just about flat with 2005's third quarter net interest income.

**Loan volume:** Net loans at September 30, 2006 totaled \$2,681.2 million, up \$62.2 million or 2.4% over June 30, 2006 net loans of \$2,619.0 million.

## ■ H STOCK

Not many people realize that there is an important tax-related feature to H Stock investments. Dividends earned on funds invested in H Stock over 90 days receive capital gains tax treatment.

At September 30, 2006, \$68.0 million of H Stock was outstanding. This represents a \$33.0 million increase in the outstanding H Stock balance from June 30, 2006 of \$35.0 million. We are pleased that our shareholders continue to take advantage of the H Stock program. H Stock has been accruing quarterly dividends at the rate of 5.25% annually.

## ■ U.S. AGBANK ELECTS NEW CHIEF EXECUTIVE OFFICER

Our funding bank, U.S. AgBank, announced the retirement of its Chief Executive Officer, Jerold Harris, effective January 7, 2007. Darryl Rhodes, Executive Vice President U.S. Agbank will be the new Chief Executive Officer.

## ■ LOOKING FORWARD

To date, 2006 has been another good year for your Association.

The Association's solid credit policies and lending procedures provide an ongoing emphasis on credit quality. With Project Magellan, we will uncover and implement procedures and technologies aimed at improving customer service, product delivery, system efficiencies, and managing administrative costs.

Our goal remains to be the premier provider of agricultural financial services, surpassing all other financial institutions in the provision of customer service, quality products, and innovative practices. ✦

## ■ 2007 SUMMER INTERN PROGRAM

Since 1989 American AgCredit has had over 65 students participate in the Summer Internship Program. Thirty-two percent of the interns who participated in the program became employees of American AgCredit after they graduated.

American AgCredit will be looking for the best and the brightest to join our class of 2007 Summer Credit & Appraisal Internship Program. Intern candidates should have knowledge of agriculture or agribusiness with a farm, ranch or vineyard background preferred. Strong verbal, written, analytical, and interpersonal skills are required. Candidates who are college Juniors or higher who would like to participate in the Internship Program should mail their resume, transcripts and cover letter indicating a preference for a credit internship or appraisal internship and the branch/region they would prefer to work in to:

Sherrie Osborne  
Human Resources Generalist  
American AgCredit  
P.O. Box 1120  
Santa Rosa CA 95402  
(707) 545-1200  
Emailto:sosborne@agloan.com

*More information on the Internship Program will be on our website, [www.agloan.com](http://www.agloan.com) in January. American AgCredit is an equal opportunity/affirmative action employer.*

# FINANCIAL STATEMENTS

(UNAUDITED AND IN \$000s)

## STATEMENT OF CONDITION

	September 30		Dec. 31	
	2006	2005	2005	2004
<b>ASSETS</b>				
Loans	\$2,686,517	\$2,559,134	\$2,693,096	\$2,626,264
Less: allowance for loan losses	(5,351)	(7,100)	(6,557)	12,164
Net Loans	<u>2,681,166</u>	<u>2,552,034</u>	<u>2,686,539</u>	<u>2,614,100</u>
Investment in the U.S. AgBank	98,466	95,984	96,524	94,472
Investment in CoBank	9,287	9,136	9,136	8,764
Accrued interest receivable	46,843	37,786	28,264	22,811
Premises and equipment	20,181	21,135	21,132	16,671
Other Assets	9,766	11,989	4,301	7,222
Total Assets	<u>\$2,865,709</u>	<u>\$2,728,064</u>	<u>\$2,845,896</u>	<u>\$2,764,040</u>
<b>LIABILITIES</b>				
Note payable to U.S. AgBank	\$2,199,618	\$2,105,634	\$2,205,887	\$2,179,179
Funds Held Accounts	26,859	27,261	19,091	36,971
Accrued interest payable	9,706	7,362	8,394	5,955
Other liabilities	23,834	24,057	37,199	32,012
Total Liabilities	<u>\$2,260,017</u>	<u>2,164,314</u>	<u>\$2,270,571</u>	<u>\$2,254,117</u>
<b>MEMBERS' EQUITY</b>				
Common stock and participation certificates	\$3,194	\$3,289	\$3,279	\$3,682
Preferred stock	68,035	69,524	79,587	0,190
Unallocated retained earnings	534,463	490,937	492,459	456,051
Total Members' Equity	<u>605,692</u>	<u>563,750</u>	<u>575,325</u>	<u>509,923</u>
Total Liabilities and Members' Equity	<u>\$2,865,709</u>	<u>\$2,728,064</u>	<u>\$2,845,896</u>	<u>\$2,764,040</u>

## STATEMENT OF INCOME

	For the three months ended September 30		For the nine months ended September 30	
	2006	2005	2006	2005
Interest income	\$50,714	\$40,799	\$144,293	\$115,140
Interest expense	(29,871)	(19,974)	(83,284)	(54,656)
Net interest income	<u>20,843</u>	<u>20,825</u>	<u>61,009</u>	<u>60,484</u>
Other income	4,073	1,033	13,685	4,774
Reversal of Loan Loss Provision	(156)	2,652	818	4,860
Operating and other expenses	(11,102)	(11,053)	(34,725)	(33,285)
Income before taxes	13,658	13,457	40,787	36,833
Benefit (Provision) for income taxes	4,063	75	3,693	(254)
Net income	<u>\$17,721</u>	<u>\$13,532</u>	<u>\$44,480</u>	<u>\$36,579</u>



# American AgCredit, ACA

## CENTRAL REGION

**CORPORATE OFFICE**  
200 Concourse Boulevard  
Santa Rosa, CA 95403  
707/545-1200

**SANTA ROSA OFFICE**  
200 Concourse Boulevard  
Santa Rosa, CA 95403  
707/545-7100

**PETALUMA**  
1345 Redwood Way  
Petaluma, CA 94954  
707/793-9023

**ST. HELENA**  
1101 Vintage Avenue  
St. Helena, CA 94574  
707/963-9437

**UKIAH**  
455 E. Gobbi Street  
Ukiah, CA 95482  
707/462-6531

## SALINAS REGION

**SALINAS**  
924 E. Blanco Road  
Salinas, CA 93901  
831/424-1756

## CENTRAL VALLEY REGION

**LOS BANOS**  
515 J Street  
Los Banos, CA 93635-4212  
209/826-0320

**MERCED**  
711 W. 19<sup>th</sup> Street  
Merced, CA 95340-4606  
209/384-1050

**OAKDALE**  
700 N. Yosemite  
Oakdale, CA 95361-2629  
209/847-0353

**TURLOCK**  
3201 W. Monte Vista Avenue  
Turlock, CA 95380-3936  
209/667-5101

## NORTHERN REGION

**EUREKA**  
5560 South Broadway  
Eureka, CA 95503  
707/445-8871

## SOUTHERN CALIFORNIA REGION

**INDIO**  
83-057 Requa Avenue  
Indio, CA 92201-4631  
760/342-4726

**ESCONDIDO**  
960 Canterbury Place, Suite 210  
Escondido, CA 92025  
760/746-5055

**ONTARIO**  
1910 S. Archibald Ave., Suite U-101  
Ontario, CA 91761-8565  
909/947-2371

**RIVERSIDE**  
5005 Canyon Crest Drive  
Riverside, CA 92507-6096  
951/781-8100

## STOCKTON REGION

**STOCKTON**  
3984 Cherokee Road  
Stockton, CA 95215  
209/931-3770

## INTERMOUNTAIN REGION

**RENO**  
255 W. Peckham Lane  
Reno, NV 89509  
775/825-7282

**ALTURAS**  
403 E. Hwy 395  
Alturas, CA 96101  
530/233-4304

**ELKO**  
978 Commercial Street  
Elko, NV 89801  
775/738-8496

**FALLON**  
1440 W. Williams Avenue  
Fallon, NV 89406  
775/423-3136

**TULELAKE**  
356 Main Street  
Tulelake, CA 96134  
530/667-4236

**YREKA**  
809 Fourth Street  
Yreka, CA 96097  
530/842-1304

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Santa Rosa, CA 95403

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