ANNUAL INFORMATION STATEMENT — 2005

Farm Credit System

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, New Jersey 07302
(201) 200-8000

March 1, 2006

(This page intentionally left blank)

This annual information statement provides important information for investors in the debt securities jointly issued by the five Farm Credit System Banks — AgFirst Farm Credit Bank, AgriBank, FCB, CoBank, ACB, Farm Credit Bank of Texas, and U.S. AgBank, FCB (collectively, the Banks). These debt securities, which we refer to as Systemwide Debt Securities, include:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, and
- any other debt securities that the Farm Credit System Banks may jointly issue from time to time.

This annual information statement does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the Banks pursuant to offering circulars for each type of debt offering. The relevant offering circulars as of this date are:

- Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated June 18, 1999, as amended by supplements dated August 20, 2001 and November 26, 2003, and
- Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001.

Each of the offering circulars may be amended or supplemented from time to time and new offering circulars may be issued. Before purchasing Systemwide Debt Securities, you should carefully read the relevant offering circular, this annual information statement and other current information released by the Funding Corporation regarding the Banks and/or Systemwide Debt Securities. At this time, no Systemwide Debt Securities are being offered under the Federal Farm Credit Banks Global Debt Program Offering Circular dated October 10, 1996 or the Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by the supplement dated June 11, 1999. No securities previously offered under the Global Debt Offering Circular or the Master Notes Offering Circular are currently outstanding.

Systemwide Debt Securities are the joint and several obligations of the Banks and are not obligations of and are not guaranteed by the United States government. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material.

Certification

The undersigned certify that the Federal Farm Credit Banks Funding Corporation has policies and procedures in place to ensure, to the best of the knowledge and belief of management and the Board of Directors of the Federal Farm Credit Banks Funding Corporation, that the information contained in this annual information statement is true, accurate, and complete.

F.A. Lowrey
Chairman of the Board

Jamie B. Stewart, Jr.
President and CEO

TABLE OF CONTENTS

	Page
Five-Year Summary of Selected Combined Financial Data and Key Financial Ratios	3
Business	5
Federal Regulation and Supervision of the Farm Credit System	15
Description of Systemwide Debt Securities	19
Risk Factors	22
Other Business Matters	24
Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Index to Combined Financial Statements and Supplemental Combining and Financial Information	F-1
Index to Supplemental Information	S-1

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and financial press releases for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Systemwide Debt Securities, are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available on the Funding Corporation's website located at www.farmcredit-ffcb.com.

In addition, copies of quarterly and annual reports of each Bank and, as applicable, each Bank combined with its affiliated Associations (collectively referred to as a District), may be obtained from the individual Bank. Bank addresses and telephone numbers where copies of these documents may be obtained are listed on page S-26 of this annual information statement. These documents and further information on each Bank and/or District and links to a Bank's affiliated Associations are also available on each Bank's website as follows:

- AgFirst Farm Credit Bank – www.agfirst.com
- AgriBank, FCB – www.agribank.com
- CoBank, ACB – www.cobank.com
- Farm Credit Bank of Texas – www.farmcreditbank.com
- U.S. AgBank, FCB – www.usagbank.com

Information contained on these websites is not incorporated by reference into this annual information statement and you should not consider information contained on these websites to be part of this annual information statement.

FIVE-YEAR SUMMARY OF SELECTED COMBINED FINANCIAL DATA AND KEY FINANCIAL RATIOS

The following selected combined financial data for each of the five years in the period ended December 31, 2005 has been derived from the combined financial statements of the Farm Credit System that were audited by PricewaterhouseCoopers LLP, independent auditors. The selected combined financial data and combined financial statements of the Farm Credit System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Farm Credit System Financial Assistance Corporation, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned jointly by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. Combined financial statements are presented because System entities are financially and operationally interdependent, and therefore, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations). While this annual information statement reports on the combined financial position and results of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for payments on Systemwide Debt Securities. As an important component of the System combined financial statements, Note 21 to the accompanying combined financial statements provides the financial condition and results of operations of the combined Banks. Copies of quarterly and annual reports of each Bank are available on its website; see page 2 for a listing of the websites.

The combined statement of condition at December 31, 2005 and 2004 and the related combined statements of income, of changes in capital, and of cash flows for each of the three years in the period ended December 31, 2005 and related notes appear elsewhere in this annual information statement.

	2005	2004	2003	2002	2001
			(in millions)		
Combined Statement of Condition Data					
Loans	$106,272	$ 96,367	$ 92,790	$ 89,722	$ 82,644
Allowance for loan losses	(755)	(792)	(2,075)	(2,101)	(2,079)
Net loans	105,517	95,575	90,715	87,621	80,565
Cash, Federal funds sold and investments	28,427	24,164	21,287	18,158	15,653
Accrued interest receivable	1,405	1,116	1,025	1,096	1,192
Other property owned	16	24	41	49	51
Total assets	139,886	124,850	116,894	110,647	100,810
Systemwide bonds, medium-term notes and master notes	100,868	88,839	83,603	74,633	63,154
Systemwide discount notes	11,851	10,268	10,639	14,793	17,593
Other bonds	857	898	743	779	817
Financial Assistance Corporation bonds		325	325	775	775
Mandatorily redeemable preferred stock	225	225	225	226	226
Protected borrower stock	17	23	28	36	44
Total liabilities	117,112	103,461	97,971	93,332	84,585
Capital	22,774	21,389	18,923	17,053	15,955
Combined Statement of Income Data					
Net interest income	$ 3,246	$ 2,994	$ 2,919	$ 2,822	$ 2,656
Loan loss reversal (provision for loan losses)	1	1,208	(99)	(144)	(190)
Net noninterest expense	(1,056)	(1,014)	(864)	(792)	(714)
Income before income taxes	2,191	3,188	1,956	1,886	1,752
(Provision for) benefit from income taxes	(95)	(195)	(131)	(113)	33
Net income	$ 2,096	$ 2,993*	$ 1,825	$ 1,773	$ 1,785

* Included in net income for 2004 were reversals of the allowance for loan losses of $1.167 billion, net of the related $95 million deferred tax expense. For additional information, see "Accounting Related to the Allowance for Loan Losses" on page 29.

Combined Key Financial Ratios

Certain combined key financial ratios of the System are outlined below.

	2005	2004	2003	2002	2001
Return on average assets	1.61%	2.48%*	1.61%	1.69%	1.83%
Return on average capital	9.43	15.10*	10.20	10.55	11.69
Net interest income as a percentage of average earning assets	2.58	2.56	2.65	2.78	2.82
Net loan charge-offs as a percentage of average loans	0.04	0.08	0.14	0.14	0.09
Allowance for loan losses as a percentage of loans outstanding at year end	0.71	0.82	2.24	2.34	2.52
Capital as a percentage of total assets at year end	16.3	17.1	16.2	15.4	15.8
Risks funds (capital plus allowance for loan losses) as a percentage of loans outstanding at year end	22.1	23.0	22.6	21.3	21.8
Debt to capital at year end	5.14:1	4.84:1	5.18:1	5.47:1	5.30:1

* Included in the calculation of 2004 returns on average assets and average capital were reversals of the allowance for loan losses. Excluding the reversals of the allowance for loan losses, net of the related tax effect, the return on average assets would have been 1.52% and the return on average capital would have been 9.21%.

BUSINESS

Overview of the Farm Credit System

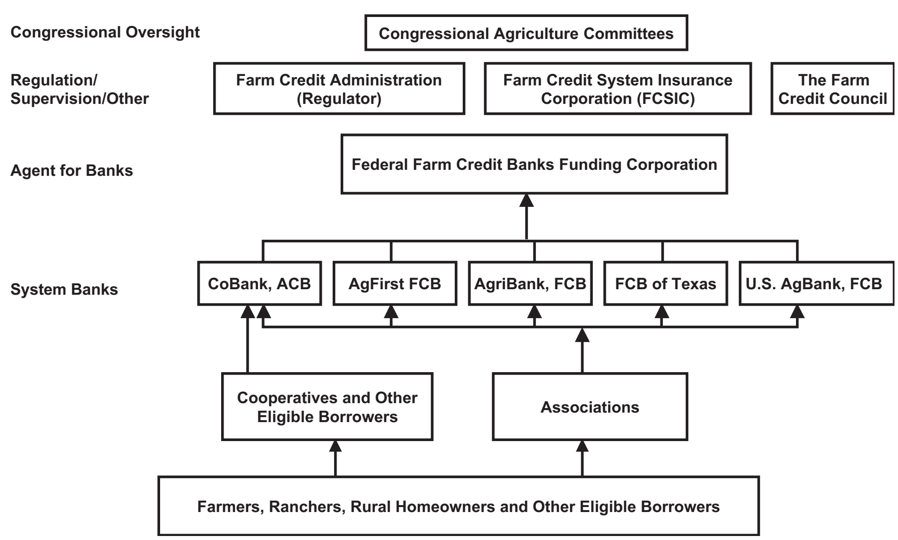
The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperative's products, supplies or services. The first System institutions were created in 1916. Our mission is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. We do this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses.

Consistent with our mission of serving rural America, we also make loans for the purchase of rural homes, to finance rural communication, energy and water infrastructures, to support agricultural exports, and to finance other eligible entities.

Congress established the Farm Credit Administration as the System's independent federal regulator to examine and regulate System institutions, including their safety and soundness. System institutions are federal instrumentalities.

Structure/Ownership of the Farm Credit System

The following chart depicts the overall structure and ownership of the System.



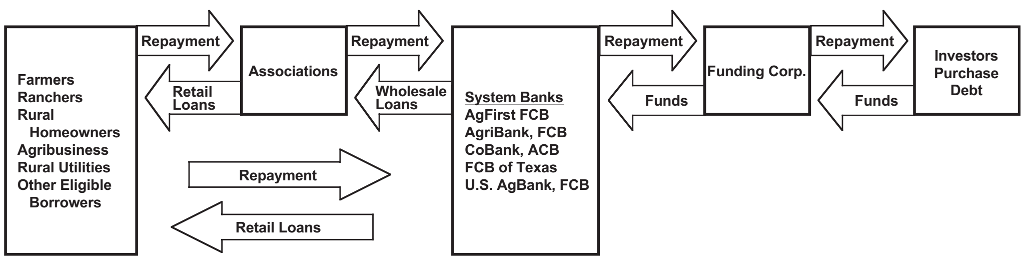
The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank, Texas and U.S. AgBank) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. The Banks and Associations each have their own board of directors and are not commonly owned. Each Bank and Association manages and controls its own business activities, operations and financial performance. The Banks jointly own the Federal Farm Credit Banks Funding Corporation. The Funding Corporation, as agent for the Banks, issues and markets Systemwide Debt Securities in order to raise funds for the lending activities and operations of the Banks and Associations. The Funding Corporation also provides the Banks with certain consulting, accounting and financial reporting services, including the preparation of the System's quarterly and annual information statements and the combined financial statements contained in those information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities.

Our Business Model

Each Bank and its affiliated Associations are financially and operationally interdependent as the Banks are statutorily required to serve as an intermediary between the financial markets and the retail lending activities of their affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits. Associations may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. As a result, the loans made by the Associations are substantially funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural utilities, and other eligible borrowers, and the Banks purchase retail loan participations from Associations and other lenders, including other System Banks. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these retail borrowers to repay their loans.

The chart below illustrates the flow of funds provided to our borrowers by investors and how these funds are ultimately repaid to investors.



Overview of Our Business

As required by the Farm Credit Act, we specialize in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with international agricultural trade transactions. We make credit available in all 50 states, the Commonwealth of Puerto Rico and U.S. territories.

System institutions may also provide a variety of services to their borrowers, including credit and mortgage life insurance, disability insurance, various types of crop insurance, estate planning, record keeping services, tax planning and preparation, cash management, and consulting. In addition, some System institutions provide leasing and related services to their customers.

Government-Sponsored Enterprise Status

Our mission is to provide sound and dependable credit to American farmers, ranchers, farm-related businesses, rural homeowners, and producers or harvesters of aquatic products by making loans and providing financially related services. In order to better accomplish our mission, Congress has granted the System certain attributes that result in government-sponsored enterprise status for the System. As a government-sponsored enterprise, we have been able to raise funds at competitive rates and terms, in varying economic environments. This ability to raise funds has allowed us to make competitively priced loans to eligible borrowers and thus accomplish our mission.

Agricultural Industry Overview

The agricultural sector has historically been a key economic force in the U.S. economy and is strongly affected by domestic and world economic conditions. The System was created to provide support for this sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The receipt of government payments by the agricultural sector enhances farm income. These payments are typically made to producers of certain commodities. Profitability in our business is dependent on the health of the U.S. agricultural sector and government support is very important for producers of some commodities. Further, in view of the importance of off-farm income to the repayment ability of many agricultural producers, our business is also dependent on the health of the general economy.

System Lending Institutions

The two types of entities through which we conduct our lending business are the Banks and the Associations. As noted above, the Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank, Texas and U.S. AgBank) are cooperatives owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations.

Banks

At December 31, 2005, the System had five Banks (four Farm Credit Banks and one Agricultural Credit Bank). The Banks and their affiliated Associations are referred to as Districts. The Farm Credit Banks lending operations include wholesale loans to their affiliated Associations and loan participations. Loan participations are those loans purchased from Associations, System Banks and other lenders. CoBank has additional nationwide authority to lend to cooperatives and other eligible entities. CoBank's lending operations include wholesale loans to its affiliated Associations, retail loans to cooperatives and other eligible borrowers and loan participations.

The Banks obtain a substantial majority of funds for their lending operations through the issuance of Systemwide Debt Securities, but also obtain some of their funds from internally generated earnings and from the issuance of equities.

Over the last several years, the number of Banks has been reduced through mergers. On October 1, 2003, Western Farm Credit Bank and the Farm Credit Bank of Wichita merged to form U.S. AgBank, FCB. On January 1, 2003, AgAmerica, FCB merged with AgriBank, FCB. As part of the transaction, one of AgAmerica's two affiliated Associations, Northwest Farm Credit Services, ACA, re-affiliated with CoBank.

Associations

At December 31, 2005, the System had 96 Associations throughout the nation. There were 85 Agricultural Credit Associations with Production Credit Association subsidiaries and Federal Land Credit Association subsidiaries, and 11 Federal Land Credit Associations. The Federal Land Credit Associations make real estate mortgage loans. Agricultural Credit Associations may, directly or through their subsidiaries, make production agriculture loans (real estate mortgage loans, and production and intermediate-term loans), agribusiness loans (processing and marketing loans, and farm related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. Associations may also purchase loan participations from other System entities and other lending institutions.

Although the Associations obtain some of the funds for their lending operations from internally generated earnings and from the issuance of equities, the substantial majority of their funding is obtained through borrowings from their affiliated Bank.

Districts

The following table lists the five System Districts and provides information about the asset size and the loan portfolio size of each District as of December 31, 2005.

District	Assets	Loans
	(in millions)	
AgFirst	$22,775	$16,172
AgriBank	45,912	36,601
Texas	13,219	10,220
U.S. AgBank	21,451	16,781
CoBank	35,096	27,466

Products and Services

Loans by Banks

The Farm Credit Banks lend to the Associations in their District and, to a much lesser extent, other eligible financial institutions relating to their agricultural loan portfolios (e.g., national or state banks, trust companies, savings institutions or credit unions). They also purchase participations in loans made by the Associations, other System Banks and non-System lenders to eligible borrowers or certain entities whose operations are functionally similar to those of an eligible borrower.

CoBank also may make the following types of loans:

- Agribusiness loans to cooperatives — primarily to finance the operations of farmer-owned cooperatives,
- Communication loans — primarily to finance rural communication companies,
- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas,
- Water and waste disposal loans — primarily to finance water and waste disposal systems serving rural areas, and
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

These lending authorities are subject to certain limitations and criteria. The other Banks and the Associations may also participate in any loan originated or purchased by CoBank. CoBank may participate with other System institutions in loans that the originating System institution is authorized to make and with non-System institutions in authorized loans.

Loans by Associations

The Associations offer the following types of loans to their borrowers:

- ■ Production agriculture loans include the following:
    - Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, or construct various facilities used in agricultural operations. These loans have maturities ranging from five to 40 years and must be secured by first liens on the real estate. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage.
    - Production and intermediate-term loans — for operating funds, equipment and other purposes. Eligible financing includes operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans are most often written for a period of time that matches the borrower's normal production and marketing cycle, on a short-term basis, typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are written for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.
- ■ Agribusiness loans made by Associations include the following:
    - Processing and marketing loans — to finance the operations to process and market the products produced by the cooperatives.
    - Farm-related business loans — loans to eligible borrowers that furnish farm-related business services to farmers or ranchers directly related to their agricultural production.

- Rural residential real estate loans — to purchase a rural residence where the population is less than 2,500 persons, building, remodeling, improving, or repairing rural homes and the refinancing of existing debt.

Associations may also purchase participations in loans made by other Associations, System Banks and non-System lenders to eligible borrowers or certain entities whose operations are functionally similar to those of an eligible borrower.

Loan Interest Rate and Prepayment Features

Depending on the purpose of the loan, its repayment terms and the creditworthiness of the borrower, several interest rate and prepayment features may be available for a loan. With variable rate loans, the rate varies based upon a number of factors, such as cost of funds and competitive pricing information, while indexed variable rate loans are tied solely to an external index such as the London InterBank Offered Rate (LIBOR) or the prime rates charged by certain commercial banks (Prime). Adjustable rate loans may be fixed for a period of time and adjusted periodically by predetermined amounts linked to an index or administered by the lending institution. The interest rate on an administered-rate loan may be adjusted periodically on a basis internally determined by the lending institution. In addition, adjustable and variable rate loans may have an adjustment rate cap for each period as well as for the life of the loan. A fixed rate loan provides for a stable interest rate and will not change for the fixed term of the loan, regardless of fluctuating market conditions.

A range of prepayment options exists on fixed, adjustable, and variable rate loans. These options range from the loans being fully prepayable at no added cost to the borrower to loans with "make-whole" prepayment provisions, i.e., the borrower's payment is increased to cover the anticipated loss from the residual higher-cost funding that can occur as a result of the prepayment.

Investments in Rural America

In addition to making loans to accomplish the System's congressionally mandated mission to finance agriculture and rural America, the Banks and Associations may make investments in rural America to address the diverse needs of agriculture and rural communities across America. The Farm Credit Administration approves these investments on a program or a case-by-case basis. Examples of investment programs that the Farm Credit Administration will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

Financially Related Services

System institutions also provide a variety of products and services to their borrowers designed to minimize certain risks, including crop production and income losses due to weather and market conditions. Products and services provided by certain System institutions include:

- credit and mortgage life or disability insurance developed specifically for System borrowers to protect the repayment of loan obligations,
- various types of crop insurance covering specific risks (e.g., against hail, fire, or lightning) and multi-peril crop insurance to protect against unpredictable weather and volatile markets in a combination of yield and revenue based products,
- livestock risk protection that provides revenue protection during unpredictable declines in the livestock industry,
- estate planning, record keeping, and tax planning and preparation,
- fee appraisal services, and
- cash management and other related services to allow borrowers to more effectively manage their financial positions.

The Banks and Associations make the above insurance available through private insurers.

In addition, certain System institutions provide leasing and related services to their customers that include a broad spectrum of lease options tailored to the borrower's unique financial needs.

Customers

Our borrowers consist of farmers, ranchers, producers and harvesters of aquatic products, agricultural cooperatives, eligible rural communications and energy companies, rural homeowners and other eligible entities, including other financial institutions (e.g., national or state banks, trust companies, savings institutions or credit unions).

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio at the System level is diversified by commodity and geographic locations. At December 31, 2005, on a combined basis, only loans to borrowers raising livestock, other than poultry and dairy, equaled or exceeded 10% of the System's total assets and was less than 15% of the System's total assets. However, due to the geographic territories served by individual Banks and Associations, most System institutions have higher concentrations of certain types of loans or commodities than does the System as a whole.

As part of our mission, we have established policies and programs for furnishing sound and constructive credit and related services to young, beginning, and small farmers and ranchers. A summary of these activities can be found in the Supplemental Financial Information on pages F-47 and F-48.

In accordance with the Farm Credit Act, each borrower, as a condition of borrowing, is generally required to invest in capital stock or participation certificates (non-voting equity investment) of the Association or Bank that originates the loan. The initial investment requirement may vary by Association or Bank with the minimum being the statutory minimum amount of 2% of the loan amount or one thousand dollars, whichever is less. The different classes of capital stock and participation certificates and the manner in which capital stock and participation certificates are issued, retired and transferred are set forth in the respective Bank's or Association's bylaws. The Bank or Association generally has a first lien on the capital stock and participation certificates as collateral for the repayment of the borrower/stockholder loan. For a more detailed discussion of these requirements, see Note 13 to the System's combined financial statements contained in this annual information statement.

Loan Underwriting Standards

Credit risk arises from the potential inability of a borrower to meet a repayment obligation. This credit risk is managed at both the Association and Bank levels. Farm Credit Administration regulations require that collateral be posted for real estate mortgage loans and some production loans in order to provide security on these loans. System institutions are required to adopt written standards for prudent lending and effective collateral evaluation.

Underwriting by Associations

The Associations manage credit risk through the use of underwriting standards, borrower assessments and portfolio management techniques. When making a loan, the Associations consider many factors about the borrower and apply certain underwriting standards to the lending process. The factors considered in the underwriting process include borrower integrity, credit history, cash flows, equity, and collateral, as well as other sources of loan repayment, loan pricing and an evaluation of management and board of directors, if applicable. Additionally, many borrowers have off-farm sources of income that enhance their debt repayment capacity. Other factors that may impact the risk profiles of the lending businesses of Associations include urban and recreational influences on real estate values, and vertical integration, which tend to reduce farm income volatility at the producer level.

To mitigate credit risk, each Association establishes "lending limits," which represent the maximum amount of credit that can be extended to any one borrower or industry. Further, in some instances, portfolio risk is managed through the purchase and sale of loan participations with other lenders in order to diversify the portfolio by borrower, commodity and geography.

Underwriting by Banks

The Banks also employ risk management practices when making wholesale loans to their affiliated Associations and to retail borrowers. With respect to retail lending, the Banks manage credit risk through the use of underwriting standards, borrower assessments and portfolio management techniques. Similar to the Associations, when making a loan, they consider many factors about the borrower and apply certain underwriting standards to the lending process. The factors considered, and underwriting standards utilized, include borrower earnings, cash flows, equity, and collateral, as well as loan pricing and an evaluation of management and board of directors, if applicable.

In the case of wholesale loans to Associations, the assets of the Association secure the Bank's loan to the Association and the lending terms are specified in a general financing agreement between each

Association and its affiliated Bank. These financing agreements typically include:

- measurable, risk-based covenants,
- collateralization of the loan by all Association assets,
- the Bank's prior approval of certain loans made by Associations,
- a defined borrowing base calculation or maximum loan amount,
- a prohibition against other borrowings without Bank approval, and
- loan rates tied to financial performance.

Competition

The System competes with other lenders, including local, regional, national and international commercial banks, insurance companies, manufacturers and suppliers, captive finance companies of manufacturers and suppliers and, increasingly, nontraditional lenders, e.g., fixed-income mutual funds. Competition varies throughout the nation. System charters and regulations impose geographic and authority limitations on System institutions that may not be imposed on competitors. Through their ability to accept deposits and their access to capital markets, commercial banks may also have access to competitively priced funds for their lending activities.

Competition is also a consideration in connection with the issuance of Systemwide Debt Securities. In addition to securities issued by the United States Treasury, we compete with Fannie Mae, Freddie Mac, the Federal Home Loan Banks and other federal government-sponsored enterprises for funds raised through the issuance of unsecured debt in the debt markets. Increases in the issuance of debt by other government-sponsored enterprises could cause us to issue our debt at higher interest rates than would otherwise be the case.

Federal Farm Credit Banks Funding Corporation

As agent for the Banks, the Funding Corporation issues, markets, and handles Systemwide Debt Securities. The Funding Corporation, which was established by the Farm Credit Act, is owned by the Banks. The board of directors of the Funding Corporation is defined by statute and is comprised of nine voting members: four current or former Bank directors and three Bank chief executive officers or presidents elected by the Banks, and two additional voting members appointed by the other members of the board of directors after receiving recommendations from and consulting with the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System. The additional members cannot be affiliated with the System or our regulator and cannot be actively engaged with a member of the group of investment banks and dealer banks involved in selling Systemwide Debt Securities. The president of the Funding Corporation serves as a non-voting member of the Funding Corporation's board of directors. The board of directors of the Funding Corporation also serves as the board of directors of the Farm Credit System Financial Assistance Corporation. For a detailed discussion of the Financial Assistance Corporation, see "Business — Farm Credit System Financial Assistance Corporation" below.

Located in the metropolitan New York City area, the Funding Corporation utilizes a selling group of 32 investment banks and dealer banks, at December 31, 2005, to sell Systemwide Debt Securities. The Funding Corporation selling group distributes Systemwide Debt Securities on a worldwide basis to investors, including commercial banks, states, municipalities, pension and money-market funds, insurance companies, investment advisors, corporations and foreign banks and governments. In addition, the Funding Corporation assists the Banks with respect to a variety of asset/liability management and certain specialized funding activities.

The Funding Corporation, subject to Farm Credit Administration approval, is responsible for determining the amounts, maturities, rates of interest, and terms of each issuance of Systemwide Debt Securities and for establishing conditions of participation in the issuances of Systemwide Debt Securities by the Banks. In this regard, the Funding Corporation and all of the Banks have entered into the Amended and Restated Market Access Agreement. For a detailed discussion of the Market Access Agreement, see "Description of Systemwide Debt Securities — Agreements Among Certain System Institutions — Market Access Agreement" below.

The Funding Corporation also provides the Banks with certain consulting, accounting, and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in the quarterly and annual information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System as a whole.

Farm Credit System Financial Assistance Corporation

The Financial Assistance Corporation was created in 1988 by Congress, as an institution of the System and a federally chartered instrumentality of the United States, to carry out a temporary program of financial assistance to System institutions that were experiencing financial difficulty. The Financial Assistance Corporation funded its activities through the issuance of $1.261 billion in principal amount of Financial Assistance Corporation U.S. Treasury-guaranteed bonds. The last outstanding bonds matured and were repaid on June 10, 2005 and additional bonds can not be issued.

As provided in the Farm Credit Act, the Financial Assistance Corporation must be dissolved by June 2007.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac, which is statutorily defined as an institution of the System and is examined and regulated by the Farm Credit Administration, provides secondary marketing arrangements, certifies marketing facilities in order to promote a secondary market for agricultural and rural home mortgage loans that meet certain underwriting standards, and is authorized to be a direct pooler of farm mortgage loans. Farmer Mac is owned by both System and non-System entities and its board of directors has both System and non-System representation. Other than the contractual obligations arising from business transactions between Farmer Mac and certain System institutions, Farmer Mac is not liable for any debt or obligation of any other System institution and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac. Accordingly, the financial information of Farmer Mac is not included in the combined financial statements of the System.

Some System institutions have entered into agreements with Farmer Mac that are intended to reduce their credit risk and/or manage their capital positions. These agreements are commonly referred to as long-term standby commitment to purchase agreements. Under these agreements, System institutions hold the loans in their portfolio and pay fees to Farmer Mac in return for the right to "put" those loans at par to Farmer Mac in the event the loans become and remain delinquent for a specified period (typically four months). If the borrower cures the default, the System institution must repurchase the loan and the guarantee remains in place. System institutions may also securitize mortgage loans by exchanging the loans for Farmer Mac mortgage-backed securities.

The Farm Credit Council

The Farm Credit Council is a federal trade association representing the System before Congress, the Executive Branch and others. The Council provides the mechanism for member "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System.

Governance

Boards of Directors

Each Bank and Association has a separate board of directors that oversees the management of the Bank or the Association. The board of directors of a Bank or an Association is primarily comprised of directors elected by the stockholders. In addition, each board contains at least one outside director as required by the Farm Credit Act and may include directors appointed by the stockholder-elected directors. The boards of directors represent the interests of the stockholders of their particular institution. Each board of directors performs the following functions, among others:

- selects, compensates and evaluates the chief executive officer,
- approves the strategic plan and annual operating plans and budget,
- advises management on significant issues facing the institution, and
- oversees the financial reporting process, communications with stockholders and the institution's legal and regulatory compliance.

Each Bank and Association also has an audit committee as well as other board level committees. In addition, the Funding Corporation has a board of directors that performs the same functions for the Funding Corporation as discussed above.

Presidents' Planning Committee

The Presidents' Planning Committee is comprised of the chief executive officer or president of each Bank, one Association from each District, the Funding Corporation, The Farm Credit Council and certain other large Associations. The Presidents' Planning Committee serves in a management coordination capacity for the System and provides a key advisory role in the System's decision-making process.

The Presidents' Planning Committee has certain broad responsibilities including:

- establishing and advancing strategic direction,
- identifying and analyzing business opportunities,
- providing advice and recommendations on legislative and regulatory issues, and
- improving communications within the System and with the System's various stakeholders and external entities.

The Presidents' Planning Committee carries out these responsibilities with the objective of promoting and protecting the System's core values and strengths. Subcommittees of the Presidents' Planning Committee include: the Executive Committee, the Risk Management Committee, the Finance Committee, and the Regulatory, Legislative and Public Relations Committee. These committees aid System communication and promote the sharing of best practices. The committees actively engage in discussions about topics where common action is needed by the System.

System Audit Committee

The board of directors of the Funding Corporation has established a System Audit Committee and adopted a written charter for the Committee. The System Audit Committee is composed of five members — one of the Funding Corporation's outside directors, two Bank or Association directors, and two persons not otherwise affiliated with the System. Under the charter, the Funding Corporation's board of directors selects all members of the System Audit Committee and appoints the chairman and vice chairman. A copy of the charter is available on the Funding Corporation's website at www.farmcredit-ffcb.com.

The System Audit Committee reports to the board of directors of the Funding Corporation. The responsibilities of the System Audit Committee include, among other things:

- the oversight of the Funding Corporation's system of internal controls related to the preparation of the System's quarterly and annual information statements,
- the integrity of the System's quarterly and annual information statements,
- the review and assessment of the impact of accounting and auditing developments on the System's combined financial statements,
- the review and assessment of the impact of accounting policy changes related to the preparation of the System's combined financial statements,
- the appointment, compensation, retention and oversight of the System's independent auditors,
- the pre-approval of allowable non-audit services at the System level,
- the establishment and maintenance of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters at the System level and for the confidential, anonymous submission of concerns regarding questionable System accounting, internal accounting controls or auditing matters,
- the receipt of various reports from Funding Corporation management on internal controls, off-balance sheet arrangements, critical accounting policies, and material alternative accounting treatments,
- the review and approval of the scope and planning of the annual audit by the System's independent auditors,
- the approval of policies and procedures for the preparation of the System's quarterly and annual information statements, and
- the review and approval of the System's quarterly and annual financial press releases and information statements, after discussions

with management and the independent auditors.

Internal Control Over Financial Reporting

To enhance our governance and internal controls, the System has voluntarily implemented policies and procedures to assess the System's internal control over financial reporting. The System's management is responsible for establishing and maintaining internal control over financial reporting and the Funding Corporation's management has assessed the effectiveness of the System's internal control over financial reporting as of December 31, 2005. The Funding Corporation's management has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* to assess the effectiveness of internal control over financial reporting and has included this report on the assessment on page F-2 of this information statement.

The System has also engaged PricewaterhouseCoopers LLP, the System's independent auditors, to perform attestation services relative to management's assessment of the effectiveness of the System's internal control over financial reporting and to opine on the effectiveness of these controls based on their audit. Their report can be found on page F-3.

Code of Ethics

Each Bank and the Funding Corporation have adopted codes of ethics that apply to their chief executive officers, certain other executives, and senior professionals in the finance and accounting areas who are involved with the preparation of the System's financial statements and the maintenance of the financial records supporting the financial statements.

A copy of the Funding Corporation's code of ethics related to the preparation of the System's quarterly and annual information statements can be accessed on the Funding Corporation's website at www.farmcredit-ffcb.com. The Funding Corporation will disclose material amendments to or any waivers from a required provision of the code of ethics for any individual covered by the code of ethics by including that information in future information statements. No such waivers or amendments were made in 2005. Each Bank's code of ethics includes similar content and can be accessed through the Bank's website listed on page 2.

Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

Each Bank and the Funding Corporation have adopted employee complaint procedures for accounting, financial reporting, internal accounting controls, or auditing matters. These procedures allow employees to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

Employees

The number of personnel employed by the System on a full-time equivalent basis was 10,795 at December 31, 2005, up from 10,498 at December 31, 2004 and 10,363 at December 31, 2003.

Properties

As of December 31, 2005, AgFirst owned its corporate office in Columbia, South Carolina and U.S. AgBank owned its corporate office in Wichita, Kansas. The other three Banks each leased their respective corporate offices. In addition, AgFirst owned additional buildings in Columbia, South Carolina. The Banks leased other offices throughout the country and, in the case of CoBank, internationally. The Associations owned or leased various offices in locations throughout the United States and Puerto Rico. The Funding Corporation leased office space in Jersey City, New Jersey.

As authorized by the Farm Credit Act, the Farm Credit Administration occupies buildings and uses land owned and leased by the Farm Credit System Building Association, an entity jointly owned by the Banks. The headquarters for the Farm Credit Administration is located in McLean, Virginia.

FEDERAL REGULATION AND SUPERVISION OF THE FARM CREDIT SYSTEM

The following summaries of certain provisions of the Farm Credit Act, the Farm Credit Administration regulations and the Farm Credit System Insurance Corporation regulations should not be viewed as complete and are qualified in their entirety by reference to the provisions of the Farm Credit Act and these regulations.

Farm Credit Administration

As a federally chartered network of lending institutions and related service organizations that performs a public policy function, the System is subject to Congressional legislation and oversight. The Farm Credit Administration, an independent federal regulatory agency, has jurisdiction over System institutions. A three-member full-time board appointed by the President of the United States with the advice and consent of the Senate manages the Farm Credit Administration.

The Farm Credit Administration examines each System institution not less than once during each 18-month period. The examinations may include analyses of credit and collateral quality, capitalization, earnings, interest rate risk, the effectiveness of management, and the application of policies in carrying out the Farm Credit Act, in adhering to the Farm Credit Administration regulations, and in serving eligible borrowers.

Further, the Farm Credit Act authorizes the Farm Credit Administration to take specified enforcement actions to ensure the safe and sound operations of System institutions and their compliance with the Farm Credit Act and Farm Credit Administration regulations. These enforcement powers include the power to:

- issue cease and desist orders,
- suspend or remove a director or an officer of a System institution, and
- impose specified civil money penalties for certain violations of the Farm Credit Act, Farm Credit Administration regulations or certain orders of the Farm Credit Administration.

The Farm Credit Administration did not take any enforcement actions against any of the Banks or Associations during 2005 and no enforcement actions were outstanding at December 31, 2005.

Farm Credit Administration Regulations

The Farm Credit Act authorizes, and in some instances requires, the Farm Credit Administration to issue regulations governing various operations of System institutions and subjects certain actions to the approval of the Farm Credit Administration. These regulations and approval requirements include the following:

Issuances of Systemwide Debt Securities

Under the Farm Credit Act, determinations by the Funding Corporation as to the amounts, maturities, rates of interest, terms, and conditions of participation by the Banks in each issuance of Systemwide Debt Securities are subject to Farm Credit Administration approval.

Lending Objective

In accordance with the Farm Credit Administration regulations, the lending objective of the System institutions is to provide full credit, to the extent of creditworthiness, to borrowers whose primary business is farming, ranching, or producing or harvesting aquatic products; conservative credit to less than full-time farmers and to rural homeowners; and more restricted credit for other credit requirements as needed to ensure a sound credit package or to accommodate a borrower's needs as long as the total credit results in being primarily an agricultural loan. System institutions are specifically prohibited from extending credit where investment in agricultural assets is primarily for speculative purposes.

Borrower Protections

The Farm Credit Act and/or the Farm Credit Administration regulations provide the following protections to most System institution borrowers:

- System institutions must provide borrowers with extensive disclosure-related information prior to loan closing and copies of appraisals, if any,
- System institutions must provide borrowers with access to a Credit Review Committee hearing on an adverse action taken on a loan application or a request for loan restructuring, if requested,

- borrowers have the right of first refusal to lease or repurchase any real estate acquired from them by a lender, and
- System institutions must protect the non-public personal information of their borrowers.

Bank Collateral Requirements

As a condition of a Bank's participation in the issuance of Systemwide Debt Securities, the Bank must maintain, free from any lien or other pledge, specified eligible assets (referred to in the Farm Credit Act as "collateral") at least equal in value to the total amount of outstanding debt securities of the Bank that are subject to the collateral requirement. These securities include Systemwide Debt Securities for which the Bank is primarily liable and investment bonds or other debt securities that the Bank has issued individually. The collateral must consist of notes and other obligations representing loans or real or personal property acquired in connection with loans made under the authority of the Farm Credit Act (valued in accordance with Farm Credit Administration regulations and directives), obligations of the United States or any agency thereof direct or fully guaranteed, other Farm Credit Administration-approved Bank assets, including marketable securities, or cash. These collateral requirements do not provide holders of Systemwide Debt Securities with a security interest in any assets of the Banks. The Banks may in the future issue Systemwide Debt Securities that are secured by specific assets.

Farm Credit Administration regulations require the Banks to maintain a net collateral ratio minimum of not less than 103% (as discussed in "Capital Adequacy" below). The Banks, however, manage their operations to achieve a higher net collateral ratio percentage. The net collateral ratio is net collateral (primarily assets) divided by liabilities. The net collateral ratio is much more restrictive than the debt issuance collateral requirement. Therefore, if the net collateral ratio minimum is met, the debt issuance collateral requirement is automatically met.

Capital Adequacy

Farm Credit Administration regulations require that the Banks and Associations achieve and maintain a permanent capital level of at least 7% of risk-adjusted assets. Risk-adjusted assets mean the total dollar amount of the System institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. In addition, these regulations require that:

- all Banks and Associations achieve and maintain a total surplus ratio of at least 7% of risk-adjusted assets and a core surplus ratio of at least 3.5% of risk-adjusted assets, and
- all Banks achieve and maintain a net collateral ratio of at least 103% of total liabilities.

Also, each System institution is required to adopt a written capital adequacy plan. The plan must include capital targets that are necessary to achieve the institution's capital adequacy goals as well as maintain the minimum permanent capital and surplus standards.

Accounting Requirements

Farm Credit Administration regulations require that each System institution prepare all financial statements in accordance with generally accepted accounting principles. The financial statements must be audited by qualified independent auditors on an annual basis.

Internal Controls

Farm Credit Administration regulations require that each System institution adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs, and resources.

Disclosure Obligations

The Banks, the Associations and the Funding Corporation must prepare and file with the Farm Credit Administration quarterly and annual reports that comply with Farm Credit Administration regulations:

- Each Bank and Association must prepare and provide to their shareholders an annual report within 90 days of the end of its fiscal year. The annual report must include, among other things, a description of the System institution's business, properties, capital structure, risk exposure, loan portfolio and financial performance. Each Bank and Association must prepare a quarterly report within 45 days after the end of each fiscal quarter. The quarterly reports update and supplement the last annual report, as necessary.

- The Funding Corporation must prepare and disseminate a System annual information statement for holders of Systemwide Debt Securities. The Funding Corporation must also prepare quarterly information statements that update and supplement the System's latest annual information statement, as necessary.

- Each Bank and the Funding Corporation (disclosure entities) are responsible for disclosure of information concerning the System to investors in Systemwide Debt Securities. The Banks are required to provide specified information to the Funding Corporation so that it can prepare the System information statements. Further, the Funding Corporation is required to establish a system of internal controls sufficient to reasonably ensure that any information it releases to investors or the general public is true, and that there are no omissions of material information.

- The appropriate officers and board members from each Bank, Association and the Funding Corporation must certify that the information contained in the quarterly and annual reports or information statements they prepare and file with the Farm Credit Administration is true, accurate and complete to the best of their knowledge and belief.

Withdrawal from the System

The Farm Credit Act permits a Bank or an Association to withdraw from the System to become chartered by a federal or state authority as a bank, savings association or other financial institution if certain restrictive requirements are met, including:

- adequate provision for the payment of all of the institution's obligations to other System entities,

- approval of the Farm Credit Administration Board,

- approval by the institution's stockholders, and

- payment by the institution to the Insurance Fund of an amount by which its total capital exceeds 6% of its assets.

Appointment of Conservator or Receiver

The Farm Credit Administration also has the exclusive authority to appoint a conservator or receiver for any System institution under circumstances specified in the Farm Credit Act and has promulgated regulations governing receiverships and conservatorships. The Farm Credit Act provides that the Insurance Corporation will serve as receiver or conservator of any System institution placed in receivership or conservatorship by the Farm Credit Administration and authorizes the Insurance Corporation to issue certain rules and regulations relating to its statutory authorities.

Farm Credit System Insurance Corporation

The Insurance Corporation is an independent U.S. government-controlled corporation and not under the control of any System institution. The Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. It also carries out various other responsibilities. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation. The chairman of the Insurance Corporation's board of directors must be someone other than the current chairman of the Farm Credit Administration Board.

Uses of the Farm Credit Insurance Fund

The Insurance Corporation is required to expend funds in the Insurance Fund, which can only be used for the benefit of the System, to:

- insure the timely payment of principal and interest on Systemwide Debt Securities, and

- ensure the retirement of protected borrower stock at par value ($17 million as of December 31, 2005).

Further, subject to the provisions of the Farm Credit Act, the Insurance Corporation, in its sole discretion, is also authorized to expend funds in the Insurance Fund to pay its operating expenses, to assist a financially stressed Bank or Association and to assist qualified merging institutions. The Insurance Corporation cannot provide this discretionary assistance to an institution unless the means of providing this assistance is the least costly of all possible alternatives to the Insurance Corporation.

The Insurance Corporation may also, in its discretion, make loans to or purchase, liquidate or sell any part of the assets of any Bank or Association that is placed in receivership because of the inability of the institution to pay the principal or interest on any of its notes, bonds, debentures, or other obligations in a timely manner.

Funding for the Farm Credit Insurance Fund

The Insurance Corporation's primary asset is the Insurance Fund and the primary sources of funds for the Insurance Fund are:

- the annual premiums paid by the Banks, which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

The annual premiums are based on a District's average retail loan volume, with 0.15% being the highest rate the Banks may be assessed on accrual loans. A higher rate of 0.25% may be assessed on nonaccrual loans, and lower rates may be charged on government guaranteed loans. The Insurance Corporation conducts a semi-annual review of insurance premium levels and adjusts the premium levels based on certain criteria. Furthermore, the Insurance Corporation, in its sole discretion, may reduce the annual premiums due from each Bank. Each Bank is authorized to assess its affiliated Associations and other financing institutions in order to pay the premiums.

Premiums are collected to maintain the Insurance Fund at the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans guaranteed by federal or state governments) or another percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. The Insurance Corporation has adopted a Policy Statement addressing the periodic determination of the secure base amount that is currently set at the 2% level.

When the Insurance Fund is at or above the 2% secure base amount, the Insurance Corporation is required to reduce premiums, as necessary, to maintain the Insurance Fund at the 2% level. In addition, the Insurance Corporation is required to establish allocated insurance reserve accounts for each Bank and an allocated insurance reserve account for Financial Assistance Corporation stockholders under certain circumstances. The Insurance Corporation has established a policy to allocate excess Insurance Fund balances above the secure base amount into these accounts. However, these reserve accounts remain part of the Insurance Fund, and, therefore, may be used for statutorily authorized Insurance Corporation purposes.

For additional information with respect to the Insurance Fund, see "Description of Systemwide Debt Securities — Repayment Protections" and Note 8 to the accompanying combined financial statements.

DESCRIPTION OF SYSTEMWIDE DEBT SECURITIES

General

The System obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities. Each issuance of Systemwide Debt Securities must be approved by the Farm Credit Administration and each Bank's participation is subject to: (1) the availability of specified eligible assets (referred to in the Farm Credit Act as "collateral" as previously described), (2) compliance with the conditions of participation as prescribed in the Amended and Restated Market Access Agreement, and (3) determinations by the Funding Corporation of the amounts, maturities, rates of interest, and terms of each issuance. Systemwide Debt Securities are issued pursuant to authorizing resolutions adopted by the boards of directors of each Bank and under the authority of the Farm Credit Act and the Farm Credit Administration regulations. The following summary descriptions of Systemwide Debt Securities should not be viewed as complete and are qualified in their entirety by reference to the offering circulars pertaining to the particular types of debt securities, the provisions of the Farm Credit Act and the Farm Credit Administration regulations.

Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities. For additional financial information with respect to the Banks, see Note 21 to the accompanying combined financial statements.

Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loans from the Bank. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the Farm Credit Administration regulations, with the System's other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the types of Systemwide Debt Securities listed on page 1 of this annual information statement. For a discussion of the various risks, tax and other considerations, and terms and conditions related to each of these types of securities, see the discussions in the offering circulars listed on page 1 of this annual information statement, each of which may be amended or supplemented from time to time.

Use of Proceeds

Net proceeds from sales of Systemwide Debt Securities are used by the Banks to fund their investment and loan portfolios (which primarily include loans to their affiliated Associations), to meet maturing debt obligations, and for other corporate purposes. The Banks anticipate that additional financing, including financing through various types of debt securities, will be required from time to time. The amount and nature of the financings depend on a number of factors, including the volume of the Banks' maturing debt obligations, the volume of loans made by and repaid to System institutions, and general market conditions.

Repayment Protections

General

While the repayment of Systemwide Debt Securities is the direct joint and several obligation of the Banks, there are several sources of funds in the System for the payment of interest and principal due on the securities. The underlying source of funds for the repayment of Systemwide Debt Securities is the System's borrowers, with each borrower having certain minimum levels of net worth and, in most cases, collateral posted in connection with loans made to the borrower. These borrowers make payments on their loans to the lending Bank or Association. The lending Associations in turn make payments on their wholesale loans to their affiliated lending Bank. Both the Banks, which ultimately repay Systemwide Debt Securities, and the Associations have substantial amounts of capital as further protection and sources of support for the repayment of the outstanding debt. Each Bank's ability to participate in a particular issue of Systemwide Debt Securities is regulated and monitored by the Farm Credit Administration. Furthermore, the Banks and the Funding Corporation have entered into the Amended and Restated Market Access Agreement that sets forth certain conditions of participation for the Banks, as described below.

If a Bank participating in an issue of Systemwide Debt Securities were unable to repay its portion of that security, the Insurance Fund would be required to make that payment. In the event the assets in the Insurance Fund were exhausted, the provisions of joint and several liability of all the Banks would be triggered, which means the financial resources of the other Banks would be called upon to repay the defaulting Bank's portion of the debt issuance.

Net Collateral Ratio

Farm Credit Administration regulations require each Bank to maintain a net collateral ratio minimum of not less than 103%, although the Banks manage their operations to achieve a higher net collateral ratio percentage. The net collateral ratio is net collateral (primarily assets) divided by liabilities. Also see "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Bank Collateral Requirements" above.

Capital Adequacy

Farm Credit Administration regulations require that each Bank and Association achieve and maintain permanent capital and certain surplus to assets ratios. In addition, the Banks are required to maintain a minimum net collateral to liabilities ratio, as well as develop a capital adequacy plan, each as described above in "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Capital Adequacy."

Agreements Among Certain System Institutions

In order to provide for mutual protection among the Banks with respect to their debt obligations, the Banks have voluntarily entered into integrated contractual agreements that contain certain financial covenants. These integrated agreements are the Amended and Restated Market Access Agreement and the Amended and Restated Contractual Interbank Performance Agreement. A copy of the Market Access Agreement and a summary of the Contractual Interbank Performance Agreement are available on the Funding Corporation's website located at www.farmcredit-ffcb.com.

Market Access Agreement — The Funding Corporation and the Banks have entered into the Market Access Agreement. The Market Access Agreement establishes criteria and procedures for the Banks that provide operational oversight and control over a Bank's access to System funding if the creditworthiness of the Bank declines below certain agreed-upon levels. If the criteria are not met, the Market Access Agreement may require the Bank to provide certain additional information and, under specified circumstances, restrict or prohibit an individual Bank's participation in issuances of Systemwide Debt Securities. The Market Access Agreement is designed to provide for the identification and resolution of individual Bank financial problems in a timely manner. The Agreement also discharges the Funding Corporation's statutory responsibility for determining conditions for each Bank's participation in each issuance of Systemwide Debt Securities. For additional discussion of the criteria and standards under the Market Access Agreement, and the resulting categories and restrictions if the standards are not met, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Structural Risk Management."

Contractual Interbank Performance Agreement (CIPA) — The Banks and the Funding Corporation have also entered into the CIPA. Under provisions of the CIPA, a CIPA score is calculated that measures the financial condition and performance of each District using various ratios that take into account the District's capital, asset quality, earnings, interest-rate risk and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each District must achieve and maintain. The CIPA also establishes economic incentives whereby monetary penalties are applied if the performance standard is not met.

Farm Credit Insurance Fund

The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other purposes. In the event of a default by a Bank on an insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until all amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the United States government.

Joint and Several Liability

The Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. If a Bank is unable to pay the principal or interest on a Systemwide Debt Security and if the amounts in the Insurance Fund have been exhausted, the Farm Credit Administration is required to make calls on all non-defaulting Banks to satisfy the liability. These calls would be in the proportion that each non-defaulting Bank's "available collateral" ("available collateral" is collateral in excess of the aggregate of the Bank's "collateralized" obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls were not sufficient to satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

Withdrawal from the System

The Farm Credit Act permits a Bank or Association to withdraw from the System if certain restrictive criteria are met, Farm Credit Administration regulations are followed, and Farm Credit Administration Board approval is received, as summarized above under "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Withdrawal from the System." Also see proposed regulations in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Matters."

Status in Liquidation

Farm Credit Administration regulations provide that in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities have claims against the Bank's assets, whether or not the holders file individual claims. The claims of these holders are junior to claims related to costs incurred by the receiver in connection with the administration of the receivership, claims for taxes, claims of secured creditors, and claims of holders of bonds, including investment bonds, issued by the Bank individually, to the extent the bonds are collateralized in accordance with the requirements of the Farm Credit Act. Further, claims of holders of Systemwide Debt Securities are senior to all claims of general creditors. If particular Systemwide Debt Securities were offered on a secured basis, the holders of these obligations would have the priority accorded secured creditors of the liquidating Bank. To date, the Banks have not issued secured Systemwide Debt Securities.

Contingency Funding Program

The Banks have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems. Under this program, in addition to directly issuing Systemwide Debt Securities to certain select institutional investors, the Banks may also incur other obligations, such as purchases of Federal funds, that would be the joint and several obligations of the Banks and would be insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund.

RISK FACTORS

The System's business can be directly affected by the agricultural and other economies.

The System's financial condition can be directly impacted by factors affecting the agricultural, rural and other economies, since these factors impact the demand for loans and financial services offered by the System and the ability of System borrowers to make payments on loans. These factors may include:

- weather-related, disease, and other adverse climatic or biological conditions that impact the agricultural productivity and income of System borrowers,
- the relationship of demand relative to supply of agricultural commodities produced by System borrowers, including access to export markets,
- changes in the level of government expenditures on agricultural programs that may affect the level of income of some System borrowers,
- major international events, such as changes in foreign economies, that can affect such things as the price of commodities or products used or sold by System borrowers, and
- changes in the general economy that can affect the availability of off-farm sources of income.

Changes in the laws or regulations that govern the System could have a material impact on the System or its operations.

System institutions are created and extensively governed by federal statutes and regulated by the Farm Credit Administration. Any change in the laws or regulations that govern the System's business could have a material impact on the System and its operations. In addition, changes in the laws or regulations that govern government-sponsored enterprises or agricultural or other rural industries may significantly affect the System's business. Laws and regulations may change from time to time, and the interpretations of the relevant laws and regulations also are subject to change.

As a government-sponsored enterprise, we have been able to raise funds at competitive rates in varying economic environments. If we were to lose our government-sponsored enterprise status, it is likely that our funding costs would increase and our earnings would be reduced.

The Banks and Associations are subject to credit risk.

The Banks and Associations are subject to credit risk in the course of their lending, investing and hedging activities. Credit risk is the risk that arises from the inability of a borrower, debt issuer or counterparty to meet its repayment obligation. The Banks and Associations have underwriting standards and lending policies to manage credit risk.

The earnings of the Banks and Associations are significantly affected by the monetary policies of the Board of Governors of the Federal Reserve System.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies influence the Banks' and the Associations' cost of funds for lending and investing and the return they earn on their loans and investments, both of which impact their net interest margins, and can materially affect the value of the loans and investments they hold. Federal Reserve policies also can affect System borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in the Federal Reserve Board policies are beyond the System's control and are difficult to predict or anticipate.

The agricultural financial services industry is highly competitive.

The System operates in an increasingly competitive marketplace, which is currently experiencing increased market liquidity and active competition from non-traditional lenders. These market changes have resulted in, and may further result in, reduced interest rate spreads and, in some cases, less favorable loan structures and terms for the System. In order to remain a viable competitor in the U.S. farm debt market, System institutions must maintain effective loan products, undertake significant marketing efforts and utilize competitive pricing programs. Further, System institutions also must maintain a viable business model in order to deliver value to their borrowers/stockholders.

The Banks and Associations are subject to interest rate risk.

The Banks and Associations, in the course of their borrowing, lending and investment activities, are subject to interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the institution's operating results and financial condition. This risk arises from differences in the timing between the contractual maturity or the repricing characteristics of the institution's assets and the financing obtained to fund those assets. The Banks are generally responsible for developing institution-specific asset/liability management policies and strategies to manage interest rate risk and monitoring them on a regular basis.

Each Bank and Association depends on the accuracy and completeness of information about its customers and counterparties.

In deciding whether to extend credit or enter into transactions with customers and counterparties, the Banks and Associations may rely on information furnished to them by or on behalf of customers and counterparties, including financial statements and other financial information. The Banks and Associations also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If the financial or other information provided to them is incorrect, the Banks and Associations could suffer adverse credit or other consequences.

The Banks and Associations may only lend to qualified borrowers in the rural and agricultural sectors and certain related entities and are subject to geographic lending restrictions.

Unlike commercial banks and other financial institutions that lend to both the agricultural sector and other sectors of the economy, the Banks and Associations are restricted solely to making loans and providing financial services to qualified, eligible borrowers in the rural and agricultural sectors and to certain related entities. In addition, the Banks and Associations are subject to certain geographic lending restrictions. As a result, the Banks and Associations do not have as much flexibility in attempting to diversify their loan portfolios as compared to commercial banks and other financial institutions and this concentration may limit their ability to offset adverse performance in one sector against positive performance in another sector like most diversified financial institutions.

The System's accounting policies and methods are key to how it reports its financial condition and results of operations, and they may require System institutions' management to make estimates about matters that are inherently uncertain.

The System's accounting policies, methods and estimates are fundamental to how it records and reports its financial condition and results of operations. System institutions' management must exercise judgment in selecting and applying many of these accounting policies, methodologies, and estimates so that they not only comply with generally accepted accounting principles and reflect best practices but also reflect management's judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. Inappropriate policies, methods and estimates, or the misapplication of accounting policies, methods or estimates could adversely affect the financial condition or results of operations of the System.

OTHER BUSINESS MATTERS

Related Party Transactions

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the System institutions' management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Total loans outstanding to such persons were $1.5 billion at both December 31, 2005 and 2004. During 2005 and 2004, $2.5 billion and $3.6 billion of new loans were made to such persons and repayments totaled $2.5 billion and $3.4 billion. In the opinions of Bank and Association managements, substantially all of such loans outstanding at December 31, 2005 and 2004 did not involve more than a normal risk of collectibility.

Legal Proceedings

At December 31, 2005, various lawsuits were pending or threatened against System institutions, including actions in which claims for significant amounts of monetary damages have been or may be asserted against these institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

Changes in and Disagreements with Auditors of the Combined Financial Statements of the Farm Credit System

During the fiscal year ended December 31, 2005 and through the date of this annual information statement, there have been no changes in or disagreements with the independent auditors of the combined financial statements of the System.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis provides a narrative on the System's financial performance and condition that should be read in conjunction with the accompanying financial statements. It includes the following sections:

- Basis of Presentation
- Forward-Looking Information
- Critical Accounting Policies
- 2005 Overview
- Accounting Related to the Allowance for Loan Losses
- System Organizational and Structural Matters
- Results of Operations
- Risk Management
- Regulatory Matters

Basis of Presentation

The System is a federally chartered network of interdependent agricultural lending institutions (Banks and Associations) and affiliated service organizations. Through our four Farm Credit Banks, one Agricultural Credit Bank and 96 Associations, we provide credit and related services nationwide to farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. We also make loans to finance the processing and marketing activities of these borrowers and to foreign purchasers of American agricultural products. In addition, we make loans to rural homeowners, rural utilities and other eligible borrowers.

The combined financial statements and related financial information contained in this annual information statement include the accounts of the Banks, the Associations, the Farm Credit System Financial Assistance Corporation, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Insurance Fund and reflect the investments in and allocated earnings of the service organizations owned by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. (See Note 1 to the accompanying combined financial statements for additional information on organization, operations and principles of combination and the Supplemental Combining Information on pages F-37 through F-45.)

Our financial statements are presented on a combined basis due to the financial and operational interdependence of System entities. We believe combined financial statements are more meaningful to investors in Systemwide Debt Securities than financial information relating to the combined Banks on a stand-alone basis (i.e., without the Associations). The Banks and Associations are interdependent because the Banks are statutorily required to serve as the principal intermediary between the financial markets and the retail lending activities of their affiliated Associations. As a result, loans made by the Associations to their borrowers are substantially funded by the issuance of Systemwide Debt Securities by the Banks. In addition, CoBank makes retail loans and leases directly to cooperatives, rural utilities, and other eligible borrowers, and the Banks purchase retail loan participations from Associations and other System Banks, as well as from other lenders. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations, as well as the ability of retail borrowers to repay their loans from the Banks.

While this annual information statement reports on the combined financial position and results of operations of the Banks, Associations and other System entities specified above, only the Banks are jointly and severally liable for the payments on Systemwide Debt Securities. Each Bank is also primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Notes 13 and 21 to the accompanying combined financial statements for information about the capital of the Banks and the Supplemental Combining Information on pages F-37 through F-39 for information related to the financial condition of the combined Banks.) Because the Associations are not directly liable for the payment of principal and interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See

Note 8 to the accompanying combined financial statements.)

Forward-Looking Information

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies

The System's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies as critical because managements of System institutions have to make judgments about matters that are inherently uncertain. For a complete discussion of the System's significant accounting policies, see Note 2 of the accompanying combined financial statements. The following is a summary of certain critical policies.

- Allowance for loan losses — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in its loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Each Bank and Association determines its allowance for loan losses based on periodic evaluation of its loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

  Changes in the factors considered by each Bank's and Association's management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- Valuation methodologies — Managements of the Banks and Associations apply various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the System's results of operations.

- Pensions — Banks and Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, Banks and Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Moody's Investors Service Aa long-term corporate bond index, actuarial analyses and industry norms.

2005 Overview

The System's combined net income was $2.096 billion for 2005, $2.993 billion for 2004 and $1.825 billion for 2003. Included in the year-end 2004 results were one-time reversals of the allowance for loan losses totaling $1.167 billion, net of a related $95 million deferred tax expense, in connection with the completion of studies to refine the System's methodologies for determining the allowance for loan losses. Excluding the reversals of the allowance for loan losses, net income would have been $1.826 billion for 2004. (See "Accounting Related to the Allowance for Loan Losses" for additional discussion.)

Overall, excluding the one-time loan loss reversals, System earnings improved over the past year. The improvement primarily resulted from an 8.4% increase in net interest income. This increase resulted from a higher level of average earning assets and an increase in income due to higher yields on earning assets funded by capital (yields on earning assets increased 1.03% and average capital was $22.2 billion). In addition, a loan loss reversal of $1 million was recognized due to the continued strength of the credit quality of the System's loan portfolio, which has been positively influenced by favorable economic conditions over a sustained period of time. Partially offsetting these favorable components of net income, interest rate spreads decreased 16 basis points during 2005 and 27 basis points since 2003 due primarily to a compression of spreads resulting from competitive conditions. In addition, operating expenses increased 6.1% to $1.411 billion for the year ended December 31, 2005, as compared with $1.330 billion and $1.222 billion for the years ended December 31, 2004 and 2003.

Net interest income was $3.246 billion for 2005, $2.994 billion for 2004 and $2.919 billion for 2003. The level of net interest income in each of 2005, 2004 and 2003 increased from the respective prior year's level primarily due to income earned on a higher level of average earning assets, which were funded, in part, by increases in System capital. Net interest income in excess of operating expenses was $1.835 billion, $1.664 billion and $1.697 billion for 2005, 2004 and 2003.

The System's total amount of nonperforming loans decreased $143 million from year-end 2004 to $600 million at December 31, 2005, and represented 0.56% of total loans outstanding. The low level of nonperforming loans reflected the overall improvement in the level of credit quality in 2005 and allowed System institutions to maintain favorable earnings and further strengthen capital levels.

The System's production agriculture loan volume increased 8.7% in 2005, which includes real estate mortgage loans and production and intermediate-term loans. Farm sector debt, defined by the United States Department of Agriculture (USDA) as debt incurred by those involved in on-farm agricultural production, was forecasted to grow 2.7%. The aggregate level of farm sector debt for 2006 is expected to increase about 2.9% according to the USDA. The increase in our loan volume reflected System institutions' efforts to maintain and, in many instances, increase their market share of farm debt, through various marketing, business development and operating strategies while maintaining prudent underwriting standards.

Current estimates (February 2006) by the USDA indicate farmers' net cash income decreased slightly from $85.5 billion for 2004 to $82.8 billion for 2005, which significantly exceeds the average level of farmers' net cash income over the past ten years of $64.4 billion (1996-2005). This forecast predicts a slight decline in crop receipts and a significant increase in production expenses, offset by a sizable increase in direct federal government payments. The increase in direct federal government payments resulted primarily from the timing of certain payments moving from calendar year 2004 to calendar year 2005.

The USDA estimates 2006 farmers' net cash income will decrease to $64.8 billion, which is just above the ten-year average of farmers' net cash income. This estimated decline is primarily due to decreases in direct federal government payments and cash receipts for crops and livestock and to an increase in production expenses.

According to the USDA, farm business balance sheets have shown improvement in the last couple of years following a decade of relative stability. Farmers' equity (farm business assets less farm business debt) is expected to continue rising in 2006 as the increase in farm asset values exceeds the rise in farm debt. One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt. USDA predictions suggest an increase in the use of repayment capacity (actual debt as a percentage of maximum debt that can be supported by farmers' current income) from 46.8% in 2005 to 60.3% in 2006. This increase reflects expected increases in interest rates on farm debt, higher farm debt, and lower farmers' net cash income.

In general, agriculture has experienced a long period of favorable economic conditions, in part due to government support programs. The System's financial results have been positively impacted by these economic conditions. Agriculture, however, remains a cyclical business, and agricultural economic conditions may not be as favorable in the future. The System's financial results are linked to the economic conditions in agriculture. In an environment of adverse economic conditions in agriculture and without sufficient government support programs, these adverse conditions would be reflected in credit quality measures and in the financial performance results of the System. It is anticipated that this impact would be partially mitigated by the diverse borrower base (i.e., commodities, geography and size) of the System and by the non-farm income sources of many customers.

While overall agricultural conditions are currently favorable, certain localized adverse agricultural conditions exist. Although the recent hurricanes had a substantial impact on the general economies in Louisiana, Mississippi, Alabama, and Florida, we expect the impact on the agricultural economy to be significantly less. Certain crop growers and poultry producers in these states experienced significant damage. Additionally, the hurricanes disrupted grain marketing and transportation systems, as well as oil refining and fuel delivery, resulting in higher transportation and energy costs. These disruptions are continuing and have delayed the marketing of portions of 2005's grain crop into 2006. While the impact on System borrowers cannot be determined at this time, their losses appear to be generally mitigated by insurance proceeds, disaster relief, and the overall financial strength of borrowers. The ultimate risk of loss, in the aggregate, is not anticipated to have a significant adverse impact on the System's overall financial condition or results of operations.

During the past few years, a more virulent form of Avian influenza has been developing in parts of Asia and has spread to Europe and Africa. This type of influenza is a more serious threat to humans than other strains of Avian influenza. To date, this influenza has not been detected in the United States. The vast majority of poultry in the U.S. is raised in confinement facilities, which mitigates the risk of a widespread outbreak. Nevertheless, consumer concern over the safety of poultry has recently reduced demand and prices and may adversely affect profitability in the U.S. poultry industry. The System's loans outstanding to the poultry industry are less than 4% of the System's loan portfolio.

For more than a year, the System has been analyzing the dynamic needs of farmers, ranchers and rural America. We have consulted widely with our customers, farm organization leaders, university specialists and rural community leaders to draw a composite of rural America's need for financial services and the System's ability to fulfill its congressionally mandated mission. The comprehensive, nationwide research study, called the HORIZONS Project, identified eight key findings about the future of agriculture and rural America. The findings demonstrate the need for policy solutions that will help farmers and rural communities succeed in the emerging marketplace. A copy of the HORIZONS Project final report, "21st Century Rural America; New Horizons for U.S. Agriculture," can be found at www.fchorizons.com

Accounting Related to the Allowance for Loan Losses

During 2004, System institutions conducted studies to further refine their allowance for loan losses methodologies, taking into account requirements issued by the Farm Credit Administration, the System's regulator, as well as guidelines issued by both the Securities and Exchange Commission (SEC) and the Federal Financial Institutions Examination Council. As a result of these studies and the resulting refinements in methodologies, System institutions recorded a reversal of the allowance for loan losses of $1.167 billion, net of a related $95 million deferred tax expense for the year ended December 31, 2004.

In the mid-to-late 1980s, adverse economic factors affecting American agriculture had a severe impact on the financial condition of System borrowers. Consequently, System institutions experienced significant deterioration in the credit quality of their loan portfolios during this period. Net charge-offs were $1.1 billion, $1.4 billion, $0.5 billion and $0.4 billion in 1985, 1986, 1987 and 1988. Consistent with the credit quality deterioration and the net charge-offs, significant loan loss provisions were recorded in 1985 and 1986 that resulted in a $1.6 billion System allowance for loan losses at the end of 1989. The managements of the Banks and Associations considered this level adequate to provide for estimated losses inherent in their loan portfolios, which for the System aggregated $50.707 billion at December 31, 1989.

System institutions' allowance for loan losses methodologies were adjusted and revised in the late 1980s to take into account those credit losses. Given the long cyclical nature of the agricultural economy and the long-term nature of most of the System's loans, the loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. The allowance for loan losses methodologies utilized throughout the period were in accordance with generally accepted accounting principles and were consistently applied.

While conservative in estimating the allowance for loan losses, the methodologies used by System institutions resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Aggregate provisions for loan losses from 1989 through 2003 were $1.0 billion while net charge-offs during the same period aggregated $800 million. The remaining net increase in the provisions for loan losses was attributable to the increase in the System's loan volume of $42.1 billion, or 83%, over the same period. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. System institutions' allowances for loan losses methodologies have consistently adhered to proper accounting policies, under the regulatory supervision of the Farm Credit Administration in its role as the System's "safety and soundness" regulator. It was the Farm Credit Administration's view that the allowance for loan losses should include, among others, an assessment of probable losses, historical loss experience and economic conditions.

Accounting for the allowance for loan losses has been a particular area of focus for bank regulators, the SEC and the accounting industry standard setters. The System is not subject to oversight by the SEC or banking regulators, other than the Farm Credit Administration. Of particular relevance to the System are the views of the American Institute of Certified Public Accountants (AICPA) and the Farm Credit Administration. The following outlines various guidance considered or issued in recent years by the AICPA, the Farm Credit Administration and other banking regulators:

- August 2000 — the AICPA's Accounting Standards Executive Committee issued a proposed Statement of Position — Allowance for Credit Losses. This proposed Statement was not issued as final guidance.
- July 2001 — the Federal Financial Institutions Examination Council issued a policy statement on allowance for loan losses methodologies and documentation of the methodologies for banks and savings institutions.
- July 2001 — the SEC issued Staff Accounting Bulletin No. 102 — Selected Loan Loss Allowance Methodology and Documentation

Issues. This guidance sets forth the requirement to develop and document a systematic methodology to determine the allowance for loan losses.

- June 2003 — the AICPA's Accounting Standards Executive Committee issued a proposed Statement of Position — Allowance for Credit Losses, which was intended to clarify the methodology for estimating the allowance for credit losses. The proposed Statement of Position was abandoned in January 2004.

The guidance proposed by the accounting standard setters and issued by the other regulators focused on the determination of the allowance for loan losses based on recent loss experience rather than a longer term view of loss experience. Thus, in connection with the proposed Statement of Position, in November 2003, System institutions determined that studies should be conducted during 2004 to further refine their methodologies for calculating their respective allowances for loan losses, taking into account the guidance issued or being considered, as described above.

In April 2004, the Farm Credit Administration issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. The Farm Credit Administration endorsed the direction provided by other bank regulators and the SEC and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

During the fourth quarter of 2004, System institutions completed their studies and refined their methodologies to be in compliance with the guidance discussed in the previous paragraphs. The refinement in methodologies resulted in calculated allowances for loan losses that were significantly less than the previously recorded balances due to revised loss factors that were more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised levels of allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. System institutions considered the following factors when adjusting the historical charge-off experience:

- changes in credit risk classifications,
- changes in collateral values,
- changes in risk concentrations,
- changes in weather-related conditions, and
- changes in economic conditions.

In addition, during 2004, System institutions began implementing the "Combined System Risk Rating Model." This model is based on a 14-point risk rating scale that is designed to support a two-dimensional economic capital model using probability of default and loss given default. The model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in particular lending relationships.

While the reversals of the allowance for loan losses totaling $1.167 billion, net of taxes, had a significant impact on the System's 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodologies was not expected to have a significant impact on comparative results of operations in future periods, after excluding the impact of the reversal on the 2004 results. Additionally, the refinement in the allowance for loan losses methodologies did not have a significant impact on the level of the risk bearing capacity of the System, generally referred to as "risk funds" (capital plus the allowance for loan losses), which increased to $22.181 billion at December 31, 2004 (23.0% of System loans), as compared with $20.998 billion at December 31, 2003 (22.6% of System loans).

System Organizational and Structural Matters

Over the past several years, the number of System Banks and Associations has declined through mergers. The following table summarizes the structural changes over the past five years:

	Banks	Associations	Total
Entities at January 1, 2001	7	133	140
Net changes through January 1, 2005	(2)	(37)	(39)
Entities at January 1, 2005	5	96	101
Net changes through January 1, 2006	—	—	—
Entities at January 1, 2006	5	96	101

On October 1, 2003, Western Farm Credit Bank merged with the Farm Credit Bank of Wichita, the successor Bank. Concurrent with the merger, the Farm Credit Bank of Wichita changed its name to U.S. AgBank, FCB. On January 1, 2003, AgAmerica, FCB merged with AgriBank, FCB, the successor Bank. As part of this transaction, one of AgAmerica's two affiliated Associations, Northwest Farm Credit Services, ACA, re-affiliated with CoBank, ACB.

Results of Operations

Earnings Analysis

Changes in the key components impacting the System's results of operations over the past three years are summarized below:

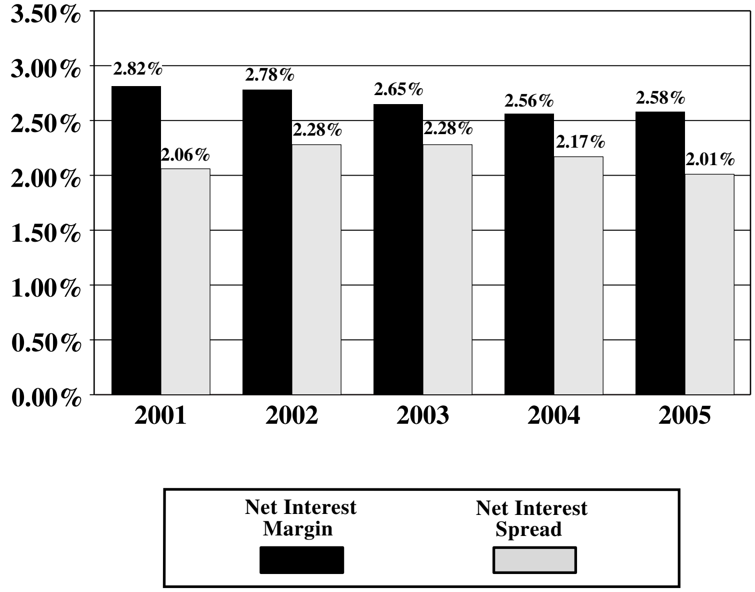
	2005 vs. 2004	2004 vs. 2003
	(in millions)	
Increase (decrease) in net income due to:		
Interest income	$ 1,688	$ 214
Interest expense	(1,436)	(139)
Net interest income	252	75
Loan loss reversals/provision for loan losses	(1,207)	1,307
Noninterest income	13	(28)
Noninterest expense	(55)	(122)
Provision for income taxes	100	(64)
Net change in net income	$ (897)	$1,168

Net Interest Income

Net interest income was $3.246 billion in 2005, $2.994 billion in 2004 and $2.919 billion in 2003. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the System and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	2005 vs. 2004 Increase (decrease) due to			2004 vs. 2003 Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in millions)					
Interest income:						
Loans	$333	$ 958	$1,291	$179	$(73)	$106
Investments	53	344	397	82	26	108
Total interest income	386	1,302	1,688	261	(47)	214
Interest expense	170	1,266	1,436	130	9	139
Changes in net interest income	$216	$ 36	$ 252	$131	$(56)	$ 75

The following chart illustrates the components underlying the System's net interest income for the past five years:



The following table presents interest rate spreads, components of interest rate spreads, the details of the changes in interest rates earned and paid, and the impact of those changes on interest rate spreads for the past three years:

	2005			2004			2003		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
				($ in millions)					
Assets									
Loans:									
Domestic loans	$ 97,193	$6,018	6.19%	$ 90,378	$4,756	5.26%	$ 86,660	$4,651	5.37%
Loans made in connection with international transactions	2,613	92	3.52	2,796	50	1.79	2,915	49	1.68
Nonaccrual loans	633	51	8.06	840	64	7.62	984	64	6.50
Total loans	100,439	6,161	6.13	94,014	4,870	5.18	90,559	4,764	5.26
Federal funds sold and investments	25,277	950	3.76	23,084	553	2.40	19,597	445	2.27
Total earning assets	125,716	7,111	5.66	117,098	5,423	4.63	110,156	5,209	4.73
Allowance for loan losses	(779)			(2,019)			(2,131)		
Other noninterest earning assets	5,549			5,393			5,217		
Total assets	$130,486			$120,472			$113,242		
Liabilities and Capital									
Systemwide bonds, medium-term notes and master notes	$ 94,643	$3,493	3.69%	$ 86,597	$2,220	2.56%	$ 80,337	$2,085	2.60%
Systemwide discount notes	9,827	309	3.14	10,897	144	1.32	11,372	119	1.05
Financial Assistance Corporation bonds	143	17	11.89	325	36	11.08	595	60	10.08
Other interest bearing liabilities	1,164	46	3.95	1,069	29	2.71	1,174	26	2.21
Total interest bearing liabilities	105,777	3,865	3.65	98,888	2,429	2.46	93,478	2,290	2.45
Noninterest bearing liabilities	2,493			1,762			1,873		
Capital	22,216			19,822			17,891		
Total liabilities and capital	$130,486			$120,472			$113,242		
Net interest spread(1)			2.01			2.17			2.28
Impact of noninterest-bearing sources			0.57			0.39			0.37
Net interest income/average earning assets (net interest margin)		$3,246	2.58%		$2,994	2.56%		$2,919	2.65%

(1) Net interest spread is the difference between the rate earned on total earning assets and the rate paid on total interest bearing liabilities.

Earning assets consisted of loans (accrual and nonaccrual), Federal funds sold and investments. Systemwide Debt Securities generally financed earning assets. In addition to these interest-bearing funds, earning assets also were funded by capital. Variations in average volume and the spreads earned on interest-bearing funds and capital determine changes in net interest income.

The increase in net interest income between 2005 and 2004 was the result of continued growth in the System's loan volume and investment securities. Net interest margin increased two basis points to 2.58% in 2005. This increase in net interest margin resulted from an increase in income earned from higher yields on earning assets funded by capital, offset, in part, by a decrease in the net interest spread. Net interest spread decreased 16 basis points to 2.01% for 2005, as compared with 2004, primarily due to a compression of spreads caused by competitive conditions. Strong marketplace competition, in particular for large agribusiness loans, resulted from high liquidity levels in the bank and capital debt markets. Changes in asset mix that generally reduced the risk profile of earning assets contributed to the decline in spreads. Average investments, which increased $2.2 billion during 2005 and $3.5 billion during 2004, represented a larger proportion of average earning assets and generated a lower spread than the loan portfolio, reflective of their lower risk profile. It is anticipated that further pressure will be placed on spreads in 2006 since investments outstanding at December 31, 2005 exceeded 2005 average balances for investments by $2.650 billion as investment securities grew significantly during the second half of 2005. In addition, competitive loan pricing demands may place further pressure on spreads in 2006.

Interest income recognized on cash-basis nonaccrual loans (loans not meeting certain repayment requirements) was $51 million for 2005, $64 million for 2004 and $64 million for 2003. Interest income is recognized on cash-basis nonaccrual loans only as interest payments are received and certain other conditions are met. Nonaccrual loans are returned to accrual status after a period of sustained payment performance provided they are current as to principal and interest and the collectibility of the remaining amounts of principal and interest is no longer in doubt. Loan prepayment income was $27 million for 2005, $22 million for 2004 and $60 million for 2003. The decrease in prepayment income from the 2003 level resulted from a slowdown in refinancing activity, as interest rates remained at relatively low levels or increased during 2004 and 2005.

Net interest income increased for the year ended December 31, 2004 due to income from a higher level of average earning assets. Average earning assets were $117.1 billion during the year ended December 31, 2004, $6.9 billion higher than the prior year, due to growth in loan volume and investments. Partially offsetting the income earned from the higher level of earning assets was the decrease in the net interest margin of nine basis points to 2.56% in 2004. This decrease in net interest margin resulted from the 11 basis point decrease in the net interest spread to 2.17% for 2004. The decrease in net interest spread was primarily due to a decline in prepayment income, a change in asset mix, and compression of spreads due to competitive conditions.

Provision for Loan Losses

Each Bank and Association makes its own determination whether an increase in its allowance for loan losses through a provision for loan losses or a decrease in its allowance for loan losses through a loan loss reversal is warranted based on its assessment of the credit risk in its loan portfolio.

The System recognized a loan loss reversal of $1 million in 2005, as compared with a loan loss reversal of $1.208 billion in 2004, and a provision for loan losses of $99 million in 2003. The 2005 loan loss reversal consisted of $45 million of loan loss reversals by certain System institutions, offset by $44 million of provisions for loan losses at other System institutions. The 2005 loan loss reversals reflect the further strengthening in overall credit quality at certain System institutions. The provisions for loan losses were due, in part, to additional credit risk in the agribusiness and energy sectors.

The 2004 loan loss reversal of $1.208 billion included the one-time reversals resulting from the refinement of allowance for loan losses methodologies and was net of a $54 million provision for loan losses that was principally attributable to a limited number of loans to customers primarily in the agribusiness, communications and energy sectors. (See "Accounting Related to the Allowance for Loan Losses" for additional information.)

The 2003 provision for loan losses of $99 million was net of loan loss reversals totaling $42 million. The reversals were based on certain System institutions' determinations that adjustments to the allowance for loan losses were warranted to align their existing allowance with the credit risk in their loan portfolio. The remaining System institutions recorded provisions for loan losses of $141 million in 2003 primarily attributable to increased inherent risk in long-term real estate loans and in loans to certain other borrowers, including those to independent merchant power production and wireless communications companies.

Noninterest Income

Noninterest income for each of the three years in the period ended December 31, 2005 is summarized in the following table:

	For the year ended December 31,		
	2005	2004	2003
	($ in millions)		
Loan-related fee income	$108	$116	$129
Fees for financially related services	104	101	87
Income earned on Insurance Fund assets	81	87	91
Operating lease income	42	39	39
Mineral income	21	16	17
Gains on sales of investments, net and other assets	1	11	35
Losses on early extinguishment of debt	(16)	(33)	(35)
Losses on discontinuance of cash flow hedges	(11)	(6)	(4)
Losses on derivatives not designated as hedges	(6)	(9)	(1)
Gains (losses) on other transactions	6	(2)	(10)
Other noninterest income	23	20	20
Total noninterest income	$353	$340	$368

Noninterest income increased $13 million or 3.8% in 2005 to $353 million, as compared with 2004. The increase was primarily due to reduced losses on early extinguishment of debt. As a result of the increase in interest rates during 2005, fewer fixed-rate loans and investments prepaid, thus reducing the need to early extinguish fixed-rate debt. These increases were partially offset by a decrease in loan-related fee income and income earned on Insurance Fund assets.

Noninterest income decreased $28 million or 7.6% in 2004 to $340 million, as compared with 2003. The decrease was primarily due to decreases in loan-related fee income of $13 million due to reduced loan originations and gains on sales of investments, net and other assets of $24 million. The 2003 gains included one Bank's $30 million gain on the sale of mineral rights. These decreases in noninterest income were partially offset by an increase in fees for financially related services of $14 million primarily due to increased sales of multi-peril crop insurance.

Noninterest Expense

Noninterest expense for each of the three years in the period ended December 31, 2005 is summarized below:

	For the year ended December 31,		
	2005	2004	2003
	($ in millions)		
Salaries and employee benefits	$ 895	$ 838	$ 782
Occupancy and equipment expense	128	122	109
Purchased services	87	85	76
Other operating expense	301	285	255
(Gains) losses on other property owned	(6)	3	5
Other noninterest expense	4	21	5
Total noninterest expense	$1,409	$1,354	$1,232

Salaries and employee benefits increased $57 million or 6.8% in 2005, as compared with 2004. Salaries have been impacted by merit and incentive compensation increases and higher staffing levels at certain System institutions. The System's staffing levels increased 297 employees or 2.8% to 10,795 full-time equivalents to meet the continued increased workloads associated with loan growth and increased investments by System institutions in technology resources. Employee benefits increased $5 million or 2.3% to $226 million, representing increases in employee benefits other than pension costs. While pension expenses related to defined benefit and defined contribution plans increased $10 million primarily as a result of a lower discount rate used and lower historical returns on plan assets, expenses for other postretirement benefits decreased $10 million due to reductions in the coverage of plans sponsored by certain System institutions. Other operating expenses increased $16 million due to modest increases in advertising, communication, publication and travel expenses.

Salaries and employee benefits increased $56 million or 7.2% in 2004, as compared with 2003, primarily due to increased costs associated with employee benefit plans, merit and incentive compensation increases and, to a lesser extent, higher staffing levels at certain System institutions, which reflected the continued growth in loans outstanding. Employee benefits increased $23 million to $221 million in 2004, primarily due to lower historical returns on plan assets and a lower discount rate used to calculate projected pension obligations. In 2004, System staffing increased by 183 employees to 10,498 full-time equivalents to meet staffing requirements associated with increased loan volume and additional technology investments. Purchased services increased $9 million in 2004, as compared with 2003, due to increased use of contract resources for projects. Other operating expenses increased $30 million in 2004, as compared with 2003, due, in part, to increased costs associated with various information systems projects and other operating enhancements and initiatives at certain System institutions. Other noninterest expense for 2004 included a $10 million settlement paid by one Association in connection with the termination of a merger agreement.

Operating expense (salaries and employee benefits, occupancy and equipment expense, purchased services and other operating expense) statistics for each of the three years in the period ended December 31, 2005 are set forth below:

	2005	2004	2003
	($ in millions)		
Excess of net interest income over operating expense	$1,835	$1,664	$1,697
Operating expense as a percentage of net interest income	43.5%	44.4%	41.9%
Operating expense as a percentage of net interest income and noninterest income	39.2	39.9	37.2
Operating expense as a percentage of average loans	1.40	1.41	1.35
Operating expense as a percentage of average earning assets	1.12	1.14	1.11

During 2005, the 8.4% growth in net interest income resulted from the System's growth in loans and investments and a slight increase in net interest margins that exceeded the 6.1% growth in operating expenses. This was not the case in the prior year as compressed net interest margins and modest growth in loans tempered the growth in net interest income. Also in the prior year operating expenses grew 8.8%, which was at a faster rate than the growth in net interest income of 2.6%.

Provision for Income Taxes

As discussed in Note 2 to the accompanying combined financial statements, the System is comprised of both taxable and non-taxable entities. Taxable entities are eligible to operate as cooperatives for tax purposes and thus may elect to deduct from taxable income certain amounts allocated to borrowers as patronage refunds in the form of cash, stock or allocated surplus.

The System recorded provisions for income taxes of $95 million in 2005, $195 million in 2004 and $131 million in 2003. The 2004 provision for income taxes included a $95 million deferred tax expense related to the reversal of the allowance for loan losses. The effective tax rate decreased to 4.3% for 2005, as compared with 6.1% for the prior year. Excluding the impact of the deferred tax expense and the related reversal of the allowance for loan losses, the effective tax rate would have been 5.2% in 2004. The decrease in the effective tax rate between the years was due to increased patronage distributions by taxable System institutions.

Risk Management

Overview

The System is in the business of making agricultural and other loans that requires us to take certain risks in exchange for compensation for the risks undertaken. Management of risks inherent in our business is essential for our current and long-term financial performance. Our goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities.

The major types of risk to which we have exposure are:

- structural risk — risk inherent in our business and related to our structure (an interdependent network of lending institutions),
- credit risk — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- interest rate risk — risk that changes in interest rates may adversely affect our operating results and financial condition,
- liquidity risk — risk of loss arising from our inability to meet obligations when they come due without incurring unacceptable losses,
- operational risk — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events, and
- political risk — risk of loss of support for the System and agriculture by the federal and state governments.

Structural Risk Management

Structural risk results from the fact that the System is comprised of Banks and Associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the Banks are jointly and severally liable for the payments of Systemwide Debt Securities. Although capital at the Association level reduces a Bank's credit exposure with respect to its direct loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, we utilize two integrated contractual agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each District using various ratios that take into account the District's and Bank's capital, asset quality, earnings, interest-rate risk and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each District must achieve and maintain.

Periodically, the ratios in the CIPA model are reviewed, with the assistance of an independent party, to take into consideration current performance standards in the financial services industry. In connection with the most recent review, effective January 1, 2005, certain ratios were revised to better reflect improved financial condition and performance in the financial services industry. In addition, the agreed-upon financial condition and performance standard was revised to conform to the trigger points in the MAA. The CIPA also establishes economic incentives whereby monetary penalties are applied if the performance standard is not met. These penalties will occur at the same point at which a Bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the Banks, which are jointly and severally liable for the payment of Systemwide Debt Securities, that provide operational oversight and control over a Bank's access to System funding if the creditworthiness of the Bank declines below certain agreed-upon levels. The MAA promotes the identification and resolution of individual Bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions of participation for each Bank's participation in each issuance of Systemwide Debt Securities.

Under the MAA, if certain financial criteria are not met, a Bank may be placed in one of three categories, each of which imposes certain requirements and/or restrictions on the affected Bank. The criteria under the MAA are the CIPA scores, the net collateral ratio, and the permanent capital ratio of a Bank. The Bank's net collateral ratio is net collateral (primarily earning assets) divided by total liabilities and the Bank's permanent capital ratio is primarily the Bank's common and preferred stock and surplus divided by risk-adjusted assets. The criteria for the net collateral ratio and the permanent capital ratio are:

	Net Collateral Ratio	Permanent Capital Ratio
Category I	<104%	<8.0%
Category II	<103%	<7.0%
Category III	<102%	<5.0%

The categories are progressively more restrictive: a "Category I" Bank is subject to additional monitoring and reporting requirements; a "Category II" Bank's ability to participate in issuances of Systemwide Debt Securities may be curtailed; and a "Category III" Bank may not be permitted to participate in issuances of Systemwide Debt Securities. (See Supplemental Financial Information on page F-46 for each Bank's net collateral and permanent capital ratios.)

During the three years ended and as of December 31, 2005, all Banks met the agreed-upon standard of financial condition and performance required by the CIPA and none of the Banks was placed in any of the three categories designated for Banks failing to meet the MAA's specified financial criteria.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios and derivative counterparty credit exposures. We manage credit risk associated with our retail lending activities through an assessment of the credit risk profile of an individual borrower. Each Bank and Association has its own set of underwriting standards and lending policies, approved by its board of directors, that provides direction to its loan officers. Underwriting standards include, among other things, an evaluation of:

- character — borrower integrity and credit history,
- capacity — repayment capacity of the borrower based on cash flows from operations or other sources of income,
- collateral — protects the lender in the event of default and represents a potential secondary source of loan repayment,
- capital — ability of the operation to survive unanticipated risks, and
- conditions — intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based on the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths and weaknesses and risks in a particular relationship.

This credit risk ratings process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. The loan rating structure calculates estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, collateral). This 14-point scale provides for nine acceptable categories, one other assets especially mentioned category, two substandard categories, one doubtful category and one loss category. These categories are defined as follows:

- acceptable — assets are expected to be fully collectible and represent the highest quality,
- other assets especially mentioned — assets are currently collectible but exhibit some potential weakness,
- substandard — assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

In addition, borrower and commodity concentration lending limits have been established to manage credit exposure. The regulatory lending limit to any one borrower is 25% of the institution's capital but System institutions' boards of directors have generally established more restrictive lending limits.

The Banks manage credit risk arising from their wholesale loans (revolving lines of credit) to their affiliated Associations as well as credit risk arising from the Banks' retail loans to borrowers. An Association's ability to repay its loan from its affiliated Bank is dependent on repayment of loans made to the Association's borrowers. Monitoring of the credit risk of an Association's loan portfolio, together with appropriate credit administration and servicing, reduces credit risk on the wholesale loans. Monitoring may include various mechanisms, including testing the reliability of an Association's credit classifications, periodic meetings with the Association's management and board of directors, formalized risk assessments, and Bank prior approval of transactions that exceed the Association's delegated lending authority (which is determined by the Bank). In addition, some Banks utilize risk-based pricing programs that price funds differentially to Associations based on risk profiles. Each Bank utilizes a "General Financing Agreement" setting forth the terms and conditions of each loan to its affiliated Associations to achieve this goal. This Agreement generally includes:

- typical commercial lending provisions, including advance rates based on quality of pledged assets and financial performance covenants,
- a pledge of all Association assets as collateral for the loan,
- a risk-based score that is based on the Association's profitability, credit quality, risk coverage, capital adequacy and quality of credit administration,
- a requirement that retail loans originated by the Association over an established dollar amount be approved by the Bank and all loans to Association board members receive prior approval by the Bank, and
- a requirement that the Association adopt underwriting standards consistent with the Bank's underwriting guidelines and maintain an internal audit function, which reviews its lending operations.

By buying and selling loans or interests in loans to other institutions within the System or outside the System, a Bank or Association limits its exposure to either a borrower or commodity concentration. This also allows a System institution to manage its growth and capital, and to improve geographic diversification.

Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by each institution by industry, product, geography and customer limits. The concentrations at the System level are illustrated below in the Loan Portfolio Diversification section.

Loan Portfolio

The System's loan portfolio consists only of retail loans. Bank loans to its affiliated Associations have been eliminated in the combined financial statements. Loans outstanding for each of the past five years consisted of:

	December 31,				
	2005	2004	2003	2002	2001
			(in millions)		
Production agriculture:					
Real estate mortgage loans	$ 52,723	$48,704	$46,480	$43,517	$37,660
Production and intermediate-term loans	23,902	21,780	21,058	20,491	20,000
Agribusiness loans*	14,673	12,053	12,094	11,802	10,873
Communication loans	2,605	2,389	2,559	3,158	3,156
Energy and water/waste disposal loans	5,458	4,811	3,892	3,742	3,565
Rural residential real estate loans	2,950	2,482	2,278	2,327	2,649
International loans	2,277	2,624	2,795	3,062	2,780
Lease receivables	1,290	1,168	1,323	1,384	1,668
Loans to other financial institutions	394	356	311	289	293
Total loans	$106,272	$96,367	$92,790	$89,772	$82,644

* At December 31, 2005, agribusiness loans consisted of loans to cooperatives of $8.778 billion; processing and marketing loans of $4.083 billion; and farm-related business loans of $1.812 billion.

Loans by type as a percentage of total loans for each of the past five years were:

	December 31,				
	2005	2004	2003	2002	2001
Production agriculture:					
Real estate mortgage loans	49.6%	50.5%	50.1%	48.5%	45.6%
Production and intermediate-term loans	22.5	22.6	22.7	22.8	24.2
Agribusiness loans	13.8	12.5	13.1	13.2	13.2
Communication loans	2.5	2.5	2.8	3.5	3.8
Energy and water/waste disposal loans	5.1	5.0	4.2	4.2	4.3
Rural residential real estate loans	2.8	2.6	2.4	2.6	3.2
International loans	2.1	2.7	3.0	3.4	3.4
Lease receivables	1.2	1.2	1.4	1.5	2.0
Loans to other financial institutions	0.4	0.4	0.3	0.3	0.3
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

Our loan volume has increased each year since 1990 and we have increased our aggregate market share of farm debt (principally real estate mortgage loans and production and intermediate-term loans) over that time. The year-to-year increase in loan volume was 10.3% in 2005, 3.9% in 2004, 3.4% in 2003 and 8.6% in 2002. This increase is largely attributable to competitively priced credit to borrowers, particularly in the lower lending rate environment we have experienced over the past few years. We continue to implement a number of measures, including new products and competitive loan programs designed to retain creditworthy borrowers and to attract new loan volume.

Real estate mortgage loans at December 31, 2005 increased $4.0 billion or 8.3%, as compared with December 31, 2004, due to increased demand, continued marketing efforts and competitive loan rates.

Production and intermediate-term loans increased $2.1 billion or 9.7%, and agribusiness loans increased $2.6 billion or 21.7%, as compared with December 31, 2004, primarily due to increased demand for these loans, competitive rates and continued marketing efforts.

In addition, loans to cooperatives, a component of agribusiness loans, increased primarily due to greater than normal year-end volume in the agribusiness portfolio because we did not experience the typical seasonal year-end paydowns for these loans. Energy and water/waste disposal loans increased in 2005 due to increased penetration in the rural electric distribution sector.

Loans made in connection with international transactions at December 31, 2005 decreased $347 million or 13.2%, as compared with December 31, 2004, primarily due to fluctuations in the utilization of federal government-sponsored export guarantee programs in certain countries. The international portfolio continued to reflect a significant concentration in federal government-sponsored trade financing programs. Overall, 74% and 78% of the loans made in connection with international transactions at December 31, 2005 and 2004 were guaranteed through the USDA's Commodity Credit Corporation.

The following table presents the contractual maturity distribution of loans, excluding real estate mortgage and rural residential real estate loans, at December 31, 2005:

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
	(in millions)			
Production and intermediate-term loans	$ 9,524	$10,842	$ 3,536	$23,902
Loans to cooperatives	3,806	2,852	2,120	8,778
Processing and marketing loans	1,532	1,225	1,326	4,083
Farm-related business loans	532	517	763	1,812
Communication loans	469	417	1,719	2,605
Energy and water/waste disposal loans	1,147	586	3,725	5,458
International loans	940	1,336	1	2,277
Lease receivables	181	655	454	1,290
Loans to other financial institutions	162	220	12	394
Total	$18,293	$18,650	$13,656	$50,599

Loan Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio at the System level is diversified by commodities financed and geographic locations served, as illustrated in the following two tables. However, due to the geographic territories served by Banks and Associations, most institutions have higher geographic, borrower and commodity concentrations than does the System as a whole.

Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. Primary business is assigned if the commodity or industry accounts for 50% or more of the total value of sales for its products. Otherwise, the category assigned will be considered as other.

	December 31, 2005		December 31, 2004	
	Amount	Percentage	Amount	Percentage
	($ in millions)			
Cash grains (includes corn, wheat and soybeans)	$ 13,779	12.97%	$13,411	13.92%
Cattle	11,134	10.48	9,532	9.89
Dairy farms	8,532	8.03	7,794	8.09
Tree fruits, nuts and grapes	7,698	7.24	7,026	7.29
Field crops (includes sugar beets, potatoes and vegetables)	7,003	6.59	6,373	6.61
Rural home loans, farm landlords and part-time farms	6,826	6.42	5,130	5.32
Forestry	5,929	5.58	5,344	5.55
Energy	5,618	5.29	4,727	4.91
Food products (includes meat, dairy and bakery products)	5,242	4.93	4,523	4.69
General farms, primarily crop	5,233	4.92	4,423	4.59
Farm supplies	4,922	4.63	4,289	4.45
Poultry and eggs	4,012	3.78	3,599	3.74
Agricultural services and fishing	3,003	2.83	2,730	2.83
Hogs	2,611	2.46	2,566	2.66
Communications	2,605	2.45	2,389	2.48
General farms, primarily livestock	2,523	2.37	1,989	2.06
International loans	2,277	2.14	2,624	2.72
Cotton	1,884	1.77	1,885	1.96
Other livestock	1,732	1.63	1,561	1.62
Other	3,709	3.49	4,452	4.62
	$106,272	100.00%	$96,367	100.00%

The System makes credit available in all 50 states, the Commonwealth of Puerto Rico, and U.S. territories. The following table presents the geographic distribution of the System's loan portfolio for states that represented 1% or more of the System's total loan volume during one or more of the past three years:

State	2005	2004	2003
California	9.34%	8.90%	8.76%
Texas	7.79	7.33	6.93
Iowa	5.00	4.80	5.13
Minnesota	4.95	5.06	5.22
Illinois	3.82	3.84	3.82
Nebraska	3.60	3.38	3.59
Ohio	3.53	3.45	3.30
Florida	3.28	2.98	2.61
Indiana	2.93	2.85	2.72
Wisconsin	2.86	2.94	2.96
Missouri	2.65	2.66	2.86
North Carolina	2.58	2.70	2.82
Kansas	2.55	2.72	2.77
Michigan	2.45	2.50	2.47
Tennessee	2.37	2.37	2.39
Georgia	2.35	2.42	2.24
New York	2.25	2.34	2.34
Colorado	1.98	1.96	1.91
North Dakota	1.98	2.04	2.09
Virginia	1.97	2.11	2.12
Washington	1.95	2.13	2.15
Kentucky	1.93	1.94	1.84
Pennsylvania	1.89	1.92	2.02
Oregon	1.87	1.79	1.80
South Dakota	1.84	1.72	1.65
Arkansas	1.83	1.86	2.19
Idaho	1.64	1.60	1.59
Alabama	1.34	1.39	1.40
Oklahoma	1.34	1.36	1.44
South Carolina	1.26	1.21	1.24
Mississippi	1.18	1.20	1.21
Maryland	1.14	1.11	1.04
Louisiana	0.98	1.13	1.15
All other states	9.58	10.29	10.23
	100.00%	100.00%	100.00%

The table below sets forth the loans by dollar size:

Range ($ in thousands)	December 31, 2005 Amount Outstanding	December 31, 2005 Number of Loans	December 31, 2004 Amount Outstanding	December 31, 2004 Number of Loans
	($ in millions)			
$1 – $250	$ 36,311	669,843	$35,422	647,936
$251 – $500	13,661	39,324	12,295	36,232
$501 – $1,000	11,606	16,793	10,126	15,123
$1,001 – $5,000	23,395	11,725	19,506	10,438
$5,001 – $25,000	13,905	1,586	12,032	1,431
$25,001 – $100,000	3,842	111	4,507	123
$100,001 – $250,000	2,905	21	2,128	14
Over $250,000	647	2	351	1
Total	$106,272	739,405	$96,367	711,298

Small loans (less than $250 thousand) accounted for 91% of System customers and 34% of System volume at December 31, 2005, as compared with 91% and 37% at December 31, 2004. Credit risk on small loans, in many instances, is reduced by non-farm income sources. Loans up to $250 thousand may be evaluated using validated automated scorecards. For loans greater than $100 thousand, additional credit information is generally required. Scorecards are widely used by the System for smaller loans, including production and intermediate-term, real estate mortgage and rural residential real estate loans.

The table sets forth scored loans for the past two years:

	December 31, 2005	December 31, 2004
	($ in millions)	
Number of scored loans	313,390	281,545
Amount of scored loans	$12,953	$10,778
Delinquent (30 days or more past due) scored loans as a % of scored loans	0.56%	0.34%
Delinquent loans for overall portfolio as a % of accruing loans	0.40%	0.32%

The largest 10 borrowers accounted for $2.074 billion or 1.95% of the System's total outstanding loans. The concentration of large loans to relatively few borrowers continued to be a significant factor in assessing the credit risk associated with loans. Although not a formal limit, we have established a quarterly process to identify and monitor System large loan exposures (outstanding loan amounts plus any unfunded loan commitments) to existing individual customers. During 2005, due to growth in the System's risk-bearing capacity, the System increased its level for large loan exposures to $750 million. While it is possible that one or more System institutions may simultaneously make credit available to a new customer that may, in the aggregate, exceed $750 million, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks of the largest ten loan exposures, including all loan exposures to a borrower greater than 75% of the $750 million level or $563 million. At December 31, 2005, two exposures (including unfunded commitments) exceeded $563 million but were below the $750 million level.

Credit risk on loans made in connection with international transactions remained relatively low, because approximately 74% and 78% of these loans were guaranteed under federal government programs as of December 31, 2005 and 2004. Additionally, we have reduced the credit risk of some real estate mortgage loans by entering into agreements that provide long-term standby commitments to purchase System loans, primarily with Farmer Mac. The Farmer Mac agreements, which are credit guarantees that remain in place until the loans are paid in full, give us the right to put the loans identified in the agreement to Farmer Mac at par in the event of significant delinquency, which, under the agreements, is typically four months past due. The amount of loans under Farmer Mac credit guarantees was $2.3 billion at both December 31, 2005 and 2004. Additional credit guarantees of approximately $1.3 billion were outstanding with other guarantors at both December 31, 2005 and 2004. Fees paid for the Farmer Mac and other guarantees totaled $16 million in 2005, $16 million in 2004 and $14 million in 2003, and are included in other operating expenses.

Credit Commitments

The following table summarizes the maturity distribution of unfunded credit commitments at December 31, 2005:

	Less than 1 year	1-3 years	3-5 years	Over 5 years	Total
			(in millions)		
Commitments to extend credit	$15,567	$9,444	$8,431	$4,123	$37,565
Standby letters of credit	855	364	560	72	1,851
Commercial and other letters of credit	160	3	1		164
Total commitments	$16,582	$9,811	$8,992	$4,195	$39,580

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. These credit-related financial instruments, other than standby letters of credit, have off-balance-sheet credit risk because their contractual amounts are not reflected on the balance sheet until funded or drawn upon. However, standby letters of credit are reflected on the balance sheet at the fair value of the liability of $3 million. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security are of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

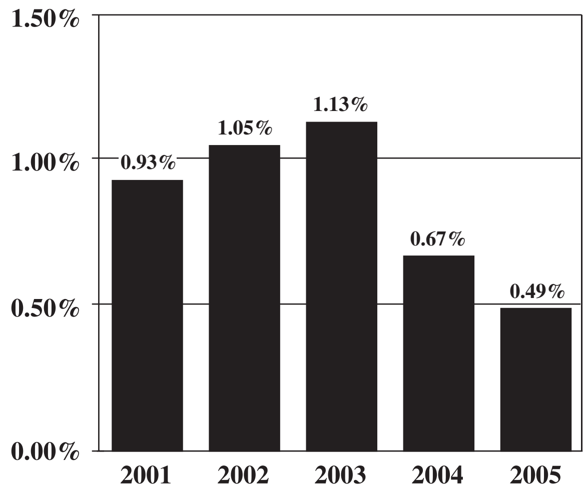
Nonperforming Assets

Nonperforming assets for each of the past five years consisted of the following:

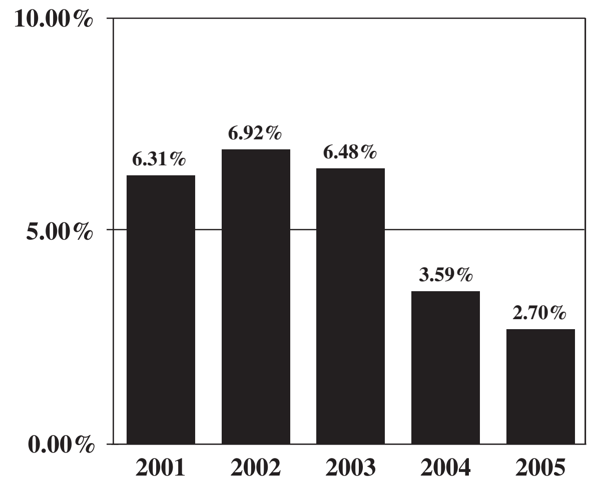
	December 31,				
	2005*	2004*	2003	2002	2001
			(in millions)		
Nonaccrual loans:					
Real estate mortgage	$228	$254	$ 469	$ 396	$ 402
Production and intermediate-term	123	141	215	228	230
Production agriculture	351	395	684	624	632
Agribusiness	132	109			
Communication	17	60			
Energy	7	57			
Domestic loans to cooperatives and other	156	226	360	309	139
Rural residential real estate	14	12			
International		8	5	6	
Lease receivables	3	5			
Total nonaccrual loans	524	646	1,049	939	771
Accruing restructured loans:					
Real estate mortgage	54	58	59	70	78
Production and intermediate-term	5	16	32	29	9
Production agriculture	59	74	91	99	87
Agribusiness/domestic loans to cooperative and other	2	2	3	10	26
Total accruing restructured loans	61	76	94	109	113
Accruing loans 90 days or more past due:					
Real estate mortgage	9	9	12	18	23
Production and intermediate-term	5	5	9	16	29
Production agriculture	14	14	21	34	52
Agribusiness		5			
Energy		2			
Domestic loans to cooperatives and other		7	19	49	20
Rural residential real estate	1				
International			3		
Total accruing loans 90 days or more past due	15	21	43	83	72
Total nonperforming loans	600	743	1,186	1,131	956
Other property owned	16	24	41	49	51
Total nonperforming assets	$616	$767	$1,227	$1,180	$1,007

* Beginning with year-end 2004, loan type categories have been expanded to provide additional information on the types of loans made. Expanded information provided for 2004 and 2005 is not available for 2001 through 2003.

Nonaccrual Loans
As a % of Total Loans Outstanding
as of December 31,



Total Nonperforming Assets
As a % of System Combined Capital
as of December 31,



Nonaccrual loans as a percentage of total loans outstanding decreased from 0.67% at December 31, 2004 to 0.49% at December 31, 2005. Nonaccrual loans decreased primarily due to paydowns or repayments of these loans and, to a lesser extent, charge-offs of certain energy, agribusiness, and production and intermediate-term loans.

The ten largest nonaccrual loans at December 31, 2005 totaled $177 million. Nonaccrual loans that were current as to principal and interest as a percentage of total nonaccrual loans was 61.8% at December 31, 2005, as compared with 62.1% at December 31, 2004. Nonaccrual loans contractually past due with respect to either principal or interest were $200 million and $245 million at December 31, 2005 and 2004.

Accruing restructured loans, including related accrued interest, decreased $15 million and $18 million during 2005 and 2004. The restructured loans include only the year-end balances of loans (and related accrued interest) on which monetary concessions have been granted to borrowers and that are in accrual status. Restructured loans do not include loans on which extensions or other nonmonetary concessions have been granted, or restructured loans on which monetary concessions have been granted but which remain in nonaccrual status. Upon restructuring, our accounting policies generally require a period of loan performance during which the borrower complies with the restructured terms before a loan is transferred to accruing restructured status.

The following table is a reconciliation of nonaccrual loan activity during the past three years:

	2005	2004	2003
		(in millions)	
Balance at beginning of period	$ 646	$1,049	$ 939
Additions:			
Gross amounts transferred into nonaccrual	417	486	814
Recoveries	33	67	24
Advances	472	185	388
Reductions:			
Charge-offs	(70)	(138)	(142)
Transfers to other property owned	(18)	(23)	(35)
Returned to accrual status	(71)	(134)	(100)
Repayments	(882)	(752)	(804)
Other, net	(3)	(94)	(35)
Balance at end of period	$ 524	$ 646	$1,049

During 2005, overall credit quality improved. Loans classified (under the Farm Credit Administration's Uniform Loan Classification System) as acceptable or other assets especially mentioned (OAEM) as a percentage of total loans and accrued interest receivable were 98.0% at December 31, 2005 and 97.5% at December 31, 2004. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased but remained at a low level of 0.40% at December 31, 2005, as compared with 0.32% at December 31, 2004. The following table shows loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable as of December 31:

	2005	2004	2003
Acceptable	95.87%	94.66%	92.69%
OAEM	2.12	2.88	3.88
Substandard	1.95	2.38	3.38
Doubtful	0.06	0.08	0.05
Total	100.00%	100.00%	100.00%

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by the managements of System institutions to be adequate to absorb probable losses existing in and inherent to their loan portfolios. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. Managements' evaluations consider factors that include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions and economic conditions. The allowance for loan losses was $755 million at December 31, 2005 and $792 million at December 31, 2004. As previously discussed in the "Accounting Related to the Allowance for Loan Losses" on page 29, System institutions refined their allowance for loan losses methodologies and recorded $1.262 billion of loan loss reversals in 2004.

Net loan charge-offs of $36 million, $75 million and $125 million were recorded in 2005, 2004 and 2003. Net loan charge-offs as a percentage of average loans remained at low levels of 0.04%, 0.08% and 0.14% for 2005, 2004 and 2003. The 2004 and 2003 net loan charge-offs were primarily associated with a limited number of loans to specific independent merchant power producers and certain wireless communications customers.

The following table presents the activity in the allowance for loan losses for the most recent five years:

	For the Year Ended December 31,				
	2005*	2004*	2003	2002	2001
	($ in millions)				
Balance at beginning of year	$792	$ 2,075	$2,101	$2,079	$1,957
Charge-offs:					
Real estate mortgage	(3)	(21)	(21)	(29)	(9)
Production and intermediate-term	(18)	(21)	(50)	(44)	(32)
Production agriculture	(21)	(42)	(71)	(73)	(41)
Agribusiness	(16)	(22)			
Communication	(5)	(18)			
Energy	(23)	(53)			
Domestic loans to cooperatives and other	(44)	(93)	(79)	(74)	(62)
Rural residential real estate		(1)			
International	(4)	(4)		(4)	
Lease receivables	(1)	(2)			
Total charge-offs	(70)	(142)	(150)	(151)	(103)
Recoveries:					
Real estate mortgage	4	15	6	4	15
Production and intermediate-term	9	11	9	12	14
Production agriculture	13	26	15	16	29
Agribusiness	8	13			
Communication	6	10			
Energy	5	13			
Domestic loans to cooperatives and other	19	36	10	13	6
International	1				
Lease receivables	1	5			
Total recoveries	34	67	25	29	35
Net charge-offs	(36)	(75)	(125)	(122)	(68)
(Loan loss reversal) provision for loan losses	(1)	(1,208)	99	144	190
Balance at end of year	$755	$ 792	$2,075	$2,101	$2,079
Ratio of net charge-offs during the period to average loans outstanding during the period	0.04%	0.08%	0.14%	0.14%	0.09%

* Beginning with year-end 2004, loan type categories have been expanded to provide additional information on the types of loans made. Expanded information provided for 2004 and 2005 is not available for 2001 through 2003.

The allowance for loan losses by loan type for the most recent five years is as follows and reflects the one-time loan loss reversals taken in 2004:

	December 31,									
	2005*	%	2004*	%	2003	%	2002	%	2001	%
					($ in millions)					
Real estate mortgage	$138	18.3%	$158	19.9%	$1,112	53.6%	$1,087	51.7%	$1,152	55.4%
Production and intermediate-term	127	16.8	145	18.3	525	25.3	589	28.0	571	27.5
Production agriculture	265	35.1	303	38.2	1,637	78.9	1,676	79.7	1,723	82.9
Agribusiness	291	38.6	261	33.0						
Communication	65	8.6	82	10.3						
Energy and water/waste disposal	92	12.2	95	12.0						
Domestic loans to cooperatives and other	448	59.4	438	55.3	415	20.0	405	19.3	336	16.1
Rural residential real estate	4	0.5	6	0.7						
International	18	2.4	21	2.7	23	1.1	20	1.0	20	1.0
Lease receivables	20	2.6	22	2.8						
Loans to other financial institutions			2	0.3						
Total	$755	100.0%	$792	100.0%	$2,075	100.0%	$2,101	100.0%	$2,079	100.0%

* Beginning with year-end 2004, loan type categories have been expanded to provide additional information on the types of loans made. Expanded information provided for 2004 and 2005 is not available for 2001 through 2003.

As previously discussed, the allowance for loan losses decreased significantly in 2004 as a result of the loan loss reversals, the majority of which were related to the real estate mortgage and production and intermediate-term loan portfolios that generally have experienced minimal losses in recent years.

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

	December 31,				
	2005	2004	2003	2002	2001
Total loans	0.71%	0.82%	2.24%	2.34%	2.52%
Nonperforming loans	126	107	175	186	217
Nonaccrual loans	144	123	198	224	270

The financial positions of our borrowers have generally strengthened during the past decade as farmers' net cash income has been at a favorable level due, in part, to direct federal government payments and steady increases in land values over the period. With borrowers' strengthened financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio has remained healthy.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term value that may result from changes in interest rates. This risk can produce variability in System earnings (net interest spread achieved and net interest income) and, ultimately, the long-term capital position of the System. The System actively manages the following risks:

- Yield curve risk — results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Repricing risk — caused by the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk — results from "embedded options" that are present in many financial in-

struments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce a risk exposure for the lender. For example, a fixed-rate loan product may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan settles. If interest rates increase while the rate guarantee is in effect and if we do not take measures to hedge the rate guarantee, we might realize a lower spread than expected when the loan is funded.

After the loan settles, the borrower may also have the option to repay the loan's principal ahead of schedule. If interest rates have fallen, System institutions may be forced to reinvest principal returned from higher rate loans at a lower rate, which may reduce the interest rate spread unless the underlying debt can be similarly refinanced.

Interest rate caps are another form of embedded options that may be present in certain investments and variable and adjustable rate loans. Interest rate caps typically prevent the borrower's loan rate from increasing above a defined limit. In a rising interest rate environment, the lender's spread may be reduced if caps limit upward adjustments to variable loan rates while debt costs continue to increase.

- Basis risk — results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating-rate index tied to a loan or investment differs from the index on the Systemwide Debt Security issued to fund the loan or investment.

The goal of System Banks in managing interest rate risk is to maintain long-term value and stable earnings over both the short- and long-term time horizons. In most cases, the wholesale funding provided by a Bank to an Association matches the terms of and embedded options in the Association's retail loans. This funding approach shifts the majority of the interest rate risk connected with our retail loans from the Association to its funding Bank. The Banks are responsible for developing asset/liability management policies and strategies to manage interest rate risk and for monitoring them on a regular basis. These policies include guidelines for measuring and evaluating exposures to interest rate risk. In addition, the policies establish limits for interest rate risk management and define the role of the board of directors in delegating day-to-day responsibility for interest rate risk management to Bank management. That authority is delegated to an asset/liability management committee, or ALCO, made up of senior Bank managers. The policies define the composition of the committee and its responsibilities. Interest rate risk management is also subject to certain intra-System agreements, including the Contractual Interbank Performance Agreement and the Market Access Agreement, and regulatory oversight by the Farm Credit Administration.

One of the primary benefits of our status as a government-sponsored enterprise debt issuer is that, through the Funding Corporation and its selling group (investment banks and dealer banks), System Banks have daily access to the debt markets and a great deal of flexibility in structuring the maturity and types of debt securities we issue. The ability to quickly access the debt markets helps us minimize the risk that interest rates might change between the time a loan commitment is made and the time it is funded.

Flexibility in structuring debt enables us to issue Systemwide Debt Securities that offset some of the primary interest rate risk exposures embedded in our loans. For example, by issuing LIBOR-indexed, floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by our LIBOR-indexed, variable-rate loans. As we discussed above, some of our fixed-rate loans may provide borrowers with the option to prepay their loans. In most interest rate environments we can significantly offset the risk created by an embedded prepayment option by funding prepayable fixed-rate loans with callable debt. Callable debt provides us with the option to retire debt early in order to maintain a better match between the duration of our assets and our liabilities.

Just over one-half of our fixed-rate loans provide the borrowers with the option to prepay their loan at any time, and the remainder of the System's fixed-rate loans contain provisions requiring prepayment fees to partially or fully compensate the Banks for the cost of retiring the debt that is funding prepayable loan assets.

Our creditworthiness enables the Banks to participate in the derivatives markets, which provides additional tools to manage risk. Our use of derivatives is detailed later in this section.

Interest Rate Risk Measurements

The Banks measure interest rate risk using:

- net interest income sensitivity analysis — projects the impact of changes in the level of interest rates and the shape of the yield curve on net interest income for the next year,
- market value of equity sensitivity analysis — estimates the market value of assets, liabilities and equity given various rate scenarios,
- interest rate gap analysis — compares the amount of interest sensitive assets to interest sensitive liabilities in defined time periods, and
- duration gap — the difference between the estimated durations of assets and liabilities.

These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary.

Interest Rate Risk Management Results

Interest Rate Gap Analysis

The interest rate gap analysis shown below presents a comparison of interest-sensitive assets and liabilities in defined time segments as of December 31, 2005. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, rate and spread changes and may not necessarily indicate the sensitivity of net interest margin in a changing rate environment. Within the gap analysis, gaps are also created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of assets will exceed the quantity of interest-bearing liabilities in any repricing interval where capital is assumed to provide part of the funding. The gap table below includes anticipated cash flows on assets and liabilities given the current level of interest rates:

	Repricing Intervals				
	0-6 Months	6 Months to 1 Year	1-5 Years	Over 5 Years	Total
	($ in millions)				
Floating-rate loans:					
Variable/adjustable loans	$22,788	$ 912	$ 1,859	$ 955	$ 26,514
Administered-rate loans	23,685	24			23,709
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees	8,969	2,240	10,374	6,524	28,107
Fixed-rate without prepayment or conversion fees	5,388	2,673	11,013	8,344	27,418
Nonaccrual loans			263	261	524
Total gross loans	60,830	5,849	23,509	16,084	106,272
Federal funds sold and investments	17,815	1,318	6,902	1,892	27,927
Total earning assets	78,645	7,167	30,411	17,976	134,199
Interest-bearing liabilities:					
Callable bonds and notes	2,759	3,360	16,262	4,753	27,134
Noncallable bonds and notes	41,351	7,108	25,235	11,891	85,585
Other interest-bearing liabilities	1,089	9	1	260	1,359
Total interest-bearing liabilities	45,199	10,477	41,498	16,904	114,078
Effect of interest rate swaps and other derivatives	24,254	(5,429)	(18,174)	(651)	
Total interest-bearing liabilities adjusted for swaps and other derivatives	69,453	5,048	23,324	16,253	114,078
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)	$ 9,192	$ 2,119	$ 7,087	$ 1,723	$ 20,121
Cumulative gap	$ 9,192	$11,311	$ 18,398	$20,121	
Cumulative gap as a percentage of total earning assets	6.85%	8.43%	13.71%	14.99%	

Consistent with the positive gap between the System's earning assets and interest-bearing liabilities as reflected in the table above, the System's interest rate sensitivity position at December 31, 2005 for repricing intervals in the first six months of 2006 may generally be characterized as "asset sensitive," i.e., interest rates earned by the System on earning assets may change or be changed more quickly than interest rates on the interest-bearing liabilities used to fund these assets. The System's substantial capital position contributes to our characterization as "asset sensitive" because capital reduces the amount of debt that we must issue to fund our assets.

Typically, the net interest margin of an institution that is "asset sensitive" will be unfavorably impacted in a declining interest-rate environment and favorably impacted in a rising short- and long-term interest-rate environment. The System's capital is invested in loans and investment securities that reprice to lower yields when interest rates are falling and to higher yields when interest rates increase. However, the net interest spread, a component of net interest margin, may react in a different manner due to competitive conditions at the time of repricing. Further, a significant portion of the System's variable-rate loans are management administered-rate loans that, unlike indexed loans, require definitive action at the discretion of the lending Bank or Association to change the interest rates charged and may reflect managements' assessments of whether rate changes are warranted or feasible in view of competitive market conditions. The actual interest rates charged on the administered-rate loans may not mirror the movement of some market interest rates, thereby moderating the overall net interest income impact of market fluctuations that would otherwise exist for asset-sensitive institutions. Additionally, the Banks issue callable debt to accelerate the repricing of debt in a declining interest rate environment and thereby moderate the impact of falling interest rates on net interest income of institutions in an asset-sensitive position. During 2005, \$2.4 billion of debt was called and at December 31, 2005, \$27.1 billion of callable debt obligations were outstanding. The System's cumulative gap position in the 0-6 months repricing interval decreased from 7.22% at December 31, 2004 to 6.85% at December 31, 2005.

Duration Gap

Another risk measurement is duration, which we calculate using a simulation model. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. All else being equal, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

A positive duration gap means there is a greater exposure to rising interest rates because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap means that there is a greater exposure to declining interest rates because the duration of our assets is less than the duration of our liabilities. At December 31, 2005, the System's aggregate duration gap was a positive 1.7 months, as compared with a positive 0.6 months at December 31, 2004. A duration gap within the range of a positive three months to a negative three months generally indicates a small exposure to changes in interest rates.

Duration gap provides a relatively concise and simple measure of the interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. An institution's overall exposure to interest rate risk is a function not only of the duration gap, but also of the financial leverage inherent in the institution's capital structure. For the same duration gap, an institution with more equity or capital will have a lower overall percentage exposure to interest rate risk, stated in terms of the percentage change in the market value of equity, than one with less capital and more leverage.

There are some limitations to duration analysis as balance sheets are dynamic. Durations change over time and as the composition of a portfolio changes.

The System Banks use sophisticated simulation models to develop interest rate sensitivity estimates and periodically back test those models to ensure reasonable performance.

Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by the gap analysis and the simple duration gap, each Bank conducts simulations of net interest income and market value of equity. The market value of equity sensitivity analysis incorporates the effects of leverage. The two primary scenarios used for the analysis reflect the impact of interest rate shocks upward and downward (i.e., immediate, parallel changes upward and downward in the yield curve) on projected net interest income and on market value of equity. The Banks also use other types of measures to model exposures to interest rate changes, such as rate ramps (gradual change in rates) and yield curve slope changes.

The upward and downward shocks for 2005 are based on movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. A 200 basis point shock is a general standard considered by the Basel Committee on Banking Supervision. In a low interest rate environment, the basis point decrease is based on one-half of the three-month Treasury bill rate. Based on the Treasury bill rates at December 31, 2004 the shock downward was 112 basis points. Under these simulations, the System's sensitivity to interest rate changes was:

	December 31, 2005				December 31, 2004		
	−200	−100	+100	+200	−112	+100	+200
Change in net interest income	−2.90%	−1.75%	2.10%	3.86%	−1.88%	2.55%	4.45%
Change in market value of equity	2.28%	1.99%	−2.14%	−4.47%	1.38%	−1.21%	−3.62%

Each Bank's interest rate risk management policy establishes limits for changes in net interest income sensitivity and market value of equity sensitivity. These limits are measured monthly and reported to each Bank's board of directors at least quarterly. The limits set by the Banks' boards of directors for net interest income and market value of equity sensitivity ranged up to a negative 20% for a 200 basis point shock. During 2005 and 2004, no Bank exceeded its policy limits.

Further, each Bank has established a District limit of a 15% negative movement for changes in net interest income sensitivity and market value of equity sensitivity as measured using the combined results of each Bank and its affiliated Associations. This limit is measured and reported on a quarterly basis. None of the Banks exceeded the District limit during 2005 and 2004. District measurements are presented in Supplemental Financial Information on page F-46.

In addition to the interest rate scenarios required for reporting and regulatory purposes, the Banks also periodically perform additional scenario analyses to study the effects of changes in critical modeling assumptions — for example, the impact of increased/decreased prepayments, changes in the relationship of the System's funding cost to other benchmark interest rates, additional non-parallel shifts in the yield curve, and changes in market volatility.

One of the primary modeling assumptions affecting the measurement of market value of equity is the prepayment function. The cash flows on some of our fixed-rate agricultural loans and most of our mortgage-related investment securities are sensitive to changes in interest rates because borrowers may have the flexibility to partially or completely repay the loan ahead of schedule. When interest rates decrease, borrowers can often reduce their interest costs by refinancing their loans. The financial incentive for the borrowers to refinance their loans increases as interest rates decline and the potential savings increase.

When interest rates rise, fixed rate borrowers lack the incentive to prepay their loans. However, prepayments can occur in any rate environment due to real estate sales transactions or early repayment of loans for reasons unrelated to interest rate conditions.

Lenders closely study the relationship between interest rates, the potential savings available from refinancing, and actual loan prepayment activity in order to gain a better understanding of prepayment behavior and more accurately forecast cash flows for prepayable loans and mortgage-related investments.

We gather and maintain loan information, including prepayment data, for use in developing prepayment models for agricultural loans. These models typically specify a minimum or "baseline" level of expected prepayments that is not affected by the general level of interest rates, along with an interest-sensitive component that projects faster prepayments as the potential refinancing advantage increases. The refinancing advantage is defined as the difference between the loan rate on an outstanding fixed-rate loan and the current loan rate offered for a new fixed-rate loan with a similar maturity. Further, model refinements may reflect differences due to the loan product type and age or "seasoning" of the loan. The Banks' agricultural loan prepayment models are based on proprietary data and may differ from Bank to Bank and from prepayment models developed for use with residential mortgages.

We also maintain investment portfolios that contain mortgage- and asset-backed investments that may also be subject to prepayment risk. Detailed prepayment data for these assets are readily available and a number of investment banks and fixed-income consulting firms market product-specific prepayment models for use in asset/liability risk management. The Banks typically subscribe to a commercially available prepayment model appropriate for these securities and integrate the analysis within their regular asset/liability analysis.

Derivative Products

Derivative products are an integral part of our interest rate risk management activities and supplement our issuance of debt securities in the capital markets. We use derivative financial instruments as hedges against interest rate and liquidity risks and to lower the overall cost of funds. We do not hold or enter into derivative transactions for trading purposes. Our ability to issue various types of debt securities or modify the debt securities by using derivative instruments provides us with greater flexibility to manage our interest rate risk.

The primary types of derivative instruments used and hedging strategies employed are summarized in the following table and for additional information see Note 17 to the accompanying combined financial statements:

Derivative Instrument/Hedged Item	Purpose of the Hedge Transaction	Strategic Impact
Receive-fixed, pay-floating interest rate swap hedging callable or non-callable fixed rate debt	To protect against the decline in interest rates on assets by exchanging the debt's fixed rate payment for a variable rate payment that better reflects the amounts paid on the assets.	A common use is to create a substitute for conventional floating-rate funding. The fixed-rate received on the swap largely offsets the fixed-rate paid on the associated debt leaving a net floating payment. The strategy frequently provides cost savings or promotes liquidity by permitting access to longer maturity floating-rate funding than may otherwise be available.
Pay-fixed, receive-floating interest rate swap hedging variable rate debt	To protect against an increase in interest rates by exchanging the debt's variable rate payment for a fixed rate payment that matches the cash flows of assets.	The combination of the pay-fixed, receive-floating swap with floating-rate funding results in a net fixed-rate payment. This strategy may provide lower cost fixed-rate funding than outright issuance of fixed-rate debt.
Floating-for-floating swap hedging variable rate assets and liabilities	Used to manage the basis risk that can result when assets and liabilities are based on different floating-rate indexes or reprice at different times or on different frequencies.	The System's variable-rate loans and floating-rate investments are tied to a number of floating-rate indexes including Farm Credit's short-term debt cost, the prime rate, Federal funds and LIBOR. Ideally, variable rate loans would be funded by issuing floating-rate funding tied to the same floating-rate index with identical reset terms. However, floating-rate funding is not consistently available to exactly meet these requirements. Floating-for-floating or 'basis' swaps are used to bridge this gap.
Interest rate caps hedging variable rate assets and debt	To replace income lost from variable rate assets that have reached cap levels or to put a ceiling on interest cost on variable rate debt.	Some variable-rate loans may specify a maximum interest rate to limit the borrower's exposure to rising interest rates. Interest rate caps are purchased to provide offsetting protection against rising interest rates.
Interest rate floors hedging variable rate loans	To protect against falling interest rates on variable rate assets.	A purchased floor option will produce a cash flow when the index rate falls below the strike rate. Cash flow from the floor can be used to offset income lost on variable rate assets when interest rates decline. Floor options may also be used in combination with interest rate caps to create interest rate collars or otherwise limit or modify variable rate cash flows.

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, increased $146 million to $41.290 billion at December 31, 2005, as compared with $41.144 billion at December 31, 2004. The majority of the swaps used by the Banks were receive-fixed swaps, which improve liquidity and/or lower their cost of debt by issuing fixed-rate debt and swapping to variable to create synthetic floating rate debt.

The following table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates for the System's derivative financial instruments. The fair values of these derivatives were recognized in the Combined Statement of Condition. The table was prepared using the implied forward yield curve at December 31, 2005.

Maturities of 2005 Derivative Products

	2006	2007	2008	2009	2010	2011 and thereafter	Total	Fair Value at December 31, 2005
	($ in millions)							
Receive-fixed swaps								
Notional value	$ 9,677	$7,969	$7,174	$5,705	$ 785	$1,210	$32,520	$(585)
Weighted average receive rate	2.65%	3.10%	3.69%	4.11%	4.74%	5.10%	3.39%	
Weighted average pay rate	4.78%	4.79%	4.80%	4.85%	4.94%	4.97%	4.81%	
Pay-fixed and amortizing-pay fixed swaps								
Notional value	$ 208	$ 141	$ 117	$ 95	$ 76	$1,221	$ 1,858	$ (3)
Weighted average receive rate	4.77%	4.79%	4.81%	4.89%	4.96%	4.89%	4.87%	
Weighted average pay rate	2.63%	5.00%	5.09%	4.19%	5.38%	5.02%	4.73%	
Floating-for-floating and amortizing floating-for-floating swaps								
Notional value	$ 415	$ 350	$ 500	$ 200		$ 400	$ 1,865	$ 4
Weighted average receive rate	3.38%	4.15%	4.36%	4.31%		4.36%	4.10%	
Weighted average pay rate	3.40%	3.51%	4.46%	4.36%		4.50%	4.04%	
Interest rate caps								
Notional value	$ 954	$ 380	$ 465	$ 365	$ 285	$ 300	$ 2,749	$ 14
Other derivative products								
Notional value	$ 610	$ 572	$ 158	$ 120	$ 53	$ 785	$ 2,298	$ 10
Total notional value	$11,864	$9,412	$8,414	$6,485	$1,199	$3,916	$41,290	$(560)
Total weighted average rates on swaps:								
Receive rate	2.75%	3.19%	3.77%	4.14%	4.76%	4.85%	3.53%	
Pay rate	4.63%	4.71%	4.77%	4.82%	4.98%	4.89%	4.74%	

Approximately 75% of the notional amounts of derivative products outstanding at December 31, 2005 were entered into to create synthetic variable-rate debt for the purposes of reducing the cost of directly issuing variable-rate debt or managing liquidity risk. Most of the remaining derivative products outstanding at December 31, 2005 were entered into for other asset/liability management purposes.

By using derivative instruments, we are exposed to counterparty credit risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe the Bank on early termination of the derivative, thus creating a credit risk for the Bank. When the fair value of the derivative is negative, the Bank would owe the counterparty on early termination of the derivative, and, therefore, assumes no credit risk.

To minimize the risk of credit losses from derivatives, we deal with counterparties that have an investment grade or better long-term credit rating from a Nationally Recognized Statistical Rating Organization such as Moody's Investors Service or Standard & Poor's, and also monitor the credit standing of and levels of exposure to individual counterparties. We typically enter into master agreements that govern all derivative transactions with a counterparty and contain netting provisions. These provisions allow us to use the net value of affected transactions with the same counterparty in the event of a default by the counterparty or early termination of the agreement. A majority of derivative contracts entered into by the Banks are supported by collateral arrangements with counterparties. The counterparty credit ratings for the exposure on derivatives that would be owed to us due to a default or early termination by our counterparties at December 31, 2005 were:

Derivative Credit Exposure

			Years to Maturity(1)						
	Number of Counterparties	Notional Principal	Less than 1 Year	1 to 5 Years	Over 5 Years	Maturity Distribution Netting(2)	Exposure	Collateral Held	Exposure Net of Collateral
				($ in millions)					
Current Moody's Credit Rating									
Aaa	2	$ 491							
Aa1	4	11,050	$1		$ 3	$ (4)			
Aa2	6	14,075	1		16	(13)	$4		$4
Aa3	5	10,153	1	$1	5	(4)	3		3
A1	2	4,787	—	—	—	—	—	—	—
Total	19	$40,556(3)	$3	$1	$24	$(21)	$7	$0	$7

(1) Represents gain positions on derivative instruments with individual counterparties. Net gains represent the exposure to credit loss estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts within a maturity category. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty. If the net position within a maturity category with a particular counterparty is a loss, no amount is reported.

(2) Represents impact of netting of derivatives in a gain position and derivatives in a loss position with the same counterparty across different maturity categories.

(3) The remaining notional amount of derivative financial instruments of $734 million at December 31, 2005 was related to interest rate swaps that one Bank entered into with certain of its customers. This Bank offset the risk from these transactions by concurrently entering into offsetting derivative transactions with some of the above counterparties.

Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached. At December 31, 2005, one Bank had posted collateral with respect to its obligations under these agreements totaling $111 million. At December 31, 2004, two Banks had posted collateral totaling $35 million.

Liquidity Risk Management

General

Liquidity risk management is necessary to ensure our ability to meet our financial obligations. These obligations include the repayment of Systemwide Debt Securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets. The Banks have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems. Under this program, in addition to directly issuing Systemwide Debt Securities to certain select institutional investors, the Banks may also incur other obligations, such as purchases of Federal funds, that would be the joint and several obligations of the Banks and would be insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund.

Funding Sources

Our primary source of liquidity is the ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the Banks. We continually raise funds to support our mission to provide credit and related services to the rural and agricultural sectors, repay maturing Systemwide Debt Securities, and meet other obligations. As a government-sponsored enterprise, we have had access to both the nation's and world's capital markets. This access has provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the rural and agricultural sectors. Moody's

Investors Service and Standard & Poor's rate our long-term debt as Aaa and AAA, and our short-term debt as P-1 and A-1+. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a government-sponsored enterprise. Material changes to the factors considered could result in a different debt rating. However, as a result of the System's financial performance, credit quality and standing in the capital markets, we anticipate continued access to funding necessary to support System needs. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities.

Liquidity Standard

The Banks have jointly developed and adopted a Common Minimum Liquidity Standard. This Standard is designed to maintain and assure adequate liquidity to meet the business and financial needs of each Bank and the System. The Standard requires each Bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing Systemwide Debt Securities and other bonds with the total amount of cash, investments, and other liquid assets maintained by that Bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale. The liquid assets of the Banks include and are valued as follows:

- multiply cash and overnight investments by 100%,
- multiply the market value of money market instruments and floating rate debt securities, whose current coupon rates are below their contractual rate, by 95%,
- multiply the market value of fixed rate debt securities and floating rate debt securities, whose coupon rates are at their contractual cap rate, by 90%,
- multiply individual securities in diversified investment funds by the discounts that would apply to the securities if held separately, and
- multiply new debt issued but not settled by 100%.

At December 31, 2005 and 2004, each Bank exceeded the minimum 90 days of liquidity. (See Supplemental Financial Information on page F-46 for each individual Bank's liquidity position at December 31, 2005.) The System's liquidity position was 187 days at December 31, 2005, as compared with 161 days at December 31, 2004.

Cumulative Systemwide Debt Securities maturities for the past two years were:

	December 31, 2005	December 31, 2004
	(in millions)	
Debt maturing in:		
one day	$ 1,417	$ 905
one week	3,368	2,704
one quarter	16,527	15,666
six months	23,634	22,340
one year	40,321	38,964

Cash provided by the System's operating activities was $1.546 billion for 2005, $1.653 billion for 2004 and $1.953 billion for 2003 (primarily generated from net interest income in excess of operating expenses) and provided an additional source of liquidity for the System that is not reflected in the individual Bank's calculation of days of liquidity under the Standard. Further, investments in the Insurance Fund would be used to repay maturing Systemwide Debt Securities to the extent available if no other sources existed to repay the debt. At December 31, 2005 and 2004, the assets in the Insurance Fund totaled $2.062 billion and $2.164 billion. (See "Insurance Fund" for additional information.)

Investments

As permitted under Farm Credit Administration regulations, a Bank is authorized to hold eligible investments (including Federal funds) for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds, and managing interest rate risk. During 2005, the Farm Credit Administration approved a rule that increased the amount of eligible investments a Bank is authorized to hold to an amount not to exceed 35% of loans outstanding from the previous percentage of 30%. Farm Credit Administration regulations also permit an Association to hold eligible investments with the approval of its affiliated Bank.

In addition, the System has initiated mission-related investment programs, approved by the Farm Credit Administration, whereby Banks and Associations may make investments that further the

System's mission to serve rural America. These investments are not included in the Banks' liquidity calculations and are not covered by the limitations discussed above. At December 31, 2005, there were $1.3 billion of rural housing mortgage-backed securities held under an approved program that were classified as held-to-maturity. Mortgage-backed securities issued by Farmer Mac are also considered mission-related and are excluded from the limitation and the Banks' liquidity calculations.

Farm Credit Administration regulations also define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of investment portfolio limit for each investment type. Generally, the Banks' investments must be highly rated by a Nationally Recognized Statistical Rating Organization, such as Moody's Investors Service or Standard & Poor's. The credit rating criteria by investment type are:

	Moody's	Standard & Poor's
Overnight Federal funds	P-1, P-2	A-1+, A-1, A2
Term Federal funds	P-1, P-2	A-1+, A-1, A2
Commercial paper	P-1	A-1+, A-1
Corporate securities	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA−
Mortgage-backed securities	Aaa	AAA
Asset-backed securities	Aaa	AAA

A Bank must dispose of an investment that becomes ineligible within six months, unless the Farm Credit Administration grants permission to divest the instrument over a longer period of time.

Cash, Federal funds and investments increased $4.263 billion during 2005 to $28.427 billion and represented 26.7% of total loans outstanding at December 31, 2005, as compared with 25.1% at December 31, 2004. This increase assisted the Banks in improving their liquidity position. Investment types and Federal funds by credit rating were:

December 31, 2005	AAA/Aaa	A1/P1	*Split Rated	A2/P2	Not-Rated	Total
			(in millions)			
Federal funds		$2,333		$50		$ 2,383
Commercial paper, bankers' acceptances, certificates of deposit and other securities		1,572	$557			2,129
U.S. agency securities	$ 289					289
Mortgage-backed securities(1)	19,422				$549	19,971
Asset-backed securities(2)	3,149				6	3,155
Total	$22,860	$3,905	$557	$50	$555	$27,927

December 31, 2004	AAA/Aaa	A1/P1	*Split Rated	AA/Aa	Not-Rated	Total
			(in millions)			
Federal funds		$2,727				$ 2,727
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 58	1,812	$391	$15		2,276
U.S. Treasury securities(3)	523					523
U.S. agency securities	64					64
Mortgage-backed securities(1)	15,393				$602	15,995
Asset-backed securities	2,103					2,103
Total	$18,141	$4,539	$391	$15	$602	$23,688

* Investment that received the highest credit rating from one rating organization but the next highest rating by another rating organization.

(1) Farmer Mac securities are not required to be rated under Farm Credit Administration regulations.

(2) Non-rated asset-backed securities represent the retained interest in securitized loans.

(3) While specific U.S. Treasury issues are not rated, the United States does have a AAA sovereign rating.

The types of mortgage-backed and asset-backed securities that were included in the System's investment portfolio at December 31, 2005 and 2004 were:

	December 31, 2005		December 31, 2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Mortgage-backed securities:				
Agency collateralized	$14,414	$14,268	$11,007	$10,983
Agency whole loan pass-through	2,091	2,068	1,987	1,994
Non-agency	3,632	3,605	3,035	3,025
Total mortgage-backed securities	$20,137	$19,941	$16,029	$16,002
Asset-backed securities:				
Home equity loans	$ 2,377	$ 2,375	$ 1,300	$ 1,298
Credit card receivables	236	236	379	379
Auto loans	360	359	221	221
Student loans	112	113	132	133
Small business loans	61	60	34	34
Other asset-backed	12	11	37	38
Total asset-backed securities	$ 3,158	$ 3,154	$ 2,103	$ 2,103

The table sets forth fair values for floating-rate and fixed-rate mortgage-backed and asset-backed securities:

	December 31,	
	2005	2004
Floating-rate mortgage-backed securities	$11,128	$10,064
Fixed-rate mortgage-backed securities	8,813	5,938
Total mortgage-backed securities	$19,941	$16,002
Floating-rate asset-backed securities	$ 2,621	$ 1,597
Fixed-rate asset-backed securities	533	506
Total asset-backed securities	$ 3,154	$ 2,103

Contractual Obligations

We enter into contractual obligations in the ordinary course of business, including debt issuances for the funding of our business operations. Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of principal and interest to the holders of Systemwide Debt Securities are insured by amounts held in the Insurance Fund as described in Note 8. Certain other bonds issued directly by individual Banks are the obligations solely of the issuing Bank. In addition, we enter into derivative transactions with counterparties that create contractual obligations. See "Derivative Products" for additional information. Substantially all proceeds of debt issuances were used to repay maturing debt, as well as to fund growth in loans and investment securities. Issuance, maturity, and retirement activity of Systemwide Debt Securities for the past two years was:

	Systemwide Bonds*		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	(in millions)							
Balance, beginning of year	$ 84,931	$ 78,528	$ 3,908	$ 5,075	$ 10,268	$ 10,639	$ 99,107	$ 94,242
Issuances	44,464	41,933			243,825	314,419	288,289	356,352
Maturities/retirements	(31,036)	(35,530)	(1,399)	(1,167)	(242,242)	(314,790)	(274,677)	(351,487)
Balance, end of year	$ 98,359	$ 84,931	$ 2,509	$ 3,908	$ 11,851	$ 10,268	$ 112,719	$ 99,107

* Includes Systemwide master notes. During 2005, $150 million of Systemwide master notes were issued and no Systemwide master notes remained outstanding as of December 31, 2005. During 2004, $1.150 billion of Systemwide master notes were issued and $1.220 billion remained outstanding at December 31, 2004.

Weighted average interest rates and weighted average maturities for 2005 and 2004 were:

	Systemwide Bonds		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
At December 31:								
Average interest rate	4.12%	2.80%	6.33%	5.79%	3.96%	1.76%	4.15%	2.81%
Average remaining maturity	3.3 years	2.8 years	4.4 years	3.9 years	1.7 months	1.7 months	3.03 years	2.5 years
Issuances during the year:								
Average interest rate	4.05%	2.61%			3.14%	1.32%	3.28%	1.47%
Average maturity at issuance	4.2 years	3.0 years			15 days	11 days	8.2 months	4.6 months

The following table presents principal cash flows and related weighted average interest rates by contractual maturity dates for Systemwide Debt Securities.

	Fixed rate	Average interest rate	Variable rate	Average interest rate	Total
	($ in millions)				
2006	$24,328	3.51%	$15,993	4.27%	$ 40,321
2007	10,319	3.64	14,320	4.31	24,639
2008	9,876	3.93	5,483	4.42	15,359
2009	6,347	4.27	3,818	4.17	10,165
2010	4,193	4.64	1,974	4.23	6,167
2011 and thereafter	15,101	5.09	967	4.12	16,068
Total	$70,164	4.07	$42,555	4.29	$112,719
Fair value at December 31, 2005	$69,774		$42,516		$112,290

The Farm Credit Act and Farm Credit Administration regulations require, as a condition for a Bank's participation in the issuance of Systemwide Debt Securities, that the Bank maintain specified eligible assets, referred to in the Farm Credit Act as "collateral," at least equal in value to the total amount of the debt securities outstanding for which it is primarily liable. (See "Federal Regulation and Supervision of the Farm Credit System — Bank Collateral Requirements" for a description of eligible assets.) The collateral requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the Banks. At December 31, 2005, all Banks reported compliance with the collateral requirement. (See "FCA Capital Requirements" and Note 10 to the accompanying combined financial statements.)

Each Bank determines its participation in each issue of Systemwide Debt Securities based on its funding and operating requirements, subject to: (1) the availability of eligible collateral (as described above), (2) compliance with the conditions of participation as prescribed in the Market Access Agreement, (3) determination by the Funding Corporation of the amounts, maturities, rates of interest and terms of each issuance, and (4) Farm Credit Administration approval. As of December 31, 2005, no Bank was limited or precluded from participation in issuances of Systemwide Debt Securities. As required by the Farm Credit Act, Systemwide Debt Securities are issued pursuant to authorizing resolutions adopted by the board of directors of each Bank. Under the Market Access Agreement, each Bank's ability to withdraw its authorizing resolution is restricted and, in certain circumstances, eliminated.

Issuance, maturity, and retirement activity of other bonds for the past two years was:

	Other Bonds	
	2005	2004
	(in millions)	
Balance, beginning of year	$ 898	$ 743
Issuances	16,566	12,605
Maturities/retirements	(16,607)	(12,450)
Balance, end of year	$ 857	$ 898

Weighted average interest rates and weighted average maturities of other bonds for 2005 and 2004 were:

	Other Bonds	
	2005	2004
At December 31:		
Average interest rate	3.43%	1.47%
Average remaining maturity	4 days	23 days
Issuances during the year:		
Average interest rate	2.83%	1.06%
Average maturity at issuance	5 days	5 days

Capital Adequacy and the Ability to Repay Systemwide Debt Securities

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services. We believe a sound capital position is critical to providing protection to investors in Systemwide Debt Securities and our long-term financial success.

Over the past several years, we have built capital through net income earned and retained. Capital accumulated through earnings has been partially offset by cash distributions to shareholders. Surplus of $18.604 billion is the most significant component of capital. As of December 31, 2005, surplus as a percentage of capital was 81.7%, as compared with 79.9% at December 31, 2004. Capital as a percentage of assets was 16.3% and 17.1% at December 31, 2005 and 2004. (See Notes 13 and 21 to the accompanying combined financial statements for additional information related to the capitalization of System institutions.)

FCA Capital Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent of total liabilities. At December 31, 2005, all System institutions maintained ratios in excess of these standards as follows:

System Institutions	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Net Collateral Ratio
Banks*	13.7% – 23.9%	13.7% – 23.8%	5.9% – 14.2%	105.0% – 108.3%
Associations	11.1% – 28.9%	9.8% – 28.1%	9.6% – 28.0%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%

* See Supplemental Financial Information on page F-46 for each Bank's permanent capital ratio and net collateral ratio at December 31, 2005.

Capital Adequacy Plans

Each System institution also maintains a formal capital adequacy plan that addresses its capital targets in relation to its risks. The capital adequacy plan assesses the capital level and composition necessary to assure financial viability and to provide for growth. The plans are updated at least annually and are approved by the institution's board of directors. At a minimum, the plans consider the following factors in determining optimal capital levels:

- asset quality and the adequacy of the allowance for loan losses to absorb potential loss within the loan portfolio,
- quality and quantity of earnings,
- sufficiency of liquid funds,
- capability of management and the quality of operating policies, procedures, and internal controls,
- needs of an institution's customer base, and
- other risk-oriented activities, such as funding and interest rate risks, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities and other conditions warranting additional capital.

In addition, as discussed above, each Bank has a regulatory minimum for the net collateral ratio of 103%. Under the Market Access Agreement, the minimum established is 104%. Because the net collateral ratio minimum generally would be breached before any of the other minimum capital requirements, the Banks closely monitor the level of the net collateral ratio.

Interdependency of the Banks and the Associations

Understanding the System's structure and the interdependent nature of the Banks and the Associations is critical in understanding our capital adequacy.

As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Banks, through the issuance of Systemwide Debt Securities, generally finance the wholesale loans to their affiliated Associations who lend the proceeds to their customers. Each Bank's ability to repay Systemwide Debt Securities is due, in large part, to each of its Association's ability to repay its loan from the Bank. As a result, the Banks continually monitor the risk-bearing capabilities of each affiliated Association through various mechanisms, including testing the reliability of each Association's credit classifications and prior-approval of certain Association loan transactions. Capital at the Association level also reduces the credit exposure that the Banks have with respect to the loans between the Bank and its affiliated Associations.

Since an Association's ability to obtain funds from sources other than its affiliated Bank is significantly limited, the financial well-being of the Bank and its ability to continue to provide funds is very important to the Association. In addition to the equity the Associations are required to purchase in connection with their direct loans from their affiliated Bank, under each Bank's bylaws, the Bank is authorized, under certain circumstances, to require its affiliated Associations and certain other equity holders to purchase additional Bank equity subject to certain limits or conditions. Further, the Banks generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced operating and financing policies for its District. (See Notes 13 and 21 to the accompanying combined financial statements for further discussion of Bank and Association capital.)

Notwithstanding the foregoing, only the Banks, and not the Associations, are jointly and severally liable for the repayment of Systemwide Debt Securities. Other than as described above, and subject to various regulatory and contractual conditions and limitations, the Banks do not have direct access to the capital of their affiliated Associations. Moreover, capital in one Association is not available to address capital needs of another Association or of a non-affiliated Bank.

Insurance Fund

An additional layer of protection for Systemwide Debt Security holders is the Insurance Fund that insures the timely payment of principal and interest on these securities. The primary sources of funds for the Insurance Fund are:

- annual premiums paid by the Banks, which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

The Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on the Systemwide Debt Securities. In the event of a default by a Bank on Systemwide Debt Securities for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal and interest on the debt obligations. However, the Insurance Corporation also has certain discretionary authorities to assist System institutions under specified circumstances, and as a result, there is no assurance that amounts in the Insurance Fund will be available and sufficient to fund the timely payment of principal and interest on Systemwide Debt Securities in the event of a default by a Bank.

Due to the restricted use of funds in the Insurance Fund, it has been included as a restricted asset and as restricted capital in the System's combined financial statements. As of December 31, 2005, the assets in the Insurance Fund totaled $2.062 billion. The aggregate amounts of additions to the Insurance Fund and the related transfers from surplus to restricted capital were $129 million in 2005, $131 million in 2004 and $194 million in 2003. In addition, in 2005 $231 million of the Insurance Fund was transferred to surplus reflecting the amount used to repay maturing Financial Assistance Corporation bonds. (See Note 8 to the accompanying combined financial statements and the Supplemental Combining Information on pages F-37 through F-39 for combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's combined financial statements.)

Premiums are due until the assets in the Insurance Fund for which no specific use has been identified or designated reach the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans guaranteed by federal or state governments) or such other percentage of the aggregate insured obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. At December 31, 2005 and 2004, as determined by the Insurance Corporation, the assets in the Insurance Fund for which no specific use has been identified or designated was 1.83% and 1.97% of aggregated insured obligations. With the Allocated Insurance Reserve Accounts, the Insurance Fund was 1.86% and 2.01% of aggregate insured obligations at December 31, 2005 and 2004. The decline in these percentages between December 31, 2005 and 2004 resulted from the increase in earning assets that primarily were funded by Systemwide debt obligations. The $231 million in Insurance Fund assets used to repay the Financial Assistance Corporation bonds did not affect these percentages as these assets had previously been identified and designated as a liability to repay the Financial Assistance Corporation bonds. Thus, these assets had been excluded from the calculation to determine the "secure base amount."

In January 2006, the Insurance Corporation reviewed the level of the secure base amount and determined that for 2006 it will assess premiums of 15 basis points on accruing loans, 25 basis points on nonaccrual loans and zero basis points for loans supported by federal or state guarantees. For an additional discussion on the Insurance Fund and the Allocated Insurance Reserve Accounts, see Note 8 to the accompanying combined financial statements.

Joint and Several Liability

The provisions of joint and several liability of the Banks with respect to Systemwide Debt Securities would be invoked if the available amounts in the Insurance Fund are exhausted. Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank, and the receiver must expeditiously liquidate the Bank.

System Capitalization

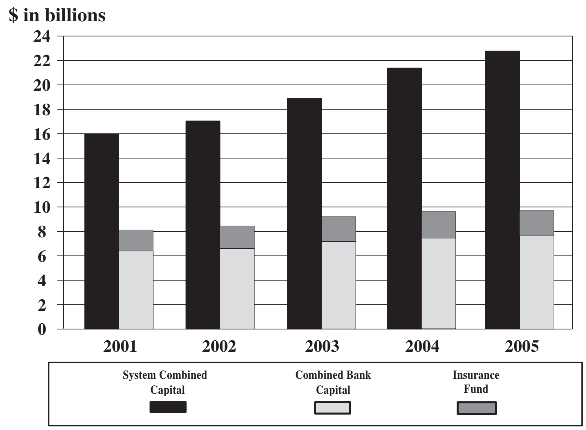
The changes in capital for the year ended December 31, 2005 were:

	Capital			
	Combined Banks	Combined Associations	Insurance Fund	System Combined
	(in millions)			
Balance at December 31, 2004	$7,436	$14,174	$2,164	$21,389
Net income	714	1,608	129	2,096
Change in accumulated other comprehensive income	(71)	(14)		(88)
Preferred stock issued	107	251		358
Preferred stock retired		(219)		(219)
Capital stock and participation certificates issued	234	98		106
Capital stock and participation certificates and surplus retired	(190)	(150)		(217)
Protected borrower stock retired		(6)		
Transfer from restricted capital to surplus to fund the maturing Financial Assistance Corporation bonds			(231)	
Patronage and dividend distributions	(492)	(503)		(588)
Preferred stock dividends paid	(57)	(6)		(63)
Balance at December 31, 2005	$7,681	$15,233	$2,062	$22,774

Note: System combined capital reflected eliminations of approximately $2.1 billion of Bank equities held by Associations as of both December 31, 2005 and 2004. System combined capital also reflected net eliminations of transactions between System entities, primarily related to capital assistance provided by the Financial Assistance Corporation, accruals, and surplus allocations by certain Banks to their Associations. (See Notes 8, 11 and 21 to the accompanying combined financial statements.)

Bank Capital and Insurance Fund

**System Combined Capital,
Combined Bank Capital and Insurance Fund
as of December 31,**



Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System's combined financial statements because, under the Farm Credit Act, amounts in the Insurance Fund are to be used solely for the purposes specified in the Farm Credit Act, all of which benefit System institutions. Combined Bank capital and the Insurance Fund increased $1.823 billion since December 31, 2001 and $368 million since December 31, 2004 to $9.743 billion at December 31, 2005.

Combined Bank-only net income was $714 million for 2005, $700 million for 2004 and $664 million for 2003. The combined Bank-only net income reflects the earnings from System investments, Bank loans to Associations, and retail loans principally consisting of domestic loans to cooperatives and other eligible borrowers and loans to finance international transactions. The Banks' loans to Associations represent a majority of the assets on the combined Bank-only balance sheet. Since the Associations operate under a regulatory regime that includes maintenance of certain minimum capital standards, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Based on the lower risk-weighting of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

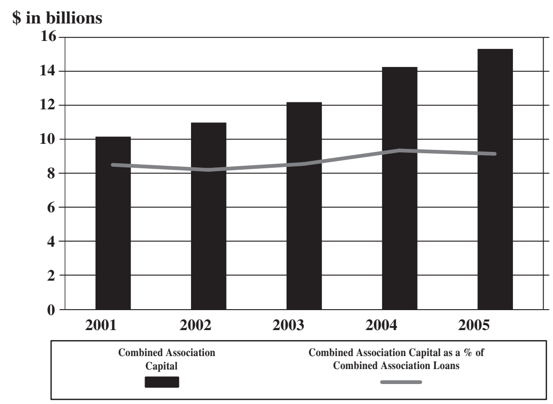
Over the past five years, a substantial portion of income earned at the Bank level has been passed on to the Associations through patronage distributions. Bank capital increased $1.296 billion since December 31, 2001 and $245 million since December 31, 2004 to $7.681 billion at December 31, 2005. The Banks recorded net income of $714 million in 2005, retaining $165 million after patronage distributions and preferred stock dividends paid.

For additional combined Bank-only information, see Note 21 to the accompanying combined financial statements.

During 2005, the Banks continued to maintain strong permanent capital ratios (permanent capital as a percentage of risk-adjusted assets) with these ratios ranging from 13.7% to 23.9%. For each Bank's permanent capital ratio, see Supplemental Financial Information on page F-46.

Association Capital

**Combined Association Capital and
Combined Association Capital as a Percentage of
Combined Association Loans
as of December 31,**



Combined Association capital increased $5.137 billion since December 31, 2001 and $1.059 billion since December 31, 2004 to $15.233 billion at December 31, 2005. The growth in Association capital during 2005 resulted primarily from income earned and retained.

Combined Association patronage distributions increased $95 million during 2005 to $503 million, as compared with $408 million during 2004, as certain Associations increased patronage distributions under existing programs or initiated new patronage programs. With their increasingly strong capital positions, Associations will continue to evaluate on an annual basis if their financial conditions warrant returning additional value to their shareholders through patronage programs.

Class H preferred stock, with net issuances of $32 million during 2005, increased to $167 million at December 31, 2005. The purchase of this preferred stock is limited to existing common stockholders of each Association. The Associations' boards of directors set the dividend rate and retirement of the stock is at the discretion of the board.

Combined Association capital as a percentage of combined Association loans decreased to 18.3% at December 31, 2005 from 18.7% at December 31, 2004. Individual Association capital as a percentage of risk-adjusted assets ranged from 11.1% to 28.9%. (See "FCA Capital Requirements" for additional information.)

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Each Bank's and Association's board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess its assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organization's internal framework under the supervision of the internal auditors. Exposure to operational risk is typically identified with the assistance of senior management and internal audit plans developed with higher risk areas receiving more review.

Political Risk Management

System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council, which is a full-service, federal trade association representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, we take an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to The Farm Credit Council, each District has its own Council, which is a member of The Farm Credit Council. The District Councils represent the interests of their members on a local and state level, as well as on a federal level.

Regulatory Matters

During the year ended December 31, 2005, the Farm Credit Administration took no enforcement actions. There were no enforcement actions in effect for the Banks or Associations at December 31, 2005.

As previously reported, the Farm Credit Administration proposed a rule in August 2004 that contained a provision that would have provided favorable risk-weighting for credit protections provided by any government-sponsored enterprise with a credit rating from a Nationally Recognized Statistical Rating Organization. This provision was not contained in the final rule, which became effective in September 2005. Credit protections provided by government-sponsored enterprises will continue to receive a favorable risk-weighting without the necessity of receiving a credit rating. In addition, the final rule modifies the regulatory risk-based capital requirements with respect to certain types of assets with credit exposures so that they more closely match a System institution's relative risk of loss on these credit exposures to its capital requirements. The rule risk-weights these credit exposures based on external credit ratings from Nationally Recognized Statistical Rating Organizations.

Also, as previously reported, the Farm Credit Administration proposed two rules in October 2004 for public comment. The first proposed rule would allow a borrower to waive borrower rights when receiving a loan from a System institution as part of a loan syndication with non-System lenders that are not otherwise required to provide borrower rights. This rule was approved in final form and became effective in May 2005. The other proposed rule would, among other things, raise the minimum regulatory liquidity requirement for Banks from the current 15 days to 90 days and also raise the eligible investment limit from 30 percent to 35 percent of total outstanding loans. This rule, which was approved in final form and became effective in October 2005, is not significantly different than the existing System liquidity standard. As of December 31, 2005, all Banks exceeded the 90-day requirement.

As previously reported, in January 2005, the Farm Credit Administration published a proposed rule for public comment that would amend the regulations on governance requirements for System institutions. The rule was approved in final form in January 2006. In many instances, the governance requirements represent practices that System institutions previously had adopted. The final rule provides, among other things, that:

- Bank and Association boards of directors develop and implement policies regarding director qualifications and training, conduct annual self-evaluations, and establish audit and compensation committees, including guidance on size and composition of the committees and qualifications of the committee members,
- Bank and larger Association boards of directors have at least two outside directors, and establish minimum procedures for the removal of an outside director,
- Bank or Association stockholders elect a nominating committee of no fewer than three members, the members of which cannot include an employee, director, or agent of the Bank or Association,
- Bank and Association directors and senior officers disclose other business affiliations and expand compensation disclosures,
- each Bank and Association have a director who is a financial expert (or in certain circumstances retain an adviser who is a financial expert), and
- the System Audit Committee include at least one financial expert and that a financial expert serves as the chairman of the System Audit Committee.

While the new rules become effective in March 2006, the requirements to have a nominating committee, and a financial expert and an additional outside director on the board of directors become effective in March 2007. Notwithstanding the effective date of these regulations, the Farm Credit Administration has notified the System Banks and Associations and the Funding Corporation that they may prepare their 2005 annual reports to shareholders or annual information statement in accordance with the applicable regulations in effect as of February 24, 2006.

In December 2005, the Farm Credit Administration proposed a rule governing the ability of a Bank or Association to terminate its System charter and become a financial institution under another federal or state chartering authority. These amendments are intended to update the existing regulations. The proposed rule includes revisions that would, among other things:

- separate the Farm Credit Administration's review of a terminating institution's disclosure information from its approval of the termination,

- give a terminating institution more flexibility in communicating with stockholders and the public during the termination process,
- provide that the Farm Credit Administration may require a terminating institution to obtain independent analyses of and rulings on matters related to the proposed termination, as well as to hold informational meetings for stockholders.
- strengthen protections for directors to consult independent legal counsel and allow public or private expressions of their opinions about the termination,
- provide that the board of directors of a terminating institution must vote again to approve the proposed termination before mailing the plan of termination,
- impose a quorum requirement of 30 percent of voting stockholders at the stockholder meetings for the termination vote, and
- still require a terminating institution to pay to the Insurance Fund an amount by which its total capital exceeds 6% of its assets, but would make certain conforming changes to the calculation of the exit fee.

In February 2006, the Farm Credit Administration proposed a rule that would amend the regulations with respect to System level disclosure and reporting requirements and the disclosure and reporting requirements of Banks and Associations. In many instances, the proposed disclosure and reporting requirements represent practices that System institutions previously had adopted. The proposed rule includes revisions that would, among other things:

- require that all Banks and Associations with total assets over $500 million include an assessment of their internal control over financial reporting in their quarterly and annual reports,
- require that the Funding Corporation include an assessment of the System's internal control over financial reporting in the System's quarterly and annual information statements, and on an annual basis obtain an attestation from the independent auditor,
- reduce reporting filing deadlines with the Farm Credit Administration to 40 and 75 calendar days for Bank and Association quarterly and annual reports and the System's quarterly and annual information statements,
- revise regulations with respect to auditor independence and rotation, non-audit services and fees paid to the independent auditors, and
- require that the Funding Corporation maintain written policies and procedures for disclosing significant events or material changes in the System's operations that occur between quarterly and annual information statements.

The proposed rule, if adopted in final form, requires that compliance with the provisions must be achieved by the start of the fiscal year immediately following the effective date of the final rule, unless the start of that year is within three months or less of the effective date. In that case, full compliance with all provisions would be delayed until the start of the next full fiscal year.

(This page intentionally left blank)

INDEX TO COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION

	Page
Report on Internal Control Over Financial Reporting	F-2
Report of Independent Auditors	F-3
Combined Statement of Condition	F-5
Combined Statement of Income	F-6
Combined Statement of Changes in Capital	F-7
Combined Statement of Cash Flows	F-8
Notes to Combined Financial Statements	F-9
Supplemental Combining Information	F-37
Supplemental Financial Information	F-46

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The System's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the System's combined financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the System's principal executives and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the System's combined financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the System, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's combined financial statements.

The Funding Corporation's management has completed an assessment of the effectiveness of the System's internal control over financial reporting as of December 31, 2005. In making the assessment, Funding Corporation's management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Funding Corporation concluded that as of December 31, 2005, the System's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Funding Corporation determined that there were no material weaknesses in the System's internal control over financial reporting as of December 31, 2005.

The Funding Corporation's assessment of the effectiveness of the System's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, the System's independent auditors, who also audited the System's combined financial statements as of and for the year ended December 31, 2005, as stated in their report, which is included herein.

Jamie B. Stewart, Jr.
President and CEO
Funding Corporation

H. John Marsh, Jr.
Managing Director — Financial
Management Division
Funding Corporation

REPORT OF INDEPENDENT AUDITORS

TO THE BOARDS OF DIRECTORS AND STOCKHOLDERS
OF THE FARM CREDIT SYSTEM:

We have completed an integrated audit of the Farm Credit System's December 31, 2005 combined financial statements and of its internal control over financial reporting as of December 31, 2005 and audits of its December 31, 2004 and 2003 combined financial statements in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Combined financial statements

In our opinion, the accompanying combined statements of condition and the related combined statements of income, of changes in capital and of cash flows appearing on pages F-5 through F-36 of this Annual Information Statement present fairly, in all material respects, the financial position of the Farm Credit System (the System) at December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining information on pages F-37 through F-45 of this Annual Information Statement is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the entities comprising the System. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual entities, as presented. However, the supplemental combining information on pages F-37 through F-45 of this Annual Information Statement has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the Report on Internal Control Over Financial Reporting on page F-2 of this Annual Information Statement, that the System maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the System maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The System's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the System's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company

Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

New York, NY
March 1, 2006

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CONDITION
(in millions)

	December 31, 2005	December 31, 2004
ASSETS		
Cash	$ 500	$ 476
Federal funds sold and securities purchased under resale agreements	2,383	2,727
Investments (Note 4)		
Available-for-sale (amortized cost of $24,080 and $20,237, respectively)	23,910	20,203
Held-to-maturity (fair value of $1,603 and $773, respectively)	1,634	758
Loans (Note 5)	106,272	96,367
Less: allowance for loan losses (Notes 3 and 5)	(755)	(792)
Net loans	105,517	95,575
Accrued interest receivable	1,405	1,116
Premises and equipment (Note 6)	498	468
Other assets (Notes 7, 14, 15 and 16)	1,977	1,363
Restricted assets (Note 8)	2,062	2,164
Total assets	$139,886	$124,850
LIABILITIES AND CAPITAL		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes	$ 11,851	$ 10,268
Systemwide bonds, medium-term notes and master notes	28,470	28,696
	40,321	38,964
Due after one year:		
Systemwide bonds, medium-term notes and master notes	72,398	60,143
Total Systemwide Debt Securities (Notes 9 and 10)	112,719	99,107
Other bonds (Note 10)	857	898
Financial Assistance Corporation bonds (Note 11)		325
Notes payable and other interest-bearing liabilities	277	250
Accrued interest payable	943	603
Other liabilities (Notes 7, 11, 14, 15 and 16)	2,091	2,053
Mandatorily redeemable preferred stock (Note 12)	225	225
Total liabilities	117,112	103,461
Commitments and contingencies (Notes 5, 16 and 19)		
Capital		
Preferred stock (Note 13)	1,017	885
Capital stock and participation certificates (Note 13)	1,333	1,399
Restricted capital (Notes 8 and 13)	2,062	2,164
Accumulated other comprehensive loss, net of tax (Notes 4, 13, 14 and 17)	(242)	(154)
Allocated surplus (Note 13)	1,280	1,039
Unallocated surplus (Note 13)	17,324	16,056
Total capital	22,774	21,389
Total liabilities and capital	$139,886	$124,850

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF INCOME
(in millions)

	For Year Ended December 31, 2005	2004	2003
Interest income			
Investments, Federal funds sold and securities purchased under resale agreements	$ 950	$ 553	$ 445
Loans	6,161	4,870	4,764
Total interest income	7,111	5,423	5,209
Interest expense			
Systemwide bonds, medium-term notes and master notes	3,493	2,220	2,085
Systemwide discount notes	309	144	119
Other interest-bearing liabilities	46	29	26
Financial Assistance Corporation bonds	17	36	60
Total interest expense	3,865	2,429	2,290
Net interest income	3,246	2,994	2,919
Loan loss reversal (provision for loan losses)	1	1,208	(99)
Net interest income after loan loss reversal/provision for loan losses	3,247	4,202	2,820
Noninterest income			
Loan-related fee income	108	116	129
Fees for financially related services	104	101	87
Income earned on Insurance Fund assets (Note 8)	81	87	91
Operating lease income	42	39	39
Mineral income	21	16	17
Gains on sales of investments, net and other assets	1	11	35
Losses on early extinguishment of debt	(16)	(33)	(35)
Other noninterest income	12	3	5
Total noninterest income	353	340	368
Noninterest expense			
Salaries and employee benefits (Note 14)	895	838	782
Occupancy and equipment expense	128	122	109
Purchased services	87	85	76
Other operating expense	301	285	255
(Gains) losses on other property owned	(6)	3	5
Other noninterest expense	4	21	5
Total noninterest expense	1,409	1,354	1,232
Income before income taxes	2,191	3,188	1,956
Provision for income taxes (Note 15)	(95)	(195)	(131)
Net income	$2,096	$2,993	$1,825

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CHANGES IN CAPITAL
(in millions)

	Preferred Stock	Capital Stock and Participation Certificates	Restricted Capital Farm Credit Insurance Fund	Accumulated Other Comprehensive Income (Loss)	Allocated Surplus	Unallocated Surplus	Total Capital
Balance at December 31, 2002	$ 300	$1,492	$1,839	$(209)	$ 908	$12,723	$17,053
Comprehensive income							
Net income						1,825	1,825
Change in unrealized gains (losses) on investments available-for-sale, including reclassification adjustments of $0				(103)			(103)
Change in unrealized losses on cash flow hedges, including reclassification adjustments of $10				20			20
Minimum pension liability adjustment				34			34
Income tax benefit related to other comprehensive loss				26			26
Total comprehensive income				(23)		1,825	1,802
Transfer of Insurance Fund premiums and other income from surplus to restricted capital — Farm Credit Insurance Fund			194			(194)	
Preferred stock issued by Banks	450						450
Preferred stock issued, net by Associations	113						113
Capital stock and participation certificates issued		97					97
Capital stock and participation certificates retired		(227)					(227)
Cash distributions and dividends					(124)	(214)	(338)
Preferred stock dividends paid						(27)	(27)
Capital stock, participation certificates and surplus allocations		70			179	(249)	
Balance at December 31, 2003	863	1,432	2,033	(232)	963	13,864	18,923
Comprehensive income							
Net income						2,993	2,993
Change in unrealized losses on investments available-for-sale, including reclassification adjustments of $0				(23)			(23)
Change in unrealized losses on cash flow hedges, including reclassification adjustments of $51				22			22
Minimum pension liability adjustment				75			75
Income tax benefit related to other comprehensive loss				4			4
Total comprehensive income				78		2,993	3,071
Transfer of Insurance Fund premiums and other income from surplus to restricted capital — Farm Credit Insurance Fund			131			(131)	
Preferred stock issued, net by Associations	22						22
Capital stock and participation certificates issued		107					107
Capital stock and participation certificates retired		(208)					(208)
Cash distributions and dividends					(129)	(337)	(466)
Preferred stock dividends paid						(60)	(60)
Capital stock, participation certificates and surplus allocations		68			205	(273)	
Balance at December 31, 2004	885	1,399	2,164	(154)	1,039	16,056	21,389
Comprehensive income							
Net income						2,096	2,096
Change in unrealized losses on investments available-for-sale, including reclassification adjustments of $0				(136)			(136)
Change in unrealized losses on cash flow hedges, including reclassification adjustments of $33				44			44
Minimum pension liability adjustment				(22)			(22)
Income tax benefit related to other comprehensive loss				26			26
Total comprehensive income				(88)		2,096	2,008
Transfer of Insurance Fund premiums and other income from surplus to restricted capital — Farm Credit Insurance Fund			129			(129)	
Transfer from restricted capital to surplus to reflect amounts in the Insurance Fund used to repay maturing Financial Assistance Corporation bonds			(231)			231	
Preferred stock issued by Banks	100					7	107
Preferred stock issued, net by Associations	32						32
Capital stock and participation certificates issued		106					106
Capital stock and participation certificates retired		(217)					(217)
Cash distributions and dividends					(130)	(458)	(588)
Preferred stock dividends paid						(63)	(63)
Capital stock, participation certificates and surplus allocations		45			371	(416)	
Balance at December 31, 2005	$1,017	$1,333	$2,062	$(242)	$1,280	$17,324	$22,774

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CASH FLOWS
(in millions)

	For the Year Ended December 31,		
	2005	2004	2003
Cash flows from operating activities			
Net income	$ 2,096	$ 2,993	$ 1,825
Adjustments to reconcile net income to net cash provided by operating activities:			
(Loan loss reversal) provision for loan losses	(1)	(1,208)	99
Depreciation and amortization on premises and equipment	70	57	53
Gains on sales of investments, net and other assets	(1)	(11)	(35)
Accretion on investments held-to-maturity	(14)	(27)	(35)
Income on Insurance Fund assets, net of operating expenses	(80)	(84)	(89)
(Increase) decrease in accrued interest receivable	(289)	(91)	71
(Increase) decrease in other assets	(110)	(177)	19
Change in amortized discount on Systemwide discount notes	45	(1)	(27)
Increase (decrease) in accrued interest payable	340	135	(50)
Payment to U.S. Treasury for interest advanced on Financial Assistance Corporation bonds	(440)		
(Decrease) increase in other liabilities	(70)	67	122
Net cash provided by operating activities	1,546	1,653	1,953
Cash flows from investing activities			
Increase in loans, net	(9,973)	(3,683)	(3,995)
Decrease (increase) in Federal funds sold and securities purchased under resale agreements, net	344	(379)	63
Investments available-for-sale:			
Purchases	(18,797)	(38,643)	(27,062)
Proceeds from maturities and payments	14,493	35,612	23,587
Proceeds from sales	461	582	482
Investments held-to-maturity:			
Purchases	(1,705)	(26)	(23)
Proceeds from maturities and payments	856	48	434
Purchases of tobacco contract receivables	(463)		
Premiums paid to the Insurance Fund	(47)	(105)	(27)
Proceeds from the Insurance Fund to repay the maturing Financial Assistance Corporation bonds	231		
Purchases of premises and equipment, net of disposals	(100)	(94)	(87)
Proceeds from sales of other assets	23	42	44
Net cash used in investing activities	(14,677)	(6,646)	(6,584)
Cash flows from financing activities			
Systemwide bonds and master notes issued	44,464	41,933	54,742
Systemwide bonds, medium-term notes and master notes retired	(32,101)	(36,298)	(45,542)
Systemwide discount notes issued	243,825	314,419	254,828
Systemwide discount notes retired	(242,287)	(314,789)	(258,955)
Other bonds (retired) issued, net	(41)	155	(36)
Financial Assistance Corporation bonds retired	(325)		(450)
Increase (decrease) in notes payable and other interest-bearing liabilities, net	27	8	(2)
Protected borrower stock retired	(6)	(5)	(8)
Preferred stock issued by Banks	107		450
Preferred stock issued by Associations	251	305	185
Preferred stock retired by Associations	(219)	(283)	(72)
Capital stock and participation certificates issued	106	107	97
Capital stock, participation certificates and surplus retired	(217)	(208)	(227)
Cash distributions or patronage refunds paid	(429)	(283)	(432)
Net cash provided by financing activities	13,155	5,061	4,578
Net increase (decrease) in cash	24	68	(53)
Cash at beginning of year	476	408	461
Cash at end of year	$ 500	$ 476	$ 408
Supplemental schedule of non-cash investing and financing activities:			
Transfer of held-to-maturity investments to available-for-sale		$ 413	
Loans transferred to other assets	$ 19	31	$ 40
Property disposals through financed sales	(5)	(5)	(4)
Loans securitized and retained as held-to-maturity investments	13		722
Supplemental non-cash fair value changes related to hedging activities:			
Increase in loans			(3)
Decrease in Systemwide bonds, medium-term notes and master notes	(334)	(399)	(230)
Decrease (increase) in investments	1	4	(10)
Decrease in other assets	18	242	214
Increase in other liabilities	310	157	33
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	3,480	2,288	2,345
Taxes	94	88	100

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

NOTE 1 — ORGANIZATION, OPERATIONS AND PRINCIPLES OF COMBINATION

Organization and Operations

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The Farm Credit Act provides authority for changes in the organizational structure and operations of the System and its entities.

At December 31, 2005, the System consisted of: (i) four Farm Credit Banks (AgFirst FCB, AgriBank, FCB, FCB of Texas and U.S. AgBank, FCB) and their affiliated Associations, (ii) one Agricultural Credit Bank (CoBank, ACB) and its affiliated Associations, (iii) the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and (iv) various service and other organizations. On October 1, 2003, the Western Farm Credit Bank merged with the Farm Credit Bank of Wichita, the successor. Concurrent with the merger, the Farm Credit Bank of Wichita changed its name to U.S. AgBank, FCB. On January 1, 2003, AgAmerica, FCB merged with AgriBank, FCB, the successor Bank. As part of the transaction, one of AgAmerica's two affiliated Associations became affiliated with CoBank, ACB.

The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks are cooperatives primarily owned by their affiliated Associations. CoBank is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Each Bank and Association manages and controls its own business activities, operations and financial performance. The Banks and Associations each have their own board of directors and are not commonly owned or controlled.

Each Bank and its affiliated Associations are financially and operationally interdependent as the Banks are statutorily required to serve as an intermediary between the financial markets and the retail lending activities of their affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are legally not authorized to accept deposits and they may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. As a result, the loans made by the Associations are substantially funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of Systemwide Debt Securities is dependent upon the ability of borrowers to repay their loans from the Associations. In addition, CoBank makes retail loans and leases directly to cooperatives, rural utilities, and other eligible borrowers, and the Banks purchase retail loan participations from Associations and other lenders, including other System Banks. Therefore, the repayment of Systemwide Debt Securities is also dependent upon the ability of these retail borrowers to repay their loans.

As required by the Farm Credit Act, the System specializes in providing financing and related services to qualified borrowers in the rural sector and to certain related entities. The System makes credit available in all 50 states, the Commonwealth of Puerto Rico and U.S. territories, which provides both geographic and agricultural sector diversification.

The Banks and/or Associations jointly own several organizations that were created to provide a variety of services for the System. The Funding Corporation provides for the issuance, marketing and handling of Systemwide Debt Securities, using a network of investment banks and dealer banks, and prepares and distributes the Farm Credit System Quarterly and Annual Information Statements. The Farm Credit System Building Association is a partnership of the Banks that owns premises and other fixed assets that are leased to the Farm Credit Administration, the System's regulator.

The Farm Credit Leasing Services Corporation (Leasing Services Corporation) provides a variety of leasing programs primarily for agriculture-related equipment and facilities. Prior to July 1, 1999, the Leasing Services Corporation was owned jointly by the Banks. On July 1, 1999, CoBank, ACB acquired a majority interest in the Leasing Services Corporation. Effective January 1, 2004, CoBank acquired the remaining interest in the Leasing Services Corporation, and the Leasing Services Corporation has become a wholly-owned subsidiary of CoBank. Other leasing programs exist in the System through Associations and through alliances with non-System leasing companies.

Most System institutions provide financially related services to their customers, including credit, appraisal and mortgage life or disability insurance, crop insurance, estate planning, record keeping services, tax planning and preparation, and consulting.

As more fully described in Note 11, the Farm Credit System Financial Assistance Corporation (Financial Assistance Corporation) was established in 1988 pursuant to the Farm Credit Act to provide capital and other assistance to System institutions experiencing financial difficulty at that time. The authority to provide assistance expired on December 31, 1992. The last outstanding Financial Assistance Corporation bond matured in June 2005. As provided in the Farm Credit Act, the Financial Assistance Corporation will continue in existence no longer than two years following the maturity of the debt in June 2005.

The Farm Credit Act also provided for the establishment of the Farm Credit System Insurance Corporation (Insurance Corporation). As more fully described in Note 8, the Farm Credit Insurance Fund (Insurance Fund) is under the direct control of the Insurance Corporation.

The Farm Credit Administration is delegated authority by Congress to regulate and examine the activities of the Banks, Associations and certain other System institutions. Accordingly, certain actions of System institutions are subject to the Farm Credit Administration's prior approval or regulations. The Farm Credit Administration has statutory enforcement and related authorities with respect to System institutions.

Principles of Combination

The accompanying System combined financial statements include the accounts of the Banks, the affiliated Associations, the Financial Assistance Corporation, the Funding Corporation and the Insurance Fund and reflect the investments in, and allocated earnings of, the service organizations owned jointly by the Banks and/or Associations. The System combined financial statements include the equity investments of the Farm Credit System Building Association and the Farm Credit System Association Captive Insurance Company. All significant intra-System transactions and balances have been eliminated in combination. Combined financial statements of the System are presented because of the financial and operational interdependence of the Banks and Associations. Notwithstanding the presentation in the accompanying combined financial statements, the joint and several liability for Systemwide Debt Securities is limited to the Banks, as more fully described in Notes 10, 13 and 21.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Practices

The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of System institutions to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, where applicable. Actual results could differ from those estimates. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year presentation.

Recently Issued Accounting Pronouncements

In November 2005, the Financial Accounting Standards Board (FASB) released FSP Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* This FASB Staff Position (FSP) addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and nullifies certain guidance in Emerging Issues Task Force Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments.* The guidance in this FSP has been considered in the preparation of the December 31, 2005 financial statements.

Cash

Cash, as included in the financial statements, represents cash on hand and deposits at banks.

Investments

The Banks and Associations, as permitted under Farm Credit Administration regulations, hold eligible investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. These investments are generally classified as available-for-sale and carried at fair value. All or a portion of the unrealized holding gain or loss of an available-for-sale security that is designated as a hedged item in a fair value hedge must be recognized in earnings during the period of the hedge. Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Neither the Banks nor the Associations hold investments for trading purposes. Investments for which System institutions have the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. Banks and Associations may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration.

Loans and Allowance for Loan Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are capitalized, on a combined System basis, and the net fee or cost is amortized over the life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the original contractual terms. Impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. Impaired loans also include those restructured loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or when circumstances indicate that collection of principal and interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectibility of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans may be transferred to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt.

The allowance for loan losses is maintained at a level considered adequate by managements to provide for probable and estimable losses inherent in the loan portfolios. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience.

The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the System's loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from System institutions' expectations and predictions of those circumstances. Managements consider the following factors in determining and supporting the levels of System institutions' allowances for loan losses: the System's concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization, which is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and improvements are capitalized.

Other Assets

In connection with past foreclosure and sale proceedings, some Banks and Associations continue to retain certain mineral interests and equity positions in land from which revenues are received in the form of lease bonuses, rentals and leasing and production royalties. These intangible assets are recorded at nominal or no value in the Combined Statement of Condition. The Farm Credit Act requires that mineral rights acquired through foreclosure in 1986 and later years be sold to the buyer of the land surface rights.

Other property owned, which is held for sale, consists of real and personal property acquired through collection actions and is recorded at fair value at acquisition less estimated selling costs. Revised estimates of the fair value less estimated selling costs are reported as adjustments to the carrying amount of the asset, provided that the adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations, adjustments to carrying amount and realized gains and losses from dispositions of the properties are included in other noninterest expense.

Employee Benefit Plans

Substantially all employees of System institutions participate in various retirement plans. System institutions generally provide defined benefit and/or defined contribution retirement plans for their employees. For financial reporting purposes, System institutions use the projected unit credit actuarial method for defined benefit retirement plans.

The Banks and Associations provide certain healthcare and life insurance benefits to eligible retired employees. Substantially all of the employees of System institutions become eligible for those benefits if they reach normal retirement age while working for the institution. SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires the accrual of the expected cost of providing postretirement benefits other than pensions (primarily healthcare benefits) to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

Income Taxes

The Farm Credit Banks, certain Associations, the Financial Assistance Corporation and the income related to the Insurance Fund are exempt from federal and other income taxes as provided in the Farm Credit Act. CoBank, certain other Associations and service organizations are not exempt from federal and certain other income taxes. Taxable institutions are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, these cooperatives can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. System institutions generally record as deferred taxes a proportionate share of the tax effect of temporary differences not allocated in the form of patronage; however, certain System institutions whose patronage distributions are based on book income recognize the tax effect of all temporary differences based on the assumption that these temporary differences are retained by the institution and will therefore impact future tax payments. Certain taxable System institutions have provided a valuation allowance for deferred tax assets to the extent that it is more likely than not that the deferred tax assets will not be realized.

Deferred income taxes have not been provided by the taxable Associations on pre-1993 earnings from their related Bank when management's intent is to permanently invest these undistributed earnings in the Bank and to indefinitely postpone their conversion to cash, or if distributed by the Bank, to pass these earnings through to Association borrowers through qualified patronage allocations.

Deferred income taxes have not been provided for the Banks' post-1992 earnings allocated to taxable Associations to the extent that the earnings will be passed through to Association borrowers through qualified patronage allocations. No deferred income taxes have been provided for the Banks' post-1992 unallocated earnings. The Banks currently have no plans to distribute unallocated Bank earnings and do not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

Derivative Instruments and Hedging Activity

The Banks are party to derivative financial instruments (hedging instruments), primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities, anticipated transactions and firm commitments (hedged items). Derivatives are recorded on the combined statement of condition as assets or liabilities, measured at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative are reflected in current period earnings and are generally offset by changes in the hedged item's fair value. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative are deferred and reported in accumulated other comprehensive income (loss). The gains and losses on the derivative that are deferred and reported in accumulated other comprehensive income (loss) are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

Each Bank formally documents all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (i) specific assets or liabilities on the balance sheet or (ii) firm commitments or forecasted transactions.

Each Bank also formally assesses (both at the hedge's inception and on an ongoing basis, at least quarterly) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Each Bank typically uses regression analyses or other statistical analyses to assess the effectiveness of its hedges. Each Bank discontinues hedge accounting prospectively when the Bank determines that a hedge has not been or is not expected to be effective as a hedge. For discontinued cash flow hedges, any remaining accumulated other comprehensive income (loss) is amortized into earnings over the remaining life of the original hedged item. For discontinued fair value hedges, changes in the fair value of the derivative are recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank carries the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

NOTE 3 — REFINEMENT OF THE ALLOWANCE FOR LOAN LOSSES METHODOLOGIES

During 2004, System institutions conducted studies to further refine their allowance for loan losses methodologies taking into account requirements issued by the Farm Credit Administration, the System's regulator, as well as guidelines issued by the Securities and Exchange Commission (SEC) and the Federal Financial Institutions Examination Council.

System institutions' allowance for loan losses methodologies were adjusted and revised in the late 1980s to take into account credit losses in that period. Given the long cyclical nature of the agricultural economy and the long-term nature of most of the System's loans, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. System institutions' allowance for loan losses methodologies utilized throughout the period were in accordance with generally accepted accounting principles and were consistently applied.

While conservative in estimating the allowance for loan losses, the methodologies used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowances for loan losses. System institutions' allowance for loan losses methodologies have consistently adhered to proper accounting policies under the regulatory supervision of the Farm Credit Administration in its role as a "safety and soundness" regulator. It was the Farm Credit Administration's view that the allowance for loan losses should include, among others, an assessment of probable losses, historical loss experience and economic conditions.

In April 2004, the Farm Credit Administration issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. The Farm Credit Administration endorsed the direction provided by other bank regulators and the SEC and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

During 2004, System institutions completed their studies and refined their methodologies to be in compliance with the guidance discussed in the previous paragraphs. The refinement in methodologies resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that were more indicative of actual loss experience in recent years and current borrower analysis.

While reversals of the allowance for loan losses totaling $1.167 billion, net of taxes of $95 million, had a significant impact on the System's 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodologies is not expected to have a significant impact on comparative results of operations in future periods, after excluding the impact of the reversals on the 2004 results.

(dollars in millions, except as noted)

NOTE 4 — INVESTMENTS

Available-for-Sale

The following is a summary of investments available-for-sale:

	December 31, 2005				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 2,129			$ 2,129	4.30%
U.S. agency securities	290		$ (1)	289	3.33
Mortgage-backed securities	18,538	$21	(187)	18,372	4.41
Other asset-backed securities	3,123	1	(4)	3,120	4.51
Total	$24,080	$22	$(192)	$23,910	4.40

	December 31, 2004				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 2,276			$ 2,276	2.34%
U.S. agency securities	64			64	2.33
Mortgage-backed securities	15,794	$32	$(66)	15,760	3.13
Other asset-backed securities	2,103	2	(2)	2,103	2.25
Total	$20,237	$34	$(68)	$20,203	2.95

The System realized gross gains of $1 million in 2005 and $4 million in 2004 from sales of investment securities.

A summary of the fair value and amortized cost of investments available-for-sale at December 31, 2005 by contractual maturity is as follows:

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$2,129								$ 2,129	4.30%
U.S. agency securities	289								289	3.33
Mortgage-backed securities	3		$147		$441		$17,781		18,372	4.41
Other asset-backed securities			517		177		2,426		3,120	4.51
Total fair value	$2,421	4.19%	$664	4.34%	$618	4.06%	$20,207	4.43%	$23,910	4.40
Total amortized cost	$2,422		$666		$627		$20,365		$24,080	

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for mortgage-backed securities will typically be shorter than contractual maturities because borrowers generally have the right to prepay the underlying mortgage obligations with or without prepayment penalties.

(dollars in millions, except as noted)

Held-to-Maturity

The following is a summary of investments held-to-maturity:

	December 31, 2005				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$1,599	$2	$(32)	$1,569	5.35%
Other asset-backed securities	35	—	(1)	34	7.00
Total	$1,634	$2	$(33)	$1,603	5.39

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Fair Value	Weighted Average Yield
U.S. Treasury securities	$523	$ 8	$531	5.48%
Mortgage-backed securities	235	7	242	5.30
Total	$758	$15	$773	5.42

A summary of the amortized cost and fair value of investments held-to-maturity at December 31, 2005 by contractual maturity is as follows:

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Mortgage-backed securities	$45		$80		$21		$1,453		$1,599	5.35%
Other-asset backed securities	—		7		10		18		35	7.00
Total amortized cost	$45	4.98%	$87	5.78%	$31	6.30%	$1,471	5.36%	$1,634	5.39
Total fair value	$46		$87		$30		$1,440		$1,603	

Included in held-to-maturity investments as of December 31, 2005 were $1.3 billion of mission-related investments. Included in held-to-maturity investments as of December 31, 2004 were $523 million of investments maintained by the Financial Assistance Corporation, whose use had been restricted for certain purposes. In accordance with the Farm Credit Act, the Banks had irrevocably provided funds, including interest earned thereon, of $430 million to repay interest advanced by the U.S. Treasury on Financial Assistance Corporation bonds. The System repaid this interest in June 2005, the maturity date of the last Financial Assistance Corporation bonds.

The following table shows the gross unrealized losses and fair value of the System's available-for-sale and held-to-maturity investment securities that have been in a continuous unrealized loss position at December 31, 2005. An investment is considered impaired if its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

(dollars in millions, except as noted)

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commercial paper, bankers' acceptance, certificates of deposit and other securities	$ 1,693			
U.S. agency securities	289	$ 1		
Mortgage-backed securities	8,171	105	$4,847	$114
Other asset-backed securities	1,091	3	129	2
Total	$11,244	$109	$4,976	$116

The ratings of all the investments meet all applicable regulatory standards and their current unrealized loss positions result solely from interest rate fluctuations and not from any deterioration in credit quality. System institutions have the ability and the intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments, and thus System institutions do not consider these investments to be other-than-temporarily impaired at December 31, 2005.

NOTE 5 — LOANS AND ALLOWANCE FOR LOAN LOSSES

The System is limited by statute to providing credit and related services nationwide to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, agricultural and aquatic cooperatives (or to other entities for the benefit of the cooperatives) and their customers, and rural utilities, and engaging in certain international transactions related to agriculture as described below. Accordingly, the borrowers' abilities to perform in accordance with their loan contracts are generally dependent upon the performance of the agricultural economic sector. While the amounts in the following table represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the System's lending activities is collateralized, which reduces the exposure to credit risk associated with the activities.

Loans outstanding consisted of the following:

	December 31,	
	2005	2004
Production agriculture:		
Real estate mortgage loans	$ 52,723	$48,704
Production and intermediate-term loans	23,902	21,780
Agribusiness loans	14,673	12,053
Communication loans	2,605	2,389
Energy and water/waste disposal loans	5,458	4,811
Rural residential real estate loans	2,950	2,482
International loans	2,277	2,624
Lease receivables	1,290	1,168
Loans to other financial institutions	394	356
Total loans	$106,272	$96,367

Just under 50% of the loan volume at December 31, 2005 contained terms under which the interest rate on the outstanding balance may be adjusted from time-to-time during the term of the loan. These floating-rate loans are comprised of administered-rate loans that may be adjusted at the discretion of the lending institution and variable/adjustable loans that are periodically adjusted based on changes in specified indices. Fixed-rate loans comprised the remaining 50% of loans outstanding at December 31, 2005 and 2004.

As of December 31, 2005 and 2004, 74% and 78% of the loans made in connection with international transactions, which were for the purpose of financing agricultural exports, were guaranteed through the United States Department of Agriculture's Commodity Credit Corporation.

(dollars in millions, except as noted)

Interest income on nonaccrual and accruing restructured loans that would have been recorded under the original terms of such loans at December 31, 2005 were as follows:

Interest income which would have been recognized under original terms	$86
Less: interest income recognized	59
Interest income not recognized	$27

The following tables present information concerning impaired loans and include both the principal outstanding and the related accrued interest receivable on these loans. Accruing restructured loans are those loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties. The balances do not include restructured loans on which extensions or other nonmonetary concessions have been granted; restructured loans on which monetary concessions have been granted are included in nonaccrual status pending the determination that the borrowers are able to perform according to the revised terms of the loan agreements.

	December 31, 2005	December 31, 2004
Nonaccrual loans:		
Current as to principal and interest	$324	$401
Past due	200	245
Total nonaccrual loans	524	646
Impaired accrual loans:		
Restructured accrual loans	61	76
Accrual loans 90 days or more past due	15	21
Total impaired accrual loans	76	97
Total impaired loans	$600	$743

	December 31, 2005	December 31, 2004
Impaired loans with related allowance	$174	$266
Impaired loans with no related allowance	426	477
Total impaired loans	$600	$743
Allowance on impaired loans	$ 69	$ 96

The following table summarizes impaired loan information for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Average impaired loans	$733	$972	$1,140
Interest income recognized on impaired loans	62	78	79

Commitments to lend additional funds to debtors whose loans were classified as impaired were not significant at December 31, 2005 and 2004.

A summary of changes in the allowance for loan losses follows:

	2005	2004	2003
Balance at beginning of year	$792	$ 2,075	$2,101
Loan loss reversals	(45)	(1,262)	(42)
Provisions for loan losses	44	54	141
Loans charged-off	(70)	(142)	(150)
Recoveries	34	67	25
Balance at end of year	$755	$ 792	$2,075

The 2004 loan loss reversals resulted from System institutions' refinement of their allowance for loan losses methodologies as more fully discussed in Notes 2 and 3. The reversals in 2005 and 2003 were principally due to improvement in credit quality in certain institutions.

(dollars in millions, except as noted)

NOTE 6 — PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2005	December 31, 2004
Land, buildings and improvements	$ 506	$ 476
Furniture and equipment	403	378
	909	854
Less: accumulated depreciation	(411)	(386)
	$ 498	$ 468

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

	December 31, 2005	December 31, 2004
Equipment held for lease	$ 644	$ 664
Tobacco contracts receivable	463	
Prepaid pension costs	298	222
Cash collateral posted with derivative counterparties	88	28
Deferred tax assets, net	67	29
Equity investments in other System institutions	64	64
Accounts receivable	59	154
Interest rate swaps and other derivatives	58	60
Prepaid expenses	18	31
Other property owned	16	24
Intangible assets related to pensions	6	4
Other	196	83
Total	$1,977	$1,363

Other liabilities consisted of the following:

	December 31, 2005	December 31, 2004
Interest rate swaps	$ 618	$ 308
Liability to repay the U.S. Treasury for interest advanced		436
Patronage and dividends payable	442	349
Employee postretirement benefit plan liabilities	217	208
Accounts payable	259	304
Accrued pension liabilities	109	76
Deferred tax liabilities, net	70	70
Bank draft payable	57	39
Protected borrower stock	17	23
Other	302	240
Total	$2,091	$2,053

Other assets includes $463 million of tobacco contracts receivables. As part of the "Fair and Equitable Tobacco Reform Act of 2004," tobacco producers are to receive 10 equal payments over 10 years under a contract with the Secretary of Agriculture. Certain Associations have entered into successor-in-interest contracts with tobacco producers. Under the contracts, the Associations have paid the producers a lump sum and have received the rights to the remaining contract payments.

Protection of certain borrower stock is provided under the Farm Credit Act, which requires System institutions, when retiring protected borrower stock, to retire the stock at par or stated value regardless of its book value. Protected borrower stock includes participation certificates and allocated equities that were outstanding as of January 6, 1988, or that were issued or allocated prior to October 6, 1988. If a System institution is unable to retire protected borrower stock at par or stated value due to the liquidation of the institution, amounts required to retire protected borrower stock would be obtained from the Insurance Fund, as discussed in Note 8. As a result of the borrower capital protection mechanisms contained in the Farm Credit Act, the at-risk characteristics necessary for such protected borrower stock to be classified as permanent equity have been substantially reduced. Accordingly, at December 31, 2005, $17 million of protected borrower stock has been classified as a liability in the accompanying Combined Statement of Condition.

NOTE 8 — FARM CREDIT INSURANCE FUND

The assets in the Insurance Fund are designated as restricted assets and the related capital is designated as restricted capital. The classification of the Insurance Fund as restricted assets (and as restricted capital) in the System's combined financial statements is based on the statutory requirement that the amounts in the Insurance Fund are to be used solely for the purposes specified in the Farm Credit Act, all of which benefit System institutions. The Insurance Fund is under the direct control of the Insurance Corporation, an independent U.S. government-controlled corporation, and not under the control of any System institution. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation.

The Insurance Corporation's primary asset is the Insurance Fund and the primary sources of funds for the Insurance Fund are:

- annual premiums paid by the Banks, which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

Premiums will be due until the assets in the Insurance Fund for which no specific use has been identified or designated reach the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound.

The Insurance Corporation is required to expend funds in the Insurance Fund to:

- insure the timely payment of principal and interest on Systemwide Debt Securities, and
- ensure the retirement of protected borrower stock at par value.

Subject to the "least-cost determination" described below, the Insurance Corporation is authorized, in its sole discretion, to expend amounts in the Insurance Fund to:

- cover the operating costs of the Insurance Corporation,
- provide assistance to a financially stressed Bank or Association,
- make loans on the security of, or to purchase, and liquidate or sell, any part of the assets of any Bank or Association that is placed in receivership because of the inability of the institution to pay the principal or interest on any of its notes, bonds, debentures, or other obligations in a timely manner, or
- provide assistance to qualified merging institutions.

The Insurance Corporation cannot provide discretionary assistance to an eligible institution as described above unless the means of providing the assistance is the least costly means of all possible alternatives available to the Insurance Corporation. The alternatives may include liquidation of the eligible institution (taking into account, among other factors, payment of the insured obligations issued on behalf of the institution).

In the event of a default by a Bank on an insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until all amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the United States government.

(dollars in millions, except as noted)

The Insurance Fund was available to be used to retire Financial Assistance Corporation bonds issued to provide preferred stock assistance to System institutions under certain circumstances. In June 2005, $231 million of the Insurance Fund was used to repay the last remaining Financial Assistance Corporation bonds issued to fund $310 million of preferred stock issued by the Federal Land Bank of Jackson. The balance of funds needed to repay the bonds came from the Assistance Fund and the Trust Fund.

At December 31, 2003, the Insurance Fund attained the secure base amount. In addition, at the end of that year, the amount in the Insurance Fund exceeded the average secure base amount for the year. As a result, as required by statute, the Insurance Corporation allocated $40 million to Allocated Insurance Reserve Accounts. Financial Assistance Corporation stockholders are allocated 10% of the allocation and 90% is allocated to the Banks. These reserve accounts remain part of the Insurance Fund, and, therefore, may be used for statutorily authorized Insurance Corporation purposes. Pursuant to the Farm Credit Act, the earliest any payments could be made from the reserve accounts is 2006, subject to certain conditions and limitations. At December 31, 2005, the assets for which no specific use had been identified or designated was 1.83%, and was below the 2% secure base amount. Therefore, no additional amounts were allocated to the Allocated Insurance Reserve Accounts. With the Allocated Insurance Reserve Accounts, the Insurance Fund was 1.86% of aggregated insured obligations.

As of December 31, 2005, the assets in the Insurance Fund aggregated $2.062 billion. These assets are to be used, to the extent available, for the following identified purposes:

Assets for which no specific use has been identified or designated by the Insurance Corporation	$2,022
Allocated Insurance Reserve Accounts	40
Aggregate assets in the Insurance Fund	$2,062

At December 31, 2005, assets in the Insurance Fund consisted of cash and investments of $1.990 billion, accrued interest receivable of $23 million and premiums receivable from System institutions of $49 million accrued on the basis of loans outstanding during the year ended December 31, 2005.

At December 31, 2005 and 2004, the investments, which are classified as restricted assets and are carried at amortized cost, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2005:				
U.S. Treasury obligations	$1,716	$6	$(29)	$1,693

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2004:				
U.S. Treasury obligations	$2,088	$34	$(10)	$2,112

The amortized cost and fair value at December 31, 2005 by contractual maturity are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 375	$ 377
Due one year through five years	1,234	1,213
Due after five years through 10 years	107	103
	$1,716	$1,693

(dollars in millions, except as noted)

NOTE 9 — SHORT-TERM BORROWINGS

The System uses short-term borrowings as a source of funds. The following table shows short-term borrowings by category:

	2005		2004		2003	
	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate
Systemwide discount notes:						
Outstanding at December 31	$11,851	3.96%	$10,268	1.76%	$10,639	1.06%
Average during year	9,827	3.14	10,897	1.32	11,372	1.05
Maximum month-end balance during year	11,851		12,056		13,636	
Systemwide bonds(1):						
Outstanding at December 31	7,257	3.19	6,736	1.97	4,798	1.16
Average during year	6,710	2.78	6,174	1.36	8,383	1.32
Maximum month-end balance during year	7,406		6,736		13,175	

(1) Represent bonds issued with a maturity of one year or less.

NOTE 10 — SYSTEMWIDE DEBT SECURITIES AND OTHER BONDS

Aggregate maturities of Systemwide Debt Securities were as follows at December 31, 2005:

	Bonds		Medium-term notes		Discount notes		Total	
	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate
2006	$27,992	3.72%	$ 478	6.26%	$11,851	3.96%	$ 40,321	3.82%
2007	24,255	3.98	384	6.83			24,639	4.03
2008	14,578	3.99	781	6.17			15,359	4.11
2009	9,910	4.17	255	6.75			10,165	4.24
2010	6,028	4.46	139	6.43			6,167	4.50
2011 and thereafter	15,596	5.01	472	5.98			16,068	5.03
Total	$98,359	4.12	$2,509	6.33	$11,851	3.96	$112,719	4.15

Included in Systemwide Debt Securities are callable debt issues consisting of the following:

Year of Maturity	Amount	Range of First Call Dates
2006	$ 4,082	January 2006–February 2006
2007	3,608	January 2006–November 2006
2008	4,880	January 2006–December 2006
2009	3,058	January 2006–December 2007
2010	3,204	January 2006–December 2007
2011 and thereafter	8,302	January 2006–December 2010
Total	$27,134	

The average maturity of Systemwide discount notes at both December 31, 2005 and 2004 was 1.7 months. Pursuant to authorizations by the Farm Credit Administration, the maximum amount of Systemwide discount notes, medium-term notes and global debt securities that Banks in the aggregate may have outstanding at any one time is currently $25 billion, $40 billion and $5 billion. There is no limit on the amount of Systemwide bonds that may be outstanding at any one time.

Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of principal and interest to the holders of Systemwide Debt Securities with an outstanding balance aggregating $112.719 billion at December 31, 2005 are insured by amounts held in the Insurance Fund as described in Note 8. Certain other bonds issued directly by individual Banks are the obligations solely of the issuing Bank. The aggregate amount of bonds issued directly by the Banks was $857 million at December 31, 2005 and $898 million at December 31, 2004. All of these bonds mature in the following year, and have a weighted average interest rate of 3.43% for 2005 and 1.47% for 2004.

The Farm Credit Act and Farm Credit Administration regulations require each Bank to maintain specified eligible assets at least equal in value to the total amount of debt securities outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide Debt Securities. Each Bank was in compliance with these requirements as of December 31, 2005. At December 31, 2005, the combined Banks had specified eligible assets of $122.2 billion, as compared with $114.5 billion of Systemwide Debt Securities and other bonds and accrued interest payable at that date. The specified eligible asset requirement does not provide holders of the securities with a security interest in any assets of the Banks.

Farm Credit Administration regulations provide that, in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities have claims against the Bank's assets, whether or not these holders file individual claims. Under these regulations, the claims of these holders are junior to claims relating to costs incurred by the receiver in connection with the administration of the receivership, claims for taxes, claims of secured creditors and claims of holders of bonds issued by the Bank individually to the extent such bonds are collateralized in accordance with the requirements of the Farm Credit Act. These regulations further provide that the claims of holders of Systemwide Debt Securities are senior to all claims of general creditors.

Amounts paid to dealers in connection with the sale of Systemwide Debt Securities are deferred and amortized to interest expense using the straight-line method (which approximates the interest method) over the term of the related indebtedness.

NOTE 11 — FINANCIAL ASSISTANCE CORPORATION BONDS

The Farm Credit Act provided for capital assistance to System institutions experiencing severe financial stress through the issuance, prior to October 1, 1992, by the Financial Assistance Corporation of U.S. Treasury-guaranteed 15-year bonds, of which $1.261 billion in principal amount was originally issued. The last remaining Financial Assistance Corporation bonds matured and were repaid on June 10, 2005.

Pursuant to the Farm Credit Act, the U.S. Treasury paid $440 million, on behalf of the System, in interest costs on $844 million of the Financial Assistance Corporation bonds issued for purposes other than funding Capital Preservation Agreement accruals. The Banks had irrevocably set aside funds, including interest earned, that totaled the $440 million needed to repay the interest advanced by the U.S. Treasury. On June 10, 2005, the Banks repaid the U.S. Treasury the interest advanced. As provided in the Farm Credit Act, the Financial Assistance Corporation will continue in existence no longer than two years following the maturity of the debt in June 2005.

NOTE 12 — MANDATORILY REDEEMABLE PREFERRED STOCK

As of December 31, 2005, AgFirst FCB had 225,000 shares issued and outstanding of mandatorily redeemable cumulative preferred stock at $1,000 per share that is redeemable on December 15, 2016. Preferred stock dividends are payable at the rate of 8.393% per annum of the $1,000 per share par value. Beginning March 15, 2012, the rate will change to a variable rate equal to three-month LIBOR plus 3.615%. On or after the dividend payment date in December 2011, the preferred stock will be redeemable in whole or in part at the option of the Bank on any dividend payment date at its par value of $1,000 per share. Although the mandatorily redeemable preferred stock has not been included in capital for financial reporting purposes, this issuance of preferred stock qualifies as capital for certain regulatory purposes.

(dollars in millions, except as noted)

NOTE 13 — CAPITAL STRUCTURE

Preferred Stock

As of December 31, 2005, the System had preferred stock issued and outstanding of $1.017 billion that was issued separately by three Banks and three Associations. The preferred stock issued by the Banks is generally held by institutional investors or knowledgeable, high net worth individuals. The following table presents the general terms of each perpetual preferred stock issuance by the Banks (par amount in whole dollars):

Bank	Issue Date	Amount	Shares Issued and Outstanding	Par Amount	Security Type and Dividend Rate
CoBank	June 2001	$300	6,000,000	$ 50	Cumulative perpetual 7.814% payable quarterly*
CoBank	November 2003	200	4,000,000	50	Cumulative perpetual 7.000% payable quarterly**
AgFirst	October 2003	150	150,000	1,000	Non-cumulative perpetual 7.300% payable semi-annually***
Texas	November 2003	100	100,000	1,000	Cumulative perpetual 7.561% payable semi-annually****
Texas	September 2005	100	100,000	1,000	Cumulative perpetual 7.561% payable semi-annually****
		$850			

* Beginning July 1, 2011, the rate will change to a variable rate equal to three-month LIBOR plus 2.72%. On July 1, 2016, the rate will increase an additional 200 basis points to three-month LIBOR plus 4.72%. The dividend rate, however, will never fall below 7.814%. The preferred stock is not mandatorily redeemable at any time, but on or after July 1, 2011 will be redeemable in whole or in part at the option of the Bank on any dividend payment date at its par value plus accrued and unpaid dividends to the redemption date. The Bank may not enter into any agreements restricting its ability to declare or pay preferred stock dividends.

** The preferred stock is not mandatorily redeemable at any time, but will be redeemable at the option of the Bank on any dividend payment date at par value plus accrued and unpaid dividends beginning January 2, 2009.

*** The preferred stock is not mandatorily redeemable at any time, but will be redeemable at the option of the Bank on any dividend payment date at par value beginning with the December 2008 dividend payment date.

**** The dividend is paid semi-annually through the December 15, 2013 dividend payment date at a rate of 7.561%. Commencing with the March 15, 2014 dividend date, the dividend will be paid quarterly at a floating rate per annum equal to 3-month LIBOR plus 4.4575%. The preferred stock is not mandatorily redeemable at any time, but on or after December 15, 2013 will be redeemable in whole or in part, at the option of the Bank on any dividend payment date, at its par value plus accrued and unpaid dividends to the redemption date.

In addition, three Associations had Class H preferred stock outstanding of $167 million at December 31, 2005. The purchase of this preferred stock is limited to existing common stockholders of each Association. The Association's board of directors sets the dividend rate and retirement of the stock is at the discretion of the board.

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act, each borrower, as a condition of borrowing, is generally required to invest in capital stock or participation certificates of the Bank or Association that makes the loan. The statutory minimum amount of capital investment required for borrowers is 2% of the loan or one thousand dollars, whichever is less. The Associations are required to purchase stock in their affiliated Bank. The different classes of capital stock and participation certificates and the manner in which capital stock and participation certificates are issued, retired and transferred are set forth in the respective Bank's or Association's bylaws. The Bank and/or Association generally has a first lien on the capital stock and participation certificates as collateral for the repayment of the borrower/stockholder loan.

Each borrower purchasing capital stock is generally entitled to one vote as a stockholder regardless of the number of shares held. In the case of Associations, the borrower usually does not purchase capital stock for cash; rather, the stock purchase is typically made by adding the aggregate par value of the stock to the principal amount of the related loan obligation.

Regulations concerning capitalization bylaws and the issuance and retirement of System equities provide that equities issued on or after October 6, 1988 must qualify as at-risk capital of System institutions. The retirement of at-risk capital must be solely at the discretion of the board of directors and not based on a date certain or on the occurrence of any event, such as the repayment of the borrower's loan.

(dollars in millions, except as noted)

The boards of directors of individual Banks and Associations generally may authorize the payment of dividends or patronage refunds as provided for in their respective bylaws. The payment of dividends and/or distribution of earnings is subject to regulations that establish minimum at-risk capital standards, as discussed below.

Capital consisted of the following at December 31, 2005:

	Combined Banks	Combined Associations	System Combined
Preferred stock	$ 850	$ 167	$ 1,017
Capital stock and participation certificates	2,903	540	1,333
Protected borrower stock		17	
Restricted capital — Insurance Fund			2,062
Accumulated other comprehensive loss	(190)	(37)	(242)
Surplus	4,118	14,546	18,604
Total capital	$7,681	$15,233	$22,774

Combined System surplus reflected net eliminations of approximately $60 million representing transactions between the Banks, the Associations, and/or the Insurance Fund primarily related to surplus allocations by certain Banks to their Associations. The Associations owned capital stock and participation certificates of the Banks amounting to approximately $2.1 billion. These amounts have been eliminated in the accompanying combined financial statements. Restricted capital is available only for the uses described in Note 8 and is not available for payment of dividends or patronage refunds. Accumulated other comprehensive loss, net of tax, at December 31, 2005 and 2004 was comprised of the following components:

	2005	2004
Unrealized losses on investments available-for-sale, net	$(142)	$ (31)
Unrealized losses on cash flow hedges, net	(39)	(82)
Minimum pension liability adjustment	(61)	(41)
	$(242)	$(154)

As discussed in Notes 10 and 21, only the Banks are statutorily liable for the payment of principal and interest on Systemwide Debt Securities. Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies.

In case of liquidation or dissolution, preferred stock, capital stock, participation certificates and unallocated surplus would be distributed to equity holders, after the payment of all liabilities in accordance with Farm Credit Administration regulations, in the following order: (1) retirement of preferred stock at par, (2) retirement of all nonvoting stock and participation certificates at par, (3) retirement of voting stock at par, (4) retirement of all patronage surplus in amounts equal to the face amount of the applicable nonqualified written notices of allocation or such other notice, and (5) remaining unallocated surplus and reserves would be paid to the holders of voting stock, nonvoting stock and participation certificates in proportion to patronage to the extent possible.

Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk- adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent of total liabilities. Failure of an institution to meet any of these capital requirements may result in certain discretionary actions by the Farm Credit Administration that, if undertaken, could have a direct effect on the institution's financial and operational performance. At December 31, 2005, all System institutions reported compliance with these standards. Ranges of capital ratios reported by System institutions at December 31, 2005 were as follows:

(dollars in millions, except as noted)

System Institutions	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Net Collateral Ratio
Banks	13.7%–23.9%	13.7%–23.8%	5.9%–14.2%	105.0%–108.3%
Associations	11.1%–28.9%	9.8%–28.1%	9.6%–28.0%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%

System institutions are prohibited from reducing capital by retiring stock (other than protected borrower stock) or making certain distributions to shareholders if, after or due to the retirement or distribution, the institution would not meet the minimum capital adequacy standards established by the Farm Credit Administration under the Farm Credit Act.

By regulation, the Farm Credit Administration is empowered to direct a transfer of funds or equities by one or more Banks or Associations to another Bank or Association, under specified circumstances. The System has never been called on to initiate any transfers pursuant to this regulation and is not aware of any proposed action under this regulation.

NOTE 14 — EMPLOYEE BENEFIT PLANS

The Banks and Associations participate in defined benefit retirement plans. These retirement plans are noncontributory and benefits are based on salary and years of service. In addition, System institutions provide certain healthcare and other postretirement benefits to eligible retired employees. Substantially all of the employees of System institutions may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for the System.

The Banks and Associations use September 30 as the measurement date for their plans.

The following tables set forth the combined obligations and funded status of the System's pension and other postretirement benefit plans:

	Pension Benefits December 31,		Other Benefits December 31,	
	2005	2004	2005	2004
Change in benefit obligation:				
Projected benefit obligation at beginning of year	$1,641	$1,417	$ 256	$ 272
Service cost	50	46	6	7
Interest cost	98	90	15	18
Plan amendments	(2)	4	(50)	(8)
Actuarial loss (gain)	259	139	17	(24)
Benefits paid	(72)	(55)	(10)	(9)
Projected benefit obligation at end of year	$1,974	$1,641	$ 234	$ 256
Change in plan assets:				
Fair value of plan assets at beginning of year	$1,307	$1,142	$ 8	$ 8
Actual return on plan assets	179	89		
Employer contributions	140	131	10	9
Benefits paid	(72)	(55)	(10)	(9)
Fair value of plan assets at end of year	$1,554	$1,307	$ 8	$ 8
Unfunded status	$ (420)	$ (334)	$(226)	$(248)
Unrecognized net actuarial loss	665	509	53	35
Unrecognized prior service cost	8	16	(47)	(11)
Unrecognized net transition (asset) or obligation	(3)	(4)	1	15
Net amount recognized at September 30	250	187	(219)	(209)
Fourth quarter employer contributions and other	11	7	2	1
Net amount recognized at December 31	$ 261	$ 194	$(217)	$(208)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit costs	$ 298	$ 222		
Accrued benefit liability	(109)	(76)	$(217)	$(208)
Intangible asset	6	4		
Accumulated other comprehensive loss	66	44		
Net amount recognized	$ 261	$ 194	$(217)	$(208)

The accumulated benefit obligation for all defined benefit pension plans was $1.648 billion and $1.364 billion at December 31, 2005 and 2004.

(dollars in millions, except as noted)

Information for pension plans with an accumulated benefit obligation in excess of plan assets.

	December 31, 2005	December 31, 2004
Projected benefit obligation	$1,375	$713
Accumulated benefit obligation	1,168	608
Fair value of plan assets	1,065	541

The net periodic pension expense for defined benefit plans and other postretirement benefit plans included in the Combined Statement of Income is comprised of the following:

	Pension Benefits For the Years Ended December 31,		Other Benefits For the Years Ended December 31,	
	2005	2004	2005	2004
Components of net periodic benefit cost:				
Service cost	$ 50	$ 46	$ 6	$ 7
Interest cost	98	90	15	18
Expected return on plan assets	(113)	(102)		
Net amortization and deferral	32	27	1	7
Net periodic benefit cost	$ 67	$ 61	$22	$32

	Pension Benefits 2005	Pension Benefits 2004
(Increase) decrease in minimum liability included in other comprehensive income	$(22)	$75

Weighted average assumptions used to determine benefit obligations at December 31:

	Pension Benefits 2005	Pension Benefits 2004
Discount rate	5.25%	6.00%
Rate of compensation increase	4.48%–5.00%	4.47%–5.00%

	Other Benefits 2005	Other Benefits 2004
Discount rate	5.25%	6.00%

Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits 2005	Pension Benefits 2004
Discount rate	6.00%	6.25%–6.50%
Expected long-term return on plan assets	8.00%–8.75%	8.00%–8.92%
Rate of compensation increase	4.50%–5.00%	4.50%–5.00%

	Other Benefits 2005	Other Benefits 2004
Discount rate	6.00%	6.25%–6.50%
Expected long-term return on plan assets	1.00%–6.00%	6.00%–7.00%

The expected long-term rate of return assumption is determined independently for each defined benefit pension plan and for each other postretirement benefit plan. Generally, plan trustees use historical return information to establish a best-estimate range for each asset class in which the plans are invested. Plan trustees select the most appropriate rate for each plan from the best-estimate range, taking into consideration the duration of plan benefit liabilities and plan sponsor investment policies.

For measurement purposes, annual rates of increase of 7.5% to 11.0% in the per capita cost of covered health benefits were assumed for next year. The rates were assumed to step down to between 4.75% and 6% in various years beginning in 2008–2016, and remain at that level thereafter.

Assumed healthcare trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in the assumed healthcare cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost	$ 3	$ (2)
Effect on postretirement benefit obligation	27	(22)

Plan Assets

The weighted-average asset allocations by asset category are as follows:

	Pension Benefits December 31,		Other Benefits December 31,	
	2005	2004	2005	2004
Asset Category				
Equity securities	62%	66%		
Debt securities	31	32	100%	96%
Other	7	2		4
Total	100%	100%	100%	100%

The trustees of each defined benefit pension plan and other postretirement benefit plan set investment policies and strategies for the plan, including target allocation percentages for each category of plan asset. Generally, the funding objectives of the pension plans are to achieve and maintain plan assets adequate to cover the accumulated benefit obligations and to provide competitive investment returns and reasonable risk levels when measured against appropriate benchmarks. Plan trustees develop asset allocation policies based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. Substantially all postretirement healthcare plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

(dollars in millions, except as noted)

	Pension Benefits	Other Benefits
	Target Allocation for Next Year	Target Allocation for Next Year
Asset Category		
Equity securities	45%–75%	
Debt securities	25%–50%	0%–100%
Other	0%–10%	

The Banks and Associations expect to contribute $30 million to their pension plans and $10 million to their other postretirement benefit plans next year.

The Banks and Associations expect to pay the following benefit payments, which reflect expected future service, as appropriate.

Year	Pension Benefits	Other Benefits
2006	$ 86	$10
2007	91	11
2008	93	12
2009	97	12
2010	107	13
2011 to 2015	670	76

The Banks and Associations also participate in defined contribution retirement savings plans. Certain plans require Banks and Associations to match a percentage of employee contributions. Employer contributions to these plans were $34 million, $30 million and $25 million for the years ended December 31, 2005, 2004 and 2003.

NOTE 15 — INCOME TAXES

The provision for income taxes was comprised of the following amounts:

	For the Years Ended December 31,		
	2005	2004	2003
Current:			
Federal	$109	$ 60	$ 74
State and local		4	9
Deferred:			
Federal	(25)	117	44
State	11	14	4
Provision for income taxes	$ 95	$195	$131

The deferred income tax provision (benefit) results from differences between amounts of assets and liabilities as measured for income tax return and financial reporting purposes. The significant components of deferred tax assets and liabilities at December 31, 2005 and 2004 were as follows:

	December 31,	
	2005	2004
Deferred income tax assets:		
Allowance for loan losses	$218	$220
Employee benefit plan obligations	35	25
Loss carryforwards	30	20
Nonqualified patronage distributions	6	21
Other	73	55
Gross deferred tax assets	362	341
Less: valuation allowance	(59)	(51)
Deferred tax assets, net of valuation allowance	303	290
Deferred income tax liabilities:		
Direct financing leases	(215)	(256)
Pensions	(30)	(11)
Depreciation	(7)	(10)
Patronage allocated by Banks to Associations	(31)	(27)
Other	(23)	(27)
Gross deferred tax liabilities	(306)	(331)
Net deferred tax liability	$ (3)	$(41)
System entities with net deferred tax assets (included in other assets)	$ 67	$ 29
System entities with net deferred tax liabilities (included in other liabilities)	(70)	(70)
	$ (3)	$(41)

(dollars in millions, except as noted)

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income from continuing operations as a result of the following differences:

	Year Ended December 31,		
	2005	2004	2003
Federal tax at statutory rate	$ 745	$1,084	$ 671
State tax, net	11	17	14
Effect of nontaxable entities	(527)	(753)	(478)
Patronage distributions allocated by taxable entities	(128)	(108)	(63)
Other	(6)	(45)	(13)
Provision for income taxes	$ 95	$ 195	$ 131

NOTE 16 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the System's financial instruments at December 31, 2005 and 2004. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for certain System financial instruments. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the combined System financial instruments are as follows:

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, Federal funds sold and securities purchased under resale agreements	$ 2,883	$ 2,883	$ 3,203	$ 3,203
Investments	25,544	25,513	20,961	20,976
Loans	106,272	105,872	96,367	96,542
Allowance for loan losses	(755)		(792)	
Net loans	105,517	105,872	95,575	96,542
Tobacco contract receivables	463	459		
Derivative assets	58	58	60	60
Financial liabilities:				
Systemwide Debt Securities	(112,719)	(112,290)	(99,107)	(99,046)
Other bonds	(857)	(857)	(898)	(898)
Financial Assistance Corporation bonds			(325)	(334)
Mandatorily redeemable preferred stock	(225)	(243)	(225)	(247)
Derivative liabilities	(618)	(618)	(308)	(308)
Other financial instruments:				
Commitments to extend credit		(45)		(28)
Standby letters of credit	(3)	(3)	(4)	(4)

A description of the methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value follows:

A. *Cash, Federal Funds Sold and Securities Purchased Under Resale Agreements:* For cash and overnight investments, the carrying amount is a reasonable estimate of fair value. The fair value of term Federal funds sold and securities purchased under resale agreements is based on currently quoted market prices.

B. *Investment Securities:* The fair value is based on currently quoted market prices.

C. *Loans:* Because no active market exists for the System's loans, fair value is estimated by discounting the expected future cash flows using the Banks' and/or the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Banks' and/or the Associations' loan rates as well as managements' estimates of credit risk, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

D. *Bonds and Notes:* Systemwide Debt Securities and Financial Assistance Corporation bonds are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury issues.

E. *Derivative Assets and Liabilities:* The fair value of derivative financial instruments is the estimated amount that a Bank would receive or pay to replace the instruments at the reporting date, considering the current interest rate environment and the current creditworthiness of the counterparties. Where such quoted market prices do not exist, these values are generally provided by sources outside the respective Bank or by internal market valuation models.

F. *Commitments to Extend Credit and Standby Letters of Credit:* The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is estimated based on the cost to terminate the agreement or fees currently charged for similar agreements.

NOTE 17 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Banks and Associations maintain an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Banks' and Associations' goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Banks' gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged variable-rate assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Banks' gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The Banks consider the strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

Banks enter into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. Interest rate swaps allow the Banks to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. Under interest rate swap arrangements, Banks agree with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

A substantial amount of the System's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed rate obligations. Given this asset-liability mismatch, interest rate swaps in which a Bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on a Bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, a Bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay fixed swaps) when necessary to reduce its net position.

Banks may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on their floating-rate debt, and floors, in order to reduce the impact of falling interest rates on their floating-rate assets.

By using derivative instruments, Banks expose themselves to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes a Bank, thus creating a repayment (credit) risk for a Bank. When the fair value of the derivative contract is negative, a Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Banks deal with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitor the credit standing and levels of exposure to individual counterparties. The Banks do not anticipate nonperformance by any of these counterparties. The Banks typically enter into master agreements that contain netting provisions. These provisions allow the Banks to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A majority of derivative contracts are supported by collateral arrangements with counterparties. At December 31, 2005, the System's exposure to counterparties net of collateral was $7 million. At December 31, 2005, one Bank had posted $88 million in cash and $23 million in securities as collateral with respect to its obligations under these arrangements.

Each Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. Each Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by each Bank's board of directors through the Bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair-Value Hedges

Banks enter into interest rate swaps primarily to lower funding costs or to alter interest rate exposures arising from mismatches between assets and liabilities.

For the year ended December 31, 2005, the System recognized a net gain of $3 million (reported as net interest income in the statement of operations), which represented the ineffective portion of all fair-value hedges, including the time value of option contracts. For the years ended December 31, 2004 and 2003, the System recognized a net gain of less than $1 million for each year. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

Cash Flow Hedges

Banks use various types of interest rate swaps to convert floating-rate loans to fixed-rate loans. Specific types of loans and amounts that the Banks hedge are based on prevailing market conditions and the current shape of the yield curve. Banks also use basis swaps to "lock in" a desired spread between interest-earning assets and interest-bearing liabilities. These swaps may qualify for hedge accounting and usually have a term of two to three years, with a pay rate indexed to the rates received on variable-rate assets.

For the years ended December 31, 2005, 2004 and 2003, the System recognized net losses of $2 million and $7 million, as compared with a net gain of $1 million (reported as net interest income in the statement of operations), which represented the total ineffectiveness of all cash flow hedges, including the time value of option contracts. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. In addition, we recognized losses on derivatives not designated as hedges of $6 million, $9 million and $1 million in 2005, 2004 and 2003. We also recognized losses on discontinuance of cash flow hedges of $11 million, $6 million and $4 million in 2005, 2004 and 2003.

For cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current-period earnings are included in the line item in which the hedged item is recorded in the same period the variable-rate asset, liability or forecasted transaction affects earnings. As of December 31, 2005, $1 million of the deferred net gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified as earnings during the next twelve months.

NOTE 18 — RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the lending System institution's management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Total loans outstanding to such persons were $1.5 billion at both December 31, 2005 and 2004. During 2005 and 2004, $2.5 billion and $3.6 billion of new loans were made to such persons and repayments totaled $2.5 billion and $3.4 billion. In the opinions of Bank and Association managements, substantially all of such loans outstanding at December 31, 2005 and 2004 did not involve more than a normal risk of collectibility.

NOTE 19 — COMMITMENTS AND CONTINGENCIES

At December 31, 2005, various lawsuits were pending or threatened against System institutions, including actions in which claims for significant amounts of monetary damages have been or may be asserted against these institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

The Banks and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and standby letters of credit. In the normal course of business, various commitments are made to customers, such as commitments to extend credit and letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

(dollars in millions, except as noted)

A summary of the contractual amount of credit-related instruments is presented in the following table:

	December 31, 2005	December 31, 2004
Commitments to extend credit	$37,565	$29,971
Standby letters of credit	1,851	1,647
Commercial and other letters of credit	164	197

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the balance sheet until funded or drawn upon. Standby letters of credits are reflected on the balance sheet at fair value of the liability. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. No material losses are anticipated as a result of these transactions.

NOTE 20 — QUARTERLY FINANCIAL DATA (UNAUDITED)

The unaudited results of operations by quarter for the past three years are presented below:

	2005 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$ 775	$ 800	$ 825	$ 846
(Provision for loan losses) loan loss reversal	(3)	(4)	(8)	16
Net noninterest expense	(243)	(252)	(269)	(292)
Provision for income taxes	(31)	(25)	(18)	(21)
Net income	$ 498	$ 519	$ 530	$ 549

	2004 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$ 729	$ 737	$ 762	$ 766
(Provision for loan losses) loan loss reversal	(17)	12	(6)	1,219
Net noninterest expense	(231)	(232)	(242)	(309)
Provision for income taxes	(31)	(39)	(27)	(98)
Net income	$ 450	$ 478	$ 487	$1,578

	2003 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$ 729	$ 731	$ 729	$ 730
(Provision for loan losses) loan loss reversal	(48)	(40)	(18)	7
Net noninterest expense	(196)	(226)	(227)	(215)
Provision for income taxes	(50)	(22)	(22)	(37)
Net income	$ 435	$ 443	$ 462	$ 485

The loan loss reversals recorded in 2004 resulted from System institutions' refinement of their allowance for loan losses methodologies as discussed in Note 3.

NOTE 21 — COMBINED BANK-ONLY INFORMATION

The following statements include the statement of condition, statement of income and statement of changes in capital for the combined Banks without the affiliated Associations or other System institutions.

(dollars in millions, except as noted)

Combined Bank-Only
Statement of Condition

	December 31, 2005	December 31, 2004
Assets		
Cash	$ 157	$ 208
Federal funds sold and securities purchased under resale agreements	2,383	2,727
Investments available-for-sale (Note 4)	23,604	19,836
Investments held-to-maturity (Note 4)	1,577	232
Loans		
To Associations(1)	71,454	63,948
To others	23,052	21,087
Less: allowance for loan losses	(451)	(461)
Net loans	94,055	84,574
Accrued interest receivable	830	621
Other assets	1,035	928
Total assets	$123,641	$109,126
Liabilities and Capital		
Systemwide Debt Securities (Note 10):		
Due within one year	$ 40,321	$ 38,964
Due after one year	72,398	60,143
Total Systemwide Debt Securities	112,719	99,107
Other bonds and other interest-bearing liabilities	872	912
Accrued interest payable	943	602
Other liabilities	1,201	844
Mandatorily redeemable preferred stock (Note 12)	225	225
Total liabilities	115,960	101,690
Capital (Note 13)		
Preferred stock	850	750
Capital stock and participation certificates	2,903	2,859
Accumulated other comprehensive loss, net of tax	(190)	(119)
Surplus	4,118	3,946
Total capital	7,681	7,436
Total liabilities and capital	$123,641	$109,126

(1) These loans represent direct loans to Associations, not retail loans to farmers and ranchers. Since the Associations operate under regulations that require maintenance of certain minimum capital levels, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Accordingly, these loans typically have little or no associated allowance for loan losses. The majority of the credit risk resides with the Banks' and Associations' retail loans to borrowers. Association retail loans are not reflected in the combined Bank-only financial statements.

Further, the loans to the Associations are risk-weighted at 20% of the loan amount in the computation of each Bank's regulatory capital ratios. Based upon the lower risk-weighting of these loans to the Associations, the Banks, especially the Farm Credit Banks, typically operate with more leverage and lower earnings than would be expected from a traditional retail bank. In the case of the Agricultural Credit Bank, while it has certain loans to Associations, the majority of its loans are retail loans to eligible cooperatives and other borrowers.

FARM CREDIT SYSTEM

NOTES TO COMBINED FINANCIAL STATEMENTS — (continued)
(dollars in millions, except as noted)

Combined Bank-Only
Statement of Income

	December 31, 2005	2004	2003
Interest income			
Investments, Federal funds and securities purchased under resale agreements	$ 913	$ 510	$ 396
Loans	3,930	2,832	2,759
Total interest income	4,843	3,342	3,155
Interest expense			
Systemwide Debt Securities	3,802	2,364	2,204
Other interest-bearing liabilities	38	25	17
Total interest expense	3,840	2,389	2,221
Net interest income	1,003	953	934
(Provision for loan losses) loan loss reversal	(13)	57	(56)
Net interest income after provision for loan losses/loan loss reversal	990	1,010	878
Noninterest income			
Loan-related fee income	63	67	145
Mineral income	18	14	16
(Losses) gains on sales of investments, net and other assets	(4)	4	30
Losses on early extinguishment of debt	(16)	(33)	(35)
Operating lease income	25	24	23
Other noninterest income	26	17	14
Total noninterest income	112	93	193
Noninterest expense			
Salaries and employee benefits	173	165	154
Occupancy, equipment and other operating expense	136	139	125
Other noninterest expense	9	31	53
Total noninterest expense	318	335	332
Income before income taxes	784	768	739
Provision for income taxes	(70)	(68)	(75)
Net income	$ 714	$ 700	$ 664

(dollars in millions, except as noted)

Combined Bank-Only
Statement of Changes in Capital

	2005	2004	2003
Beginning balance	$7,436	$7,173	$6,598
Net income	714	700	664
Change in unrealized losses on investments	(110)	(20)	(77)
Change in unrealized losses on cash flow hedges	43	22	21
Minimum pension liability adjustment	(4)	13	16
Total comprehensive income	643	715	624
Preferred stock issued	107		450
Capital stock and participation certificates issued	234	198	386
Capital stock, participation certificates, and surplus retired	(190)	(158)	(330)
Dividend and patronage distributions	(492)	(436)	(528)
Preferred stock dividends paid	(57)	(56)	(27)
Ending balance	$7,681	$7,436	$7,173

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities (See Notes 8 and 10 for additional information.) That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

The Associations are the primary owners of the Farm Credit Banks. The Agricultural Credit Bank (CoBank) is principally owned by cooperatives, other eligible borrowers and its affiliated Association. Due to the financial and operational interdependence of the Banks and Associations, capital at the Association level reduces the Banks' credit exposure with respect to the direct loans between the Banks and each of their affiliated Associations. However, capital of the Associations may not be available if the provisions of joint and several liability were to be invoked. There are various limitations and conditions with respect to each Bank's access to the capital of its affiliated Associations, as more fully discussed in Note 13.

In the event of a default by a Bank on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

The following condensed Combining Statements of Condition and Income present Bank-only and Insurance Fund information, as well as information related to the other entities included in the System's combined financial statements. As part of the combining process, all significant transactions between the Banks, the Associations, and the Farm Credit System Financial Assistance Corporation (FAC), including loans made by the Banks to the Associations and the interest income/interest expense related thereto, and investments of the Associations in the Banks and the earnings related thereto, have been eliminated.

COMBINING STATEMENT OF CONDITION (CONDENSED)
(in millions)

December 31, 2005

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 27,721	$ 706		$ 28,427			$ 28,427
Loans	94,506	83,238	$(71,472)	106,272			106,272
Less: allowance for loan losses	(451)	(296)	(8)	(755)			(755)
Net loans	94,055	82,942	(71,480)	105,517			105,517
Other assets	1,865	4,944	(2,929)	3,880			3,880
Restricted assets					$2,062		2,062
Total assets	$123,641	$88,592	$(74,409)	$137,824	$2,062	$ 0	$139,886
Systemwide Debt Securities and other bonds	$113,576			$113,576			$113,576
Other liabilities	2,159	$73,359	$(72,224)	3,294		$17 (a)	3,311
Mandatorily redeemable preferred stock	225			225			225
Total liabilities	115,960	73,359	(72,224)	117,095		17	117,112
Capital							
Protected borrower stock		17		17		(17) (a)	
Preferred stock	850	167		1,017			1,017
Capital stock and participation certificates	2,903	540	(2,110)	1,333			1,333
Restricted capital					$2,062		2,062
Accumulated other comprehensive loss	(190)	(37)	(15)	(242)			(242)
Surplus	4,118	14,546	(60)	18,604			18,604
Total capital	7,681	15,233	(2,185)	20,729	2,062	(17)	22,774
Total liabilities and capital	$123,641	$88,592	$(74,409)	$137,824	$2,062	$ 0	$139,886

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING STATEMENT OF CONDITION (CONDENSED) — (continued)
(in millions)

December 31, 2004

	Combined Banks	Combined Associations	FAC	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 23,003	$ 638	$523		$ 24,164			$ 24,164
Loans	85,035	75,613		$(64,281)	96,367			96,367
Less: allowance for loan losses	(461)	(323)		(8)	(792)			(792)
Net loans	84,574	75,290		(64,289)	95,575			95,575
Other assets	1,549	4,112	234	(2,723)	3,172		$(225) (a)	2,947
Restricted assets						$2,164		2,164
Total assets	$109,126	$80,040	$757	$(67,012)	$122,911	$2,164	$(225)	$124,850
Systemwide Debt Securities and other bonds	$100,005		$325		$100,330			$100,330
Other liabilities	1,460	$65,866	432	$(64,875)	2,883	$ 225	$(202) (a)	2,906
Mandatorily redeemable preferred stock	225				225			225
Total liabilities	101,690	65,866	757	(64,875)	103,438	225	(202)	103,461
Capital								
Protected borrower stock		23			23		(23) (a)	
Preferred stock	750	135			885			885
Capital stock and participation certificates	2,859	593	56	(2,109)	1,399			1,399
Restricted capital						1,939	225 (b)	2,164
Accumulated other comprehensive loss	(119)	(23)		(12)	(154)			(154)
Surplus	3,946	13,446	(56)	(16)	17,320		(225) (b)	17,095
Total capital	7,436	14,174	0	(2,137)	19,473	1,939	(23)	21,389
Total liabilities and capital	$109,126	$80,040	$757	$(67,012)	$122,911	$2,164	$(225)	$124,850

For 2004, combination entry (a) eliminates the amount to be received by the Financial Assistance Corporation and the related payable recorded by the Insurance Fund to repay, upon maturity in 2005, the Financial Assistance Corporation debt issued to fund $310 million of preferred stock issued by the Federal Land Bank of Jackson (determined by the Insurance Corporation on the basis of the present value of the estimated future obligation). In addition, combination entry (a) for both 2005 and 2004 reclasses protected borrower stock to other liabilities in recognition of its reduced at-risk characteristics. Combination entry (b) transfers from surplus to restricted capital the amount identified to repay the estimated payable discussed in combination entry (a). See Notes 7 and 8 to the accompanying combined financial statements for a discussion of protected borrower stock and the nature and uses of the Insurance Fund.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING STATEMENT OF INCOME (CONDENSED)

For the Year Ended December 31,
(in millions)

	Combined Banks	Combined Associations	FAC	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
2005								
Net interest income	$1,003	$ 2,238	$ 2	$ 3	$ 3,246			$ 3,246
Loan loss reversal (provision for loan losses)	(13)	12		2	1			1
Noninterest income	112	643		(483)	272	$131	$ (50) (c)	353
Noninterest expense	(318)	(1,260)	(2)	124	(1,457)	(9)	57 (c)	(1,409)
Provision for income taxes	(70)	(25)			(95)			(95)
Net income	$ 714	$ 1,608	$ 0	$(354)	$ 1,967	$122	$ 7	$ 2,096
2004								
Net interest income	$ 953	$ 2,044	$ 4	$ (7)	$ 2,994			$ 2,994
Loan loss reversal	57	1,152		(1)	1,208			1,208
Noninterest income	93	582		(421)	254	$133	$ (47) (c)	340
Noninterest expense	(335)	(1,231)	(4)	171	(1,399)	(17)	62 (c)	(1,354)
Provision for income taxes	(68)	(127)			(195)			(195)
Net income	$ 700	$ 2,420	$ 0	$(258)	$ 2,862	$116	$ 15	$ 2,993
2003								
Net interest income	$ 934	$ 1,933	$ 7	$ 45	$ 2,919			$ 2,919
Provision for loan losses	(56)	(45)		2	(99)			(99)
Noninterest income	193	624		(541)	276	$197	$(105) (c)	368
Noninterest expense	(332)	(1,118)	(7)	123	(1,334)	(16)	118 (c)	(1,232)
Provision for income taxes	(75)	(56)			(131)			(131)
Net income	$ 664	$ 1,338	$ 0	$(371)	$ 1,631	$181	$ 13	$ 1,825

Combination entry (c) eliminates the Insurance Fund premiums expensed by the Banks in 2005, 2004 and 2003 and the related income recognized by the Insurance Corporation. Combination entry (c) also eliminates the expense in 2005, 2004 and 2003 related to the increase in the payable recorded by the Insurance Fund, which is referenced in combination entry (a) on the condensed Combining Statement of Condition.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

The chartered territories of the Banks and their affiliated Associations (collectively the District) include all or portions of the states and territories set forth below:

AgFirst Farm Credit Bank	Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Ohio, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, and West Virginia
AgriBank, FCB	Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin, and Wyoming
Farm Credit Bank of Texas	Alabama, Louisiana, Mississippi, New Mexico, and Texas
U.S. AgBank, FCB	Arizona, California, Colorado, Hawaii, Idaho, Kansas, Nevada, New Mexico, Oklahoma, Utah, and Wyoming
CoBank, ACB	Serves eligible customers nationwide and ACAs in the states of Alaska, Connecticut, Idaho, Maine, Massachusetts, Montana, New Hampshire, New Jersey, New York, Oregon, Rhode Island, Vermont, and Washington

Although the Banks are not commonly owned or controlled, they fund their operations primarily through the issuance of Systemwide Debt Securities for which they are jointly and severally liable. Further, each District operates in such an interdependent manner that we believe the financial results of the Banks combined with their affiliated Associations are more meaningful than providing financial information of the Banks and Associations on a stand-alone basis. For the purpose of additional analysis, the following presentation reflects each District, the Insurance Fund, the Financial Assistance Corporation and combination entries.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING BANK AND ASSOCIATION (DISTRICT) STATEMENT OF CONDITION (CONDENSED) (in millions)

December 31, 2005

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund, and Combination Entries	System Combined
Cash and investments	$ 5,944	$ 7,956	$ 2,792	$ 4,262	$ 7,484	$ (11)	$ 28,427
Loans	16,172	36,601	10,220	16,781	27,466	(968)	106,272
Less: allowance for loan losses	(88)	(85)	(10)	(65)	(507)		(755)
Net loans	16,084	36,516	10,210	16,716	26,959	(968)	105,517
Other assets	747	1,440	217	473	653	350	3,880
Restricted assets						2,062	2,062
Total assets	$22,775	$45,912	$13,219	$21,451	$35,096	$1,433	$139,886
Systemwide Debt Securities and other bonds	$18,880	$37,232	$10,563	16,889	$30,032	$ (20)	$113,576
Mandatorily redeemable preferred stock	225						225
Other liabilities	525	861	701	830	987	(593)	3,311
Total liabilities	19,630	38,093	11,264	17,719	31,019	(613)	117,112
Capital							
Protected borrower stock	8	8		1		(17)	
Preferred stock	150		200	167	500		1,017
Capital stock and participation certificates	121	192	78	72	894	(24)	1,333
Restricted capital						2,062	2,062
Accumulated other comprehensive loss	(3)	(17)	(47)	(82)	(61)	(32)	(242)
Surplus	2,869	7,636	1,724	3,574	2,744	57	18,604
Total capital	3,145	7,819	1,955	3,732	4,077	2,046	22,774
Total liabilities and capital	$22,775	$45,912	$13,219	$21,451	$35,096	$1,433	$139,886

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING BANK AND ASSOCIATION (DISTRICT) STATEMENT OF CONDITION (CONDENSED) — (continued) (in millions)

December 31, 2004

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund, FAC & Combination Entries	System Combined
Cash and investments	$ 3,801	$ 7,607	$ 1,879	$ 3,402	$ 6,952	$ 523	$ 24,164
Loans	14,849	33,151	8,444	15,536	25,064	(677)	96,367
Less: allowance for loan losses	(96)	(95)	(10)	(81)	(510)		(792)
Net loans	14,753	33,056	8,434	15,455	24,554	(677)	95,575
Other assets	440	1,054	195	388	539	331	2,947
Restricted assets						2,164	2,164
Total assets	$18,994	$41,717	$10,508	$19,245	$32,045	$2,341	$124,850
Systemwide Debt Securities and other bonds	$15,393	$33,785	$ 8,232	$15,283	$27,346	$ 291	$100,330
Mandatorily redeemable preferred stock	225						225
Other liabilities	376	632	540	473	744	141	2,906
Total liabilities	15,994	34,417	8,772	15,756	28,090	432	103,461
Capital							
Protected borrower stock	10	11		2		(23)	
Preferred stock	150		100	135	500		885
Capital stock and participation certificates	125	188	92	92	923	(21)	1,399
Restricted capital						2,164	2,164
Accumulated other comprehensive loss	3	(7)	(21)	(75)	(14)	(40)	(154)
Surplus	2,712	7,108	1,565	3,335	2,546	(171)	17,095
Total capital	3,000	7,300	1,736	3,489	3,955	1,909	21,389
Total liabilities and capital	$18,994	$41,717	$10,508	$19,245	$32,045	$2,341	$124,850

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING BANK AND ASSOCIATION (DISTRICT) STATEMENT OF INCOME (CONDENSED) For the Year Ended December 31, (in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund, FAC & Combination Entries	System Combined
2005							
Net interest income	$ 613	$1,051	$ 339	$ 530	$ 719	$ (6)	$ 3,246
Loan loss reversal (provision for loan losses)	6	9	(1)	10	(23)		1
Noninterest income	53	103	18	33	72	74	353
Noninterest expense	(297)	(521)	(135)	(239)	(266)	49	(1,409)
Provision for income taxes	2	(20)	(1)	(3)	(74)	1	(95)
Net income	$ 377	$ 622	$ 220	$ 331	$ 428	$118	$ 2,096
2004							
Net interest income	$ 569	$ 938	$ 304	$ 480	$ 747	$(44)	$ 2,994
Loan loss reversal	213	601	157	195	42		1,208
Noninterest income	54	109	16	36	38	87	340
Noninterest expense	(291)	(506)	(132)	(241)	(272)	88	(1,354)
Provision for income taxes	(10)	(100)	(2)	(14)	(69)		(195)
Net income	$ 535	$1,042	$ 343	$ 456	$ 486	$131	$ 2,993
2003							
Net interest income	$ 576	$ 908	$ 265	$ 444	$ 746	$(20)	$ 2,919
(Provision for loan losses) loan loss reversal	(8)	(25)	(11)	19	(74)		(99)
Noninterest income	38	107	47	41	43	92	368
Noninterest expense	(285)	(473)	(132)	(242)	(284)	184	(1,232)
Provision for income taxes	(1)	(34)		(3)	(93)		(131)
Net income	$ 320	$ 483	$ 169	$ 259	$ 338	$256	$ 1,825

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING BANK AND ASSOCIATION (DISTRICT) STATEMENT OF CHANGES IN CAPITAL (CONDENSED) (in millions)

	AgAmerica District Combined(1)	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund, FAC & Combination Entries	System Combined
Balance at December 31, 2002	$ 2,103	$2,280	$4,478	$1,237	$2,781	$2,709	$1,465	$17,053
Net income		320	483	169	259	338	256	1,825
Change in unrealized gains (losses) on investments		(6)	(3)	(6)	(16)	(71)	(1)	(103)
Change in unrealized losses on cash flow hedges		(2)	8		5	2	7	20
Minimum pension liability adjustment		9		1	20	(8)	12	34
Income tax benefit related to other comprehensive loss						26		26
Total comprehensive income		321	488	164	268	287	274	1,802
Protected borrower stock retired		(3)	(4)				7	
Preferred stock issued, net		150		100	113	200		563
Capital stock and participation certificates issued		19	25	23	33	(3)		97
Capital stock, participation certificates, and surplus retired		(16)	(19)	(26)	(39)	(135)	8	(227)
Cash distributions and dividends		(188)	(13)	(26)	(32)	(83)	4	(338)
Preferred stock dividends paid		(2)				(25)		(27)
Other	(2,103)		1,369			738	(4)	
Balance at December 31, 2003	$ 0	2,561	6,324	1,472	3,124	3,688	1,754	18,923
Net income		535	1,042	343	456	486	131	2,993
Change in unrealized losses on investments		4	(5)	(4)	(11)	(7)		(23)
Change in unrealized losses on cash flow hedges		10	12	2	(15)		13	22
Minimum pension liability adjustment		98		(14)	(8)	(1)		75
Income tax benefit related to other comprehensive loss					1	3		4
Total comprehensive income		647	1,049	327	423	481	144	3,071
Protected borrower stock retired		(2)	(3)				5	
Preferred stock issued, net					22			22
Capital stock and participation certificates issued		15	23	16	33	20		107
Capital stock, participation certificates, and surplus retired		(18)	(21)	(29)	(58)	(85)	3	(208)
Cash distributions and dividends		(192)	(72)	(42)	(51)	(109)		(466)
Preferred stock dividends paid		(11)		(8)	(4)	(37)		(60)
Other						(3)	3	
Balance at December 31, 2004		3,000	7,300	1,736	3,489	3,955	1,909	21,389
Net income		377	622	220	331	428	118	2,096
Change in unrealized losses on investments		(12)	(25)	(18)	(12)	(69)		(136)
Change in unrealized losses on cash flow hedges		6	14		11	4	9	44
Minimum pension liability adjustment				(7)	(7)	(7)	(1)	(22)
Income tax benefit related to other comprehensive loss						26		26
Total comprehensive income		371	611	195	323	382	126	2,008
Protected borrower stock retired		(2)	(3)		(1)		6	
Preferred stock issued, net				107	32			139
Capital stock and participation certificates issued		12	25	25	24	21	(1)	106
Capital stock, participation certificates, and surplus retired		(17)	(20)	(41)	(44)	(97)	2	(217)
Cash distributions and dividends		(208)	(94)	(58)	(85)	(147)	4	(588)
Preferred stock dividends paid		(11)		(9)	(6)	(37)		(63)
Balance at December 31, 2005		$3,145	$7,819	$1,955	$3,732	$4,077	$2,046	$22,774

(1) On January 1, 2003, AgAmerica, FCB merged with AgriBank, FCB. As part of the transaction, one of AgAmerica FCB's two affiliated Associations re-affiliated with CoBank, ACB.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING BANK AND ASSOCIATION (DISTRICT) SELECTED KEY FINANCIAL RATIOS

The following combining key financial ratios related to each combined Bank and its affiliated Associations is intended for the purpose of additional analysis.

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined
December 31, 2005					
Return on average assets	1.86%	1.41%	1.92%	1.67%	1.30%
Return on average capital	12.05%	8.27%	11.80%	9.00%	10.56%
Net interest margin	3.08%	2.45%	3.02%	2.73%	2.19%
Net loan charge-offs as a % of average loans	0.01%	0.00%	0.02%	0.04%	0.10%
Allowance for loan losses as a % of loans	0.54%	0.23%	0.10%	0.39%	1.85%
Capital as a % of total assets	13.81%	17.03%	14.79%	17.40%	11.62%
Risk funds as a % of loans	19.99%	21.60%	19.23%	22.63%	16.69%
Debt to capital	6.24:1	4.87:1	5.76:1	4.75:1	7.61:1
Operating expense as a % of net interest income and noninterest income	44.00%	44.40%	37.35%	41.60%	33.85%
December 31, 2004					
Return on average assets	2.96%	2.59%	3.66%	2.50%	1.50%
Return on average assets (excluding one-time reversal*)	1.83%	1.26%	1.95%	1.56%	1.20%
Return on average capital	19.47%	15.99%	21.89%	13.75%	12.74%
Return on average capital (excluding one-time reversal*)	12.04%	7.79%	11.69%	8.60%	10.18%
Net interest margin	3.16%	2.36%	3.26%	2.67%	2.31%
Net loan charge-offs as a % of average loans	0.05%	0.03%	0.08%	0.11%	0.14%
Allowance for loan losses as a % of loans	0.65%	0.29%	0.12%	0.52%	2.03%
Capital as a % of total assets	15.79%	17.50%	16.52%	18.13%	12.34%
Risk funds as a % of loans	20.85%	22.31%	20.68%	22.98%	17.81%
Debt to capital	5.33:1	4.71:1	5.05:1	4.52:1	7.10:1
Operating expense as a % of net interest income and noninterest income	44.56%	45.92%	39.62%	43.77%	33.63%

* These return calculations exclude the impact of the one-time reversals for loan losses, net of the related tax effect. For additional information, see "Accounting Related to the Allowance for Loan Losses" on page 29 of this information statement.

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

The table below reflects the combined results of each Bank and its affiliated Associations (District) measurement under market value of equity and net interest income sensitivity analysis in accordance with their respective asset/liability management policies and District limits.

	Change in Market Value of Equity				Change in Net Interest Income			
	December 31, 2005				December 31, 2005			
District	−200	−100	+100	+200	−200	−100	+100	+200
AgFirst FCB	4.86%	4.76%	−0.90%	−1.89%	−1.08%	−2.65%	3.61%	6.68%
AgriBank, FCB	1.01	1.15	−2.53	−5.22	−4.51	−2.44	1.59	2.74
FCB of Texas	5.06	3.32	−3.71	−7.61	0.89	0.33	2.07	4.12
U.S. AgBank, FCB	0.53	0.54	−0.68	−1.42	−6.32	−3.85	5.01	9.11
CoBank, ACB	3.26	2.36	−2.87	−6.24	−1.27	0.62	−0.56	−0.86

Certain Bank-only capital and other information is as follows:

	AgFirst FCB	AgriBank, FCB	FCB of Texas	U.S. AgBank, FCB	CoBank, ACB
Net collateral ratio at December 31, 2005	105.7%	105.1%	105.9%	105.0%	108.3%
Permanent capital ratio at December 31, 2005	23.9%	21.0%	17.4%	21.9%	13.7%
Average liquidity in days during 2005	199	157	137	169	177
Liquidity in days at December 31, 2005	201	164	138	167	195

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

Young, Beginning and Small Farmers and Ranchers

In line with our mission, we have policies and programs for making credit available to young, beginning and small farmers and ranchers.

The definitions of young, beginning and small farmers and ranchers are:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

It is important to note that a farmer/rancher may be included in multiple categories since they are included in each category in which the definition is met.

The following table summarizes information regarding loans to young and beginning farmers and ranchers:

	At December 31, 2005	
	Number of loans	Volume
	($ in millions)	
Total loans and commitments	738,225	$111,845
Loans and commitments to young farmers and ranchers	130,846	13,757
% of loans and commitments to young farmers and ranchers	17.7%	12.3%
Loans and commitments to beginning farmers and ranchers	173,275	21,418
% of loans and commitments to beginning farmers and ranchers	23.5%	19.1%

The following table summarizes information regarding new loans made to young and beginning farmers and ranchers:

	For the Year Ended December 31, 2005	
	Number of new loans	Volume
	($ in millions)	
Total new loans and commitments	284,524	$47,951
New loans and commitments to young farmers and ranchers	48,832	$ 5,543
% of new loans and commitments to young farmers and ranchers	17.2%	11.6%
New loans and commitments to beginning farmers and ranchers	64,591	$ 9,099
% of new loans and commitments to beginning farmers and ranchers	22.7%	19.0%

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION

(unaudited)

The following table summarizes information regarding loans to small farmers and ranchers:

	At December 31, 2005				
	Annual Gross Sales				
	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
	($ in millions)				
Total number of loans and commitments	382,500	148,242	131,696	75,787	738,225
Number of loans and commitments to small farmers and ranchers	262,306	93,027	70,327	21,265	446,925
% of loans and commitments to small farmers and ranchers	68.6%	62.8%	53.4%	28.1%	60.5%
Total loan and commitment volume	$7,353	$10,393	$20,208	$73,891	$111,845
Total loans and commitments to small farmers and ranchers volume	$4,894	$6,461	$10,449	$10,580	$32,384
% of loan and commitments volume to small farmers and ranchers	66.6%	62.2%	51.7%	14.3%	29.0%

The following table summarizes information regarding new loans made to small farmers and ranchers:

	For the Year Ended December 31, 2005				
	Annual Gross Sales				
	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
	($ in millions)				
Total number of new loans and commitments	142,026	55,793	49,011	37,694	284,524
Number of new loans and commitments to small farmers and ranchers	103,643	32,975	24,450	8,501	169,569
% of new loans and commitments to small farmers and ranchers	73.0%	59.1%	49.9%	22.6%	59.6%
Total new loan and commitment volume	$2,632	$3,528	$7,161	$34,630	$47,951
Total new loans and commitments to small farmers and ranchers volume	$1,808	$2,133	$3,645	$4,770	$12,356
% of loan and commitments volume to small farmers and ranchers	68.7%	60.5%	50.9%	13.8%	25.8%

INDEX TO SUPPLEMENTAL INFORMATION

	Page
Directors and Management	S-2
Compensation of Executive Officers	S-15
Pension Plan Summary	S-16
Audit Committee Report	S-20
Audit Fees	S-21
Evaluation of Disclosure Controls and Procedures	S-22
Certifications	S-23
Index to Annual Information Statement	S-25
Farm Credit System Entities	S-26

DIRECTORS AND MANAGEMENT

Boards of Directors

Each Bank is governed by a board of directors that is responsible for establishing policies and procedures for the operation of the Bank. Each Bank's bylaws provide for the number, term, manner of election and qualifications of the members of the Bank's board. The Farm Credit Act provides that at least one member of each Bank's board of directors is to be appointed by the other directors. The appointed member cannot be a director, officer, employee or stockholder of a System institution.

The following information sets forth the directors of each Bank as of December 31, 2005. The information includes the director's name, age, and business experience, including principal occupation and employment during the past five years.

AgFirst Farm Credit Bank

E. McDonald Berryman, 59, is a farmer from Elberon, Virginia and is president of Beechland Farms, Inc., a family-owned and operated farm in Surry County, Virginia. His farming operations consist of 4,000 acres of row crops including peanuts, corn, wheat, soybeans and cotton, and 1,000 acres of growing timber. He has served as past president of Peanut Farmers LLC and is a member of the Surry County Farm Bureau. Mr. Berryman became a director in 1995 and his term expired on December 31, 2005.

William C. Bess, Jr., 62, from Lincolnton, North Carolina, is co-owner of Farmers & Builders Supply Co. and has brood cow operations. He serves on The Farm Credit Council board and is a member of the Cleveland County and Catawba Cattlemen's Associations. Mr. Bess became a director in 1995 and his term expired on December 31, 2005.

Dr. Chester D. Black, 76, of Raleigh, North Carolina, serves as the board's outside director and is a member of the Bank's Audit Committee. Dr. Black previously served as director of the North Carolina Agriculture Extension Service at North Carolina State University. Mr. Black became a director in 1995 and his term expires in 2006.

Robert A. Carson, 78, is a row crop farmer in the Mississippi Delta, and is active in a number of agricultural organizations. He serves on the Bank's Audit Committee, and is a director of the Delta Council. Mr. Carson became a director in 1995 and his term expires in 2006.

Henry M. (Buddy) Frazee, 67, of Alachua, Florida, is a retired managing partner of a large cow-calf beef cattle and timber operation with headquarters in Gainesville, Florida. He is the Trustee of several land holding and development companies and owns commercial timberland. Along with his son, he manages a 2,000-acre game preserve and deer hound kennel. He serves on the Bank's Audit Committee and as Chairman of the board of Farm Credit of North Florida. Mr. Frazee became a director in 2005 and his term expires in 2008.

Don W. Freeman, 65, is a farmer-rancher from Montgomery, Alabama. He is a member of The Farm Credit Council board, the Lowndes County Alabama Farmers Federation board, the Lowndes County Cattlemen's Association board, and Board of Trustees of St. Mark United Methodist Church in Montgomery, Alabama. He is also past president of the Alabama Chapter of the American Society of Farm Managers and Rural Appraisers. Mr. Freeman became a director in 1995 and his term expired on December 31, 2005.

Robert L. Holden, Sr., 59, is co-owner and operator of a dairy, a 900-acre row-crop farm, and a 200,000-broiler operation in Whigham, Georgia. He is a director of Southwest Georgia Farm Credit, ACA, Georgia Milk Producers, Grady County Farm Bureau, American Dairy Association of Georgia and First United Ethanol, LLC. Mr. Holden became a director in 1995 and his term expires in 2006.

Paul M. House, 57, is from Nokesville, Virginia where he grows corn, soybeans, wheat, hay and turf grass. He also operates a dairy. He serves on the Bank's Audit Committee, and is a director of Farm Credit of the Virginias, ACA. Mr. House became a director in 2002 and his term expires in 2007.

Thomas W. Kelly, 68, Vice Chairman of the Board, from Tyrone, Pennsylvania, is owner-operator of a dairy and crop farm. The dairy herd consists of registered Holsteins whose genetics are merchandized. Major crops raised include corn, alfalfa, soybeans, and seed barley. He serves on the board of AgChoice Farm Credit, ACA. Mr. Kelly became a director in 2001 and his term expires in 2008.

Lyle Ray King, 61, of Ash, North Carolina, owns and operates a 2,500-acre farm where he grows tobacco, corn, soybeans and wheat. He serves on the boards of Cape Fear Farm Credit, Atlantic Telephone Membership Cooperative, and Landbank Resource Management, a real estate company. Mr. King became a director in 2005 and his term expires in 2008.

Richard Kriebel, 62, is a contract farmer from Benton, Pennsylvania, raising contract vegetables, forage and grain. His cropland consists of 350 owned-and-leased acres of corn, hay and vegetables. He is a director of AgChoice Farm Credit, ACA and a former member of the Columbia County ASCS, Columbia County Extension and the Columbia County Planning Commission. Mr. Kriebel became a director in 1995 and his term expires in 2007.

M. Wayne Lambertson, 59, of Pokomoke City, Maryland, owns and operates with his two sons a 2,700-acre farm of corn, soybeans and wheat, and a 300,000 capacity broiler operation. Mr. Lambertson also owns a restaurant with his sister and a development and construction company in partnership with his son. He serves on the MidAtlantic Farm Credit, ACA board and the board of Delmarva Poultry Industry DPI, a trade organization. He is a member of The Farm Credit Council board of directors. Mr. Lambertson became a director in 2002 and his term expired on December 31, 2005.

Paul Lemoine, 60, is a cattle and row crop farmer from Plaucheville, Louisiana, and is active in a number of organizations related to farming. Mr. Lemoine is also employed as a crop sales consultant with Agriliance Chemical Co. He is a member of the Louisiana Cattlemen's Association and the Avoyelles Parish Farm Bureau. Mr. Lemoine became a director in 1995 and his term expires in 2007.

F. Merrel Lust, 70, is from Marion, Ohio, and grows corn, soybeans, and wheat on a 5,900-acre operation in partnership with his twin brother, son and nephew. He serves as a member of the board of Ag Credit, ACA. Mr. Lust became a board member in 1995 and his term expired on December 31, 2005.

Eugene W. Merritt, Jr., 61, from Easley, South Carolina, is co-owner of an ornamental tree farm, and is a landscape contractor. He also operates a 400-acre timber and grass farm. He serves on the board of AgSouth Farm Credit, ACA. Mr. Merritt became a director in 1995 and his term expires in 2006.

Dale W. Player, 69, is co-owner of a 1,850-acre row-crop operation, with cotton being the primary crop. He is a director of Pee Dee Farm Credit, ACA, a member of the South Carolina Cotton board of directors and a director of the Carolinas Cotton Growers Cooperative. Mr. Player became a director in 1995 and his term expires in 2007.

J. Dan Raines, Jr., 61 is a farmer from Ashburn, Georgia. His farming operations include beef cattle, registered Angus cattle and timber. He serves on the Bank's Audit Committee, and is a director of AgGeorgia Farm Credit, ACA and the Federal Agricultural Mortgage Corporation. Mr. Raines became a director in 1995 and his term expired on December 31, 2005.

Walter L. Schmidlen, Jr., 65, from Elkins, West Virginia, is a dairy and beef farmer. He is owner and operator of a farm machinery business and grows hay and corn on a 700-acre farm. He serves on the Bank's Audit Committee, the board of Farm Credit of the Virginias, ACA, and is a former director of Southern States Cooperative and Sire Power. Mr. Schmidlen became a director in 2001 and his term expires in 2008.

Robert G. Sexton, 46, Chairman of the Board, is from Vero Beach, Florida. He is president of Oslo Citrus Growers Association and co-owner of Orchid Island Juice Company. He is a director of Farm Credit of South Florida, ACA, Florida Citrus Packers, Indian River Citrus League, Highland Exchange Service Co-op and McArthur Management Company. In addition, he is a member of the Indian River Farm Bureau. Mr. Sexton became a director in 2000 and his term expires in 2007.

In 2005, each member of AgFirst FCB's board of directors received compensation of $27,060.

AgriBank, FCB

Fred Adams, 61, is a self-employed livestock farmer in Readyville, Tennessee. Mr. Adams serves as chair of the Audit Committee. He is also a director of Mid-State Livestock Producers in Woodbury, Tennessee, a livestock auction barn. Mr. Adams became a director in 1998 and his term expires in 2008.

Armin Apple, 61, is a self-employed grain farmer in McCordsville, Indiana and a Hancock County Indiana Commissioner. Mr. Apple serves as chair of the Finance Committee. Mr. Apple also serves on the AgriBank District Farm Credit Council and is on the board of The Farm Credit Council. Mr. Apple became a director in 2003 and his term expires in 2007.

Ed Breuer, 41, is a self-employed grain and livestock farmer in Mandan, North Dakota. Mr. Breuer serves on the Governance Committee. He is also a director of Farm Credit Services of Mandan, ACA. Mr. Breuer became a director in 2004 and his term expires in 2007.

Timothy Clayton, 51, appointed director, Plymouth, Minnesota is a Principal of the management consulting firm Emerging Capital, LLC. Mr. Clayton serves on the Audit Committee. He is also a director of the National Federation of Independent Business in Washington, D.C., which provides political advocacy for small businesses. Mr. Clayton became a director in 2005 and his term expires in 2009.

Richard Davidson, 61, is a self-employed grain and livestock farmer in Washington C.H., Ohio. Mr. Davidson serves on the Human Resource Committee. Mr. Davidson became a director in 2005 and his term expires in 2009.

Roger Decker, 64, is a self-employed grain and livestock farmer in Westgate, Iowa. Mr. Decker serves on the Governance Committee. He is also a director of AMPI Milk Cooperative in New Ulm, Minnesota, serves on the AgriBank District Farm Credit Council and is on the board of The Farm Credit Council. Mr. Decker became a director in 2003 and his term expires in 2006.

Douglas Felton, 59, is a self-employed grain farmer in Cannon Falls, Minnesota. Mr. Felton serves as vice-chair of the Audit Committee. He is also a director of AgStar Financial Services, ACA, D&T Enterprise of Minnesota, Inc., which is engaged in custom harvesting and is a director of Great Western Industrial Park, LLC, which is an industrial development. He also serves on the AgriBank District Farm Credit Council and is on the board of The Farm Credit Council. Mr. Felton became a director in 1996 and his term expires in 2008.

Meredith Kapp, 63, is a self-employed grain and livestock farmer in Crosby, Missouri and a seed salesman. Mr. Kapp serves on the Human Resources Committee. He is also a director of Farm Credit Services of Missouri, ACA, and a director of the Crosby Lions Fire Association, a volunteer fire department in Crosby, Missouri. Mr. Kapp became a director in 2004 and his term expires in 2008.

David Keller, 59, is a self-employed grain and livestock farmer in Mt. Carroll, Illinois. Mr. Keller serves on the Governance Committee. He also is a director of 1st Farm Credit Services, ACA. Mr. Keller became a director in 2005 and his term expires in 2009.

Thomas Klahn, 56, is a self-employed grain farmer in Lodi, Wisconsin. Mr. Klahn serves on the Audit Committee. He is also a director of Badgerland Farm Credit Services, ACA, and serves on the AgriBank District Farm Credit Council. Mr. Klahn became a director in 2002 and his term expires in 2009.

Bill Mainer, 69, is a self-employed livestock and poultry farmer in Branch, Arkansas. Mr. Mainer serves as vice chair of the Governance Committee. He is also a director of FCS of Western Arkansas, ACA, and serves on the AgriBank District Farm Credit Council. Mr. Mainer became a director in 1988 and his term expires in 2006.

James McElroy, 57, chairman, is a self-employed grain farmer in Waverly, Kentucky. Mr. McElroy serves on the Finance Committee. He is also a director of Union County Kentucky Soil and Conservation District, a natural resource conservation organization, and serves on the AgriBank District Farm Credit Council. Mr. McElroy became a director in 2000 and his term expires in 2006.

David Norman, 48, appointed director, Morrilton, Arkansas is a Managing Director and Chief Information Officer of Winrock International, a non profit development foundation. Mr. Norman serves on the Audit Committee. He is also a chair of Volunteers for Economic Growth Alliance, an international development organization. Mr. Norman became a director in 2003 and his term expires in 2007.

Thomas Payne, 64, appointed director, Columbia, Missouri, is the Vice Chancellor and Dean of the College of Agriculture, Food and Natural Resources at the University of Missouri. Dr. Payne serves on the Finance Committee. He is also a director of Agricultural Futures of America and of the Entomological Foundation. Dr. Payne became a director in 2003 and his term expires in 2006.

Myron Peters, 67, is a self-employed grain and livestock farmer in Hampton, Nebraska. Mr. Peters serves as vice-chair of the Human Resource Committee. Mr. Peters became a director in 2004 and his term expires in 2007.

William Stutzman, 59, is a self-employed cash crop farmer in Blissfield, Michigan and president of Ogden Telephone Company. Mr. Stutzman serves as chair of the Human Resources Committee. He is also a director of GreenStone Farm Credit Services, ACA, where he serves on their Audit Committee. He also serves on the Consolidated Benefits Trust Board of Trustees. Mr. Stutzman became a director in 2003 and his term expires in 2006.

Roy Tiarks, 55, vice chairman, is a self-employed grain and livestock farmer in Council Bluffs, Iowa. Mr. Tiarks serves on the Finance Committee. He is also a director of the Federal Farm Credit Banks Funding Corporation. Mr. Tiarks became a director in 1996 with AgAmerica, FCB and beginning January 1, 2003 became a director of AgriBank, FCB. His term expires in 2009.

Keri Votruba, 46, is a self-employed grain and livestock farmer in Hemingford, Nebraska. Mr. Votruba serves as vice-chair of the Finance Committee. Mr. Votruba became a director in 2004 and his term expires in 2008.

Meredith Yarick, 59, is a self-employed livestock farmer in Hume, Missouri, and an independent insurance agent. Mr. Yarick serves as chair of the Governance Committee. He also serves as a director with the Bates County Mutual Insurance Company, a property and casualty insurance company. Mr. Yarick became a director in 1995 and his term expires in 2007.

In 2005, each member of AgriBank, FCB's board of directors was compensated for attendance at meetings and other official activities. Director compensation ranged from $6,765 to $31,610 for 2005.

CoBank, ACB

Mack L. Alford, 65, is from Greenwood, Mississippi and is the principal in M.L. Alford, CPA, accounting practice. Mr. Alford is a retired vice president and treasurer of Staple Cotton Cooperative Association, a cotton-marketing cooperative and a retired vice president and treasurer of Staple Cotton Discount Corporation, a financing cooperative. Mr. Alford serves on the Board's Audit Committee and the Loan Review Committee. Mr. Alford became a director in 2001 and his term expires in 2006.

Gene J. Batali, 64, is the owner/operator of Batali Ranch, a specialized farming operation (mint) in Yakima, Washington. Mr. Batali is also a director of Northwest Farm Credit Services, ACA. Mr. Batali serves on the Board's Executive Committee. Mr. Batali became a director in 2003 and his term expired on December 31, 2005.

D. Sheldon Brown, first vice chairman, 59, is a dairy farmer in Salem, New York. Mr. Brown is secretary and treasurer of Woody Hills Farms, Inc., a dairy farm, and is also a partner in Woody Hills Farms, LLC, a dairy farm. Mr. Brown serves as director of Northeast Regional Council, a nonprofit trade association for Cooperative Farm Credit organizations, in Springfield, Massachusetts. Mr. Brown is also a partner in A to Z Repairs, LLC, a machinery repair corporation, in Salem, New York. Mr. Brown serves on the Board's Executive Committee and is chairman of the Loan Review Committee. Mr. Brown became a director in 1998 and his term expires in 2006.

Rita M. Brown, 53, is senior vice president and general manager of CTSI, LLC in Dallas, Pennsylvania, and an officer for Commonwealth Telephone Enterprises, Inc., also in Dallas, Pennsylvania. Ms. Brown serves on the Board's Budget and Finance Committee, Loan Review Committee and the Governance Committee. Ms. Brown became a director in 2000 and her term expires in 2006.

John S. Dean, Sr., 66, is from Jasper, Georgia. Mr. Dean is the retired president and CEO of Amicalola Electric Membership Corp., an electric distribution cooperative, in Jasper, Georgia. Mr. Dean serves as the Board Chairman of Crescent Banking Company and as a director of Crescent Bank and Trust Company. Mr. Dean serves on the Board's Executive Committee. Mr. Dean became a director in 1991 and his term expired on December 31, 2005.

Everett Dobrinski, 59, is owner/operator of Dobrinski Farms, a cereal grain and oilseed farm, in Makoti, North Dakota. He is president and CEO of Dakota Skies Biodiesel, LLC, a biodiesel manufacturing company in Minot, North Dakota. Mr. Dobrinski serves as the board chairman of Verendrye Electric Cooperative and North Dakota Coordinating Council for Cooperatives. He serves as a director with Dakota Pride Cooperative and Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance. Mr. Dobrinski serves on the Board's Executive Committee. Mr. Dobrinski became a director in 1999 and his term expires in 2007.

Randal J. Ethridge, 54, is executive vice president of People's Electric Cooperative, a rural electric distribution cooperative in Ada, Oklahoma, and owner and manager of Ethridge Ranch, a ranching and haying operation. Mr. Ethridge serves as a director on the following boards: president/director, Science and Natural Resources Foundation, Oklahoma Association of Electric Cooperatives, and alternate director of Western Farmers Electric Cooperative. Mr. Ethridge serves on the Board's Audit Committee and Loan Review Committee. Mr. Ethridge became a director in 1997 and his term expires in 2006.

Mary E. Fritz, 56, is owner/operator of Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation in Chester, Montana. Ms. Fritz serves as director of Northwest Farm Credit Services, ACA. Ms. Fritz serves on the Board's Budget and Finance Committee and the Governance Committee. Ms. Fritz became a director in 2003 and her term expires in 2007.

Ron Harkey, 53, is president and CEO of Farmers Cooperative Compress, a cotton-warehousing cooperative, in Lubbock, Texas. Mr. Harkey serves as an officer of the Cotton Growers Warehouse Association and Texas Agricultural Cooperative Council, and director of National Council of Farmer Cooperatives and EWR, Inc. He serves as an advisory director of Plains Capital Bank. Mr. Harkey serves on the Board's Budget and Finance Committee. Mr. Harkey became a director in 2002 and his term expires in 2007.

William H. Harris, 56, is the owner/operator of HR&W Harvesting and Harris Farms, processing vegetable farms in LeRoy, New York. Mr. Harris serves as a director of Farm Credit of Western New York, ACA and the Northeast Regional Council. Mr. Harris serves on the Board's Audit Committee. Mr. Harris became a director in 2001 and his term expires in 2007.

Sherwood J. Johnson, 65, is a citrus farmer and the owner/operator of Buck Hammock Groves, Inc. in Fort Pierce, Florida. Mr. Johnson serves as a director on the following boards: Delta Farms Water Control District, Farm Credit of South Florida, ACA, Highland Exchange Service Coop., and is president of Treasure Coast Agricultural Research Foundation, Hilliard Groves, Inc., and Sherwood Johnson and Son Grove Management. Mr. Johnson serves on the Board's Budget and Finance Committee. Mr. Johnson became a director in 2003 and his term expired on December 31, 2005.

Daniel T. Kelley, 57, is the owner/operator of Kelley Farms, a diversified corn and soybean operation, in Normal, Illinois. Mr. Kelley serves as president of Evergreen FS, Inc., a farm supply and grain marketing operation. In addition, Mr. Kelley serves as a board chairman and president of Growmark, chairman of FS Financial Services Corporation and as a director on the Illinois Agricultural Leadership Foundation and Farmland Mutual Insurance Company. Mr. Kelley serves on the Board Governance Committee and as Chairman of the Board's Budget and Finance Committee. Mr. Kelley became a director in 2004 and his term expires in 2006.

James A. Kinsey, 56, is owner/operator of Kinsey's Oak Front Farms, a purebred angus seed-stock producer, in Flemington, West Virginia. Mr. Kinsey also serves as a director of Farm Credit of the Virginias, ACA and as a director on the Federal Farm Credit Banks Funding Corporation. Mr. Kinsey serves on the Board's Executive Committee. Mr. Kinsey became a director in 2001 and his term expires in 2008.

Rodney Gail Kring, 66, is President of PYCO Industries, Inc., a cottonseed crusher operation, in Lubbock, Texas. Mr. Kring serves as an officer of the National Cotton Council, and a director of the Texas Agricultural Cooperative Council. Mr. Kring also serves as an advisory director to the Plains Capital Bank. Mr. Kring serves on the Board's Audit Committee and Loan Review Committee. Mr. Kring became a director in 2004 and his term expires in 2006.

Louis McIntire, 43, is the general manager of Shelby County FCBA, Inc., farm supply in Shelbyville, Indiana. Mr. McIntire is on the Finance Committee of Blue River Foundation and is vice chairman of RSE Propane, LLC. Mr. McIntire serves on the Board's Budget and Finance Committee. Mr. McIntire became a director in 2003 and his term expired on December 31, 2005.

Robert D. Nattier, 62, is the retired president and general manager of Mid Kansas Cooperative in Moundridge, Kansas. He is co-Operator of 4-N, Inc., a grain and hay operation and feedlot in Newton, Kansas. Mr. Nattier also serves as a director of the North Newton Housing Authority. Mr. Nattier serves on the Board's Budget and Finance Committee, the Loan Review Committee, and the Governance Committee. Mr. Nattier became a director in 2003 and his term expires in 2008.

Robert E. Newtson, 63, is the owner/operator of Newtson Farms, a grain farm in Helix, Oregon. He serves as a member of the Oregon State University/USDA Liaison Committee. Mr. Newtson serves on the Board's Audit Committee and Loan Review Committee. Mr. Newtson became a director in 2001 and his term expires in 2006.

J. Roy Orton, chairman, 67, is president/owner of Orton Farms, Inc., a fruit farm in Ripley, New York. Mr. Orton also serves as a director of Northeast Regional Council, The Farm Credit Council, FCC Services, and is a member of the FCS Foundation Board. Mr. Orton serves as chairman of the Board Executive Committee. Mr. Orton became a director in 1995 and his term expires in 2007.

Michael P. Riley, 57, is an Adjunct Professor of Business at Humphreys College in Stockton, California. He is a retired CFO of Diamond of California. He serves as Treasurer of the Greater Modesto Area Flood Relief, a non-profit organization serving victims of national disasters. Mr. Riley serves on the Board's Budget and Finance Committee. Mr. Riley became a director in 2005 and his term expires in 2007.

Barry Sabloff, 59, is vice chairman/director of Marquette National Corporation, a bank holding company, Marquette Bank, a community bank, and is a director of Marquette Bank Foundation, all located in Chicago, Illinois. He is a director of Calypso Technology, Inc., a provider of trading systems to financial institutions located in San Francisco, California. Mr. Sabloff is vice chairman/trustee of the Sherwood Conservatory of Music and director and chairman of the Remuneration Committee of The American School in London Foundation, Inc. Mr. Sabloff serves on the Board Audit Committee. Mr. Sabloff became a director in 2005 and his term expires in 2008.

Ronald A. Schuler, 68, is the retired president and CEO of California Canning Peach Association, a marketing bargaining cooperative in Sacramento, California, and is also the manager of Northern California Growers Association. Mr. Schuler is involved with tree crops in Yuba City California. Mr. Schuler serves as a director of Cal West Seeds, Johl Company, The Farm Credit Council, and FCC Services. Mr. Schuler serves on the Board's Budget and Finance Committee and Loan Review Committee. Mr. Schuler became a director in 2000 and his term expired on December 31, 2005.

D. Wayne Seaman, Second Vice Chairman, 67, is president of Seaman Enterprises, consulting for boards and employees for cooperatives in Carroll, Iowa. Mr. Seaman also serves as a director on the following boards: CADC, Home State Bank, Highway Farms and FC Feeds. Mr. Seaman serves on the Board's Executive Committee. Mr. Seaman became a director in 2000 and his term expires in 2008.

Richard W. Sitman, 52, is owner/operator of Jos. M. Sitman, Inc., a retail business in Greensburg, Louisiana. Mr. Sitman also serves as the board chairman of Dixie Electric Membership Cooperative, DEMCO Energy Services, Inc., and Dixie Business Center and as a director of the Bank of Greensburg. Mr. Sitman serves on the Board's Budget and Finance Committee. Mr. Sitman became a director in 1999 and his term expires in 2007.

Kevin A. Still, 48, is CEO and treasurer of Midland Co-op, Inc., a farm supply cooperative in Danville, Indiana. He is CEO and treasurer of Co-Alliance, LLP, a partnership of four cooperatives supplying energy, agronomy, and animal nutrition, producing swine, and marketing grain in Danville, Indiana. Mr. Still serves on the Board's Audit Committee and is Chairman of the Governance Committee. Mr. Still became a director in 2002 and his term expires in 2007.

Robert E. Terkhorn, 69, is from Denver, Colorado. Mr. Terkhorn is retired managing director of Global Transaction Services, Citibank, New York, New York. Mr. Terkhorn serves on the Board's Loan Review Committee and is Chairman of the Audit Committee. Mr. Terkhorn became a director in 1998 and his term expired on December 31, 2005.

Robert M. Tetrault, 54, is president/owner of T/R Fish, Inc., a marketing company for commercial fishing in Portland, Maine; and president/owner of Tara Lynn, Inc., Tara Lynn II, Inc. and Robert Michael, Inc., commercial fishing groups in Portland, Maine. Mr. Tetrault is chairman of the board of Farm Credit of Maine, ACA and serves as a director on the following boards: Northeast Regional Council, The Farm Credit Council, FCC Services, and Marine Resource Education Project, and is the director/owner of Vessel Services, Inc. Mr. Tetrault is a member of the Farm Credit System Audit Committee and the FCC Trust Committee. Mr. Tetrault serves on the Executive Committee. Mr. Tetrault became a director in 1999 and his term expires in 2007.

Douglas W. Triplett, 69, is owner/operator of Triplett Farms, a corn and soybean farm in Annandale, Minnesota. Mr. Triplett serves as vice chairman of Centra Sota Cooperative, and treasurer of Albion Township. Mr. Triplett serves on the Board's Audit Committee. Mr. Triplett became a director in 2002 and his term expires in 2007.

In 2005, each member of CoBank, ACB's board of directors was compensated for attendance at meetings and other official activities. Director compensation ranged from $26,858 to $35,178 for 2005.

Farm Credit Bank of Texas

C. Kenneth Andrews, 72, is a rancher in Madisonville, Texas. He serves on the Bank's Audit Committee, is chairman of the Tenth District Farm Credit Council, and represents the district on The Farm Credit Council. Mr. Andrews became a director in 1994 and his term expires in 2008.

Ralph W. "Buddy" Cortese, 59, Chairman, is a rancher/farmer in Fort Sumner, New Mexico. He is a member of the Bank's Audit Committee and serves on the American Land Foundation Board. In June 2003, he was appointed to the Farmer Mac board. Mr. Cortese became a director in 1995 and his term expires in 2007.

Joe R. Crawford, 68, is from Baileyton, Alabama, and owns and operates a cattle business. Mr. Crawford serves on the Bank's Audit Committee and on the board of directors of the Federal Farm Credit Banks Funding Corporation. Mr. Crawford became a director in 1998 and his term expires in 2006.

James F. Dodson, 52, is from Robstown, Texas and grows cotton and milo and operates a seed sales business with his family. Mr. Dodson serves on the Tenth District Farm Credit Council, the Bank Audit Committee and the board of Cotton Incorporated, and holds other national farm leadership positions. He became a director in 2003 and his term expires in 2008.

Jon "Mike" Garnett, 61, Vice Chairman, is from Spearman, Texas. Mr. Garnett farms, feeds stocker cattle and operates a custom haying and baling business. Mr. Garnett is a member of the Bank's Audit Committee and The Farm Credit Council board of directors and serves on the State Technical Committee for the Natural Resources Conservation Service. Mr. Garnett became a director in 1999 and his term expires in 2007.

William F. Staats, 68, is from Baton Rouge, Louisiana. Dr. Staats is Louisiana Bankers Association chair emeritus of banking and professor emeritus, Department of Finance at Louisiana State University. He is chairman of the Bank's Audit Committee. He serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Platinum Healthcare Staffing, Inc. Dr. Staats is a member of the Farm Credit System Audit Committee. Dr. Staats became a director in 1997 and his term expires in 2008.

In 2005, each member of the FCB of Texas' board of directors was compensated for attendance at meetings and other official activities. Director compensation was $35,178 for 2005.

U.S. AgBank, FCB

Wayne Allen, 64, is from Nevada City, California. Mr. Allen is a producer of rice, clover and sudan grass seed. He is a member and former chairman of the board of directors of Sacramento Valley Farm Credit, ACA. He is a member of Cal West Seeds (seed marketing cooperative) and served on the board of directors of that organization for 24 years. Mr. Allen serves as Chairman of the U.S. AgBank, FCB Compensation Committee. He became a director in 2003, and his term expires on September 30, 2006.

Wesley D. Brantley, Jr., 65, is from Ada, Oklahoma. Mr. Brantley is a CPA and was an audit partner with Horne and Company, CPAs, in Ada, Oklahoma from 1967 to 1998. His areas of practice included banks, savings and loans, farm cooperatives, insurance companies, colleges, and state and local governments. In 1998, Mr. Brantley accepted a position as Chief Financial Administrator of the Chickasaw Nation, a federally recognized Indian tribe. In this capacity, he was responsible for the tribe's financial statements, budget and grant writing departments, internal audit department, governmental and grant finance department, purchasing and supply department and oversight of the housing and tribal business finance department. Mr. Brantley recently retired from this position and now serves in a consulting capacity. Mr. Brantley was appointed to the Board of Directors on October 1, 2005, and his term expires on September 30, 2008.

John J. "Jack" Breen, 63, is from Middletown, New Jersey. Mr. Breen is the retired managing director-administration of the Federal Farm Credit Banks Funding Corporation. Mr. Breen joined the Funding Corporation management team in 1991 with responsibility for Farm Credit System financing programs and selling group management. In 1996, he assumed responsibility for a newly created Administration Group encompassing all Funding Corporation operating activities. Mr. Breen was appointed to the Board of Directors in July 2004, and his term expires on September 30, 2007.

Oghi A. "Tony" DeGiusti, Jr., 53, is from Tuttle, Oklahoma. Mr. DeGiusti is a farmer who produces alfalfa and grass hay and wheat. He also owns and operates a cow/calf stocker operation and a custom bailing operation. Mr. DeGiusti is a member and former chairman of the board of Chisholm Trail Farm Credit, ACA. He serves as a director of the Grady County Alfalfa Hay Growers Association and is a member of the Oklahoma Farm Bureau and the Oklahoma Farmers Union. He became a director in 2005, and his term expires on September 30, 2008.

Earl J. Dolcini, 76, is from Petaluma, California. Mr. Dolcini is a rancher and dairyman. He is a member of American AgCredit, ACA. He has served as chairman of the board of directors of North Coast Farm Credit Services (now American AgCredit, ACA). Mr. Dolcini is past chairman of The Farm Credit Council and continues to serve as a director on that board. He also serves as a director of Marin Ag Land Trust Advisory Board (private, non-profit trust). He became a director in 1989, and his term expires on September 30, 2006.

John Eisenhut, 60, is from Turlock, California. Mr. Eisenhut is an almond grower and Manager of Grower Relations for Hilltop Ranch, an almond processor. He is a member and former chairman of the board of American AgCredit, ACA, and a member and former officer of the Stanislaus County Farm Bureau. He became a director in 2005 to fill a term expiring on September 30, 2006.

Lyle H. Gray, 71, is from Leon, Kansas. Mr. Gray is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit Services of Central Kansas, ACA. Mr. Gray serves on the executive board of the Kansas Beef Council (trade association). He has formerly served as treasurer, vice chairman and chairman of the Cattlemen's Beef Promotion and Research Board, as a director of the National Cattlemen's Beef Association board, and as the president of the Kansas Livestock Association. He became a director in 1990, and his term expires on September 30, 2006.

J. Less Guthrie, 61, Chairman, is from Porterville, California. Mr. Guthrie owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation. He is a member of Farm Credit West, ACA. Mr. Guthrie serves on the board of directors of Guthrie Investment Co., Inc., and F&T Financial Services (consumer loans and debt collection). He also serves as the vice chairman of the board of directors of the Federal Farm Credit Banks Funding Corporation and on the board of directors of the California Cattlemen's Association. He became a director in 1997, and his term expires on September 30, 2007.

George D. Jenik, 71, is from Sedgwick, Colorado. Mr. Jenik, who is semi-retired, is a wheat farmer and stockman and is a partner in a custom feedlot. He is a member of Premier Farm Credit, ACA. Mr. Jenik serves as a director of the Northern Water Conservancy District (water distribution corporation) and is a member of the National Cattlemen's Association. Mr. Jenik became a director in 1997, and his term expires on September 30, 2008.

Marvin W. Lohse, 67, is from Glenn, California. Mr. Lohse is a farmer and a partner in Lohse Brothers Partnership, a diversified farming operation that produces almonds, walnuts, plums, alfalfa, and row crops. He is a member of Northern California Farm Credit, ACA, Blue Diamond Almond Growers and the Glenn County Farm Bureau. Mr. Lohse serves as Chairman of the U.S. AgBank, FCB Audit Committee. He became a director in 2001, and his term expires on September 30, 2007.

Glen A. ("Andy") Rector, 64, Vice Chairman, is from Agate, Colorado. Mr. Rector is a farmer and rancher with a cow/calf/yearling and wheat operation, and is in partnership with his two sons. He is a member of Farm Credit of Southern Colorado, ACA. He became a director in 2002, and his term expires on September 30, 2007.

Sheldon D. Richins, 69, is from Henefer, Utah. Mr. Richins is a rancher and stockman with a cow/calf operation and is in partnership with his two sons. Mr. Richins is a member and former chairman of the board of directors of Western AgCredit, ACA. Prior to his election to the Board of Directors, he served as an Association Representative on the board of directors of The Farm Credit Council. He is a member of the National Cattlemen's Association. He also served as chairman of the Summit County Commission and as president of the Utah Association of Counties. He became a director in 2005, and his term expires on September 30, 2008.

Edward L. Schenk, 67, is from Chickasha, Oklahoma. Mr. Schenk is a farmer and rancher, producing primarily alfalfa, wheat and livestock. He also practices veterinary medicine on a part-time basis. Mr. Schenk is a member of Chisholm Trail Farm Credit, ACA, and Farm Credit of Central Oklahoma, ACA. Mr. Schenk is past chairman of the board of directors of the Farm Credit Council and continues to serve as a director on that board. He became a director in 1995, and his term expires on September 30, 2006.

Kenneth W. Shaw, 55, is from Mountainair, New Mexico. Mr. Shaw is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit of New Mexico, ACA, Central New Mexico Electric Cooperative and the New Mexico Farm Bureau. He became a director in 1999, and his term expires on September 30, 2007.

Donnell Spencer, 71, is from Richfield, Utah. Mr. Spencer is a farmer and rancher raising alfalfa and livestock. He is president of Diversified Spencer, Inc., a family farming corporation. Mr. Spencer is a member of Western AgCredit, ACA. Mr. Spencer became a director in 2000, and his term expires on September 30, 2008.

Robert J. Wietharn, 44, is from Clay Center, Kansas. Mr. Wietharn is a farmer and pork producer. He manages and is a stockholder of two family-owned corporations whose operations include marketing farrow-to-finish hogs and raising corn and soybeans. He is a member of Frontier Farm Credit, ACA. Mr. Wietharn is a stockholder and chairman of the board of Valley Farmers, Inc. (grain elevator) and is involved in the manufacturing and sale of irrigation equipment. Mr. Wietharn serves as Chairman of the

U.S. AgBank, FCB Credit Committee. He became a director in 2002, and his term expires on September 30, 2007.

In 2005, 12 members of the U.S. AgBank, FCB board of directors were compensated $31,860 for attendance at meetings and other official activities, and four directors whose terms commenced on October 1, 2005, were compensated $7,965.

Federal Farm Credit Banks Funding Corporation

Larry F. Clyde, 64, is from Santa Fe, New Mexico. Mr. Clyde is a retired executive vice president from Mellon Bank and former head of Capital Markets, Portfolio and Funds Management and Global Securities Lending. Mr. Clyde also serves on the Farm Credit System Audit Committee and is chairman of the Funding Corporation Audit Committee. He became a director in 2000 and his term expires in 2006.

William J. Collins, 54, CEO, AgriBank, FCB in St. Paul, Minnesota, previously served as vice president and general counsel of AgriBank, FCB. Mr. Collins serves as a director on the NCFC and ACDI/VOCA. Mr. Collins also serves on the Funding Corporation Governance and Structure Committee. Mr. Collins became a director in 2002 and his term expires in 2008. Mr. Collins resigned from the Board effective January 3, 2006.

Joe R. Crawford, 68, is from Baileyton, Alabama and owns and operates a cattle business. Mr. Crawford is also a director of the Farm Credit Bank of Texas. Mr. Crawford serves on the Funding Corporation Audit Committee. Mr. Crawford became a director in 2003 and his term expires in 2008.

Robert B. Engel, 52, has been president and chief operating officer of CoBank, ACB since 2000. At its board meeting in December 2005, the CoBank Board designated Mr. Engel as president and CEO-elect of CoBank. He will become president and CEO on July 1, 2006. Prior to his appointment as president, Mr. Engel served as chief banking officer at HSBC Bank, USA. Mr. Engel serves on the Funding Corporation Compensation Committee. Mr. Engel became a director in 2003 and his term expires in 2006.

J. Less Guthrie, 61, owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation in Porterville, California. He is a member of Farm Credit West, ACA and the chairman of the board of directors of U.S. AgBank, FCB. Mr. Guthrie serves on the boards of directors of Guthrie Investment Co., Inc. (investments), and F&T Financial Services (consumer loans) and debt collection. He also serves on the board of directors of the California Cattlemen's Association (trade association). He is chairman of the Funding Corporation Compensation Committee. Mr. Guthrie became a director in 2000 and his term expires in 2010.

James A. Kinsey, 56, is owner/operator of Kinsey's Oak Front Farms, a purebred angus seed-stock producer, in Flemington, West Virginia. Mr. Kinsey serves as a director of CoBank, ACB and the Farm Credit of the Virginias, ACA. He serves on the Funding Corporation Governance and Structure Committee. Mr. Kinsey became a director in 2004 and his term expires in 2009.

F. A. Lowrey, 53, president and CEO, AgFirst Farm Credit Bank in Columbia, South Carolina, previously served as president and CEO of Palmetto Farm Credit, ACA in Spartanburg, South Carolina. Mr. Lowrey is a director of the University of South Carolina Educational Foundation, the NCFC and Palmetto Agribusiness Council. Mr. Lowrey also serves on the Funding Corporation Compensation Committee. Mr. Lowrey became a director in 2001 and his term expires in 2007.

Jamie B. Stewart, Jr., 61, is a non-voting member of the board. Mr. Stewart is the president and CEO of the Federal Farm Credit Banks Funding Corporation in Jersey City, New Jersey. Prior to joining the Funding Corporation, Mr. Stewart was first vice president of the Federal Reserve Bank of New York. Mr. Stewart serves as a director of the Gestalt International Study Center. He became a director in 2004 and his term will expire when he retires.

Roy Tiarks, 55, is from Council Bluffs, Iowa. Mr. Tiarks raises corn and soybeans, and has a cow/calf operation. He serves on the board of directors of AgriBank, FCB and the Coalition of American Agricultural

Producers (trade association). He is chairman of the Funding Corporation Governance and Structure Committee. Mr. Tiarks became a director in 2001 and his term expires in 2007.

Ann Trakimas, 49, is from Taos, New Mexico. Ms. Trakimas is a retired vice president and head of Financial Institutions Group from Goldman Sachs & Co. Ms. Trakimas serves on the Funding Corporation Audit Committee. Ms. Trakimas became a director in 2005 and her term expires in 2007.

Funding Corporation Bank director members and appointed members are compensated for their time served and for travel and related expenses, while Bank CEOs or presidents are only compensated for travel and related expenses. In 2005, the directors eligible for compensation were paid between $7,847 and $51,750 for the year.

Farm Credit System Financial Assistance Corporation

By law, the board of directors of the Financial Assistance Corporation consists of the board of directors of the Funding Corporation (see above).

Certain Relationships and Related Transactions

The System is a cooperatively owned network of agricultural lending institutions. Agricultural producers typically become members of a System Association when they establish a borrowing/financing relationship with the Association. Accordingly, most Bank directors are agricultural producers who are member/borrowers of a System Association.

As discussed in Note 18 to the accompanying combined financial statements, Banks and Associations may, in the ordinary course of business, enter into loan transactions with their officers and directors and other organizations with which officers and directors are associated. These loans are subject to special approval requirements contained in the Farm Credit Administration regulations and are, in the view of System institutions' managements, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The following is a list of aggregate loan balances outstanding at December 31, 2005 to the directors of each Bank and its affiliated Associations and other organizations with which the directors are associated:

	(in millions)
AgFirst FCB	$257
AgriBank, FCB	220
FCB of Texas	162
U.S. AgBank, FCB	506
CoBank, ACB	372

Executive Officers

Each Bank is managed by a chief executive officer and/or president who is responsible to the board of directors of that Bank. The chief executive officer and/or president of each Bank, and of the System's principal service organizations, together with their age and length of service at their present position, as well as positions held during the last five years, are as follows:

AgFirst Farm Credit Bank

F. A. Lowrey, 53, has been president and chief executive officer since 1998.

AgriBank, FCB

William J. Collins, 54, has been chief executive officer since 1999. During the third quarter of 2005, Ross B. Anderson, Vice President, Credit was appointed to serve as Acting CEO during the absence of Mr. Collins due to health reasons. Mr. Anderson served in that role until January 2006 when L. William York assumed the role of CEO.

CoBank, ACB

Douglas D. Sims, 59, has been chief executive officer since 1994. Mr. Sims has announced his retirement effective June 30, 2006.

Robert B. Engel, 52, has been president and chief operating officer since 2000. Mr. Engel has been designated as president and CEO-elect of CoBank by its board of directors, and will become president and CEO on July 1, 2006.

Farm Credit Bank of Texas

Larry R. Doyle, 53, has been chief executive officer since March 2003. Prior to his appointment as chief executive officer, Mr. Doyle was executive vice president and chief operating officer of AgFirst Farm Credit Bank.

U.S. AgBank, FCB

Jerold L. Harris, 64, has been president and chief executive officer since 1991. Mr. Harris has announced his retirement effective January 19, 2007.

Federal Farm Credit Banks Funding Corporation

Jamie B. Stewart, Jr., 61, has been president and chief executive officer since February 2004. Prior to his appointment as president and chief executive officer, Mr. Stewart was first vice president of the Federal Reserve Bank of New York.

Farm Credit System Financial Assistance Corporation

Jamie B. Stewart, Jr., 61, has been president and chief executive officer since February 2004. Prior to his appointment as president and chief executive officer, Mr. Stewart was first vice president of the Federal Reserve Bank of New York.

Membership, Farm Credit System Audit Committee

The Farm Credit System Audit Committee is currently comprised of five members, all of whom are appointed by the board of directors of the Funding Corporation. The Funding Corporation Board has determined that each member of the System Audit Committee is financially literate and has designated one member to be a financial expert as defined by the Securities and Exchange Commission. All members of the Committee are independent of management of the Funding Corporation or any System Bank or Association.

The membership of the Farm Credit System Audit Committee is as follows:

Larry F. Clyde, 64, Santa Fe, New Mexico, is the Funding Corporation outside director member of the Committee and serves as vice chairman of the Committee. He is a retired executive vice president, Mellon Bank, and former head of Capital Markets, Portfolio and Funds Management and Global Securities Lending. Mr. Clyde became an Audit Committee member in 2000 and his term expires in 2006.

Robert M. Tetrault, 54, is president/owner of T/R Fish, Inc., a marketing company for commercial fishing in Portland, Maine; and president/owner of Tara Lynn, Inc., Tara Lynn II, Inc. and Robert Michael, Inc., commercial fishing groups in Portland, Maine. Mr. Tetrault is chairman of the board of Farm Credit of Maine, ACA and serves as a director on the following boards: CoBank, ACB, Northeast Regional Council, The Farm Credit Council, FCC Services and Marine Resource Education Project, and is the director/owner of Vessel Services, Inc. Mr. Tetrault is a member of the FCC Trust Committee. Mr. Tetrault became a member of the Audit Committee in 2004 and his term expires in 2008.

William F. Staats, 68, is from Baton Rouge, Louisiana. Mr. Staats is Louisiana Bankers Association chair emeritus of banking and professor emeritus, Department of Finance at Louisiana State University. He is a director of the Farm Credit Bank of Texas and serves as their Audit Committee chairman. He serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Platinum Healthcare Staffing Inc. Mr. Staats became a member of the Audit Committee in 2004 and his term expires in 2007.

Robert G. Weber, 68, is from Williamsville, New York, and is an outside member of the Committee. Mr. Weber is chairman of the board and Executive Committee of First Niagara Financial Group, Inc. and serves as the financial expert on its audit committee. He also serves on the board of International Motion Control, Inc. and as chairman of the Audit and Pension Committees. In addition, Mr. Weber serves on the board of Roswell Park Cancer Institute and on its Audit and Compensation Committee. Mr. Weber is a retired partner of KPMG LLP. Mr. Weber became an Audit Committee member in 2004 and his term expires in 2007.

Arthur R. Wyatt, 78, is from the Village of Golf, Florida and Champaign, Illinois, is an outside member of the Committee and serves as chairman of the Committee. He is a retired partner of Arthur Andersen, LLP. The Funding Corporation board has determined that Mr. Wyatt qualifies as a financial expert and has designated him as the Audit Committee financial expert. Mr. Wyatt became an Audit Committee member in 1995 and his term expires in 2006.

The Committee held four meetings during 2005 and had one teleconference. All members were in attendance for each meeting and the teleconference. Each member of the Committee was compensated for attendance at meetings and other official activities. Compensation ranged from $16,250 to $35,250 for 2005.

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth the cash and non-cash compensation paid by or incurred on behalf of each Bank to its chief executive officer and several other most highly compensated executive officers as a group for the years ended December 31, 2005, 2004 and 2003 as follows:

Name of Executive Officer	Year	Salary	Bonus	Long-term Incentive Compensation*	Perquisites/ Other	Total
AgFirst Farm Credit Bank						
F. A. Lowrey	2005	$ 444,017	$ 168,332		$ 16,779	$ 629,128
President and CEO	2004	415,286	145,350		15,120	575,756
	2003	377,534	132,137		15,045	524,716
Four other executive	2005	807,896	201,974		48,425	1,058,295
officers as a group	2004	768,353	144,181		49,269	961,803
	2003	697,916	150,878		47,067	895,861
AgriBank, FCB**						
William J. Collins, CEO	2005	$ 426,200	$ 145,975		$ 33,520	$ 605,695
	2004	395,833	195,660		29,374	620,867
	2003	375,000	163,125		18,458	556,583
Six other executive officers as a	2005	1,294,650	356,441		380,147	2,031,238
group (seven in 2003)	2004	1,262,167	391,588		92,989	1,746,744
	2003	1,263,961	354,968		299,125	1,918,054
CoBank, ACB						
Douglas D. Sims, CEO	2005	$ 458,333	$ 542,768	$ 557,813	$ 6,498	$1,565,412
	2004	425,000	568,246	647,063	10,311	1,650,620
	2003	425,000	476,850	569,500	13,536	1,484,886
Six other executive	2005	1,669,166	1,394,919	1,186,250	22,650	4,272,985
officers as a group (seven in 2004	2004	1,845,000	1,614,230	1,547,340	12,468	5,019,038
and six in 2003)	2003	1,605,252	1,241,122	1,195,432	16,542	4,058,348
FCB of Texas						
Larry R. Doyle, CEO	2005	$ 440,017	$ 176,000		$ 24,750	$ 640,767
	2004	440,000	100,000		25,072	565,072
	2003	316,666			109,505	426,171
Arnold Henson, CEO-retired	2003	51,667	55,000		70,207	176,874
Five other executive officers	2005	1,023,365	209,108		109,543	1,342,016
as a group (six in 2003)	2004	956,992	198,247		100,694	1,255,933
	2003	994,350	146,513		201,820	1,342,683
U.S. AgBank, FCB						
Jerold L. Harris,	2005	$ 367,444	$ 84,600	$ 113,000	$ 30,682	$ 595,726
President and CEO	2004	352,647	60,000	100,000	30,848	543,495
	2003	337,064	60,000	100,000	28,294	525,358
Four other executive	2005	882,889	150,500	202,000	62,220	1,297,609
officers as a group	2004	854,081	139,000	188,730	57,705	1,239,516
	2003	834,208	118,000	178,330	53,582	1,184,120
Federal Farm Credit Banks Funding Corporation***						
Jamie B. Stewart, Jr.	2005	$ 350,000	$ 450,000		$ 35,756	$ 835,756
President and CEO	2004	320,833	400,000		31,062	751,895
John J. Breen, retired interim	2004	123,500	90,000		142,069	355,569
President and CEO	2003	240,000	120,000		16,306	376,306
James A. Brickley, retired President and CEO	2003	504,000	350,000		139,695	993,695
Five other executive	2005	1,173,000	540,000		85,460	1,798,460
officers as a group	2004	1,309,700	505,000		87,793	1,902,493
(six in 2004 and four in 2003)	2003	902,700	404,000		55,122	1,361,822

* Some of the Banks have long-term incentive plans, pursuant to which cash awards may be granted to key senior officers who have a significant impact on long-term financial performance.

** Includes compensation to five senior officers at December 31, 2005 and compensation to one former senior officer during the time he was a member of the senior management team.

*** Mr. Jamie B. Stewart, Jr. became the President and CEO effective February 1, 2004. Mr. Brickley served as president and CEO through the date of his retirement, November 30, 2003. Mr. Breen served as interim president and CEO until January 31, 2004. Mr. Breen retired effective June 30, 2004.

PENSION PLAN SUMMARY

The following table provides estimates of annual retirement income payable to each chief executive officer under each respective Bank's pension plan.

		Years of Service				
	Remuneration	15	20	25	30	35
AgFirst Farm Credit Bank	$125,000	$ 37,500	$ 50,000	$ 62,500	$ 75,000	$ 87,500
	150,000	45,000	60,000	75,000	90,000	105,000
	175,000	52,500	70,000	87,500	105,000	122,500
	200,000	60,000	80,000	100,000	120,000	140,000
	250,000	75,000	100,000	125,000	150,000	175,000
	300,000	90,000	120,000	150,000	180,000	210,000
	400,000	120,000	160,000	200,000	240,000	280,000
	450,000	135,000	180,000	225,000	270,000	315,000
	500,000	150,000	200,000	250,000	300,000	350,000

The 2005 compensation covered by the qualified plan is $315,000. This is the 2005 401(a)(17) limit for eligible participants in certain governmental plans (i.e., Plan participants prior to $150,000 limit imposed by OBRA '93). The CEO's actual 2005 Annual Compensation is $444,000. Compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit will be made up through a non-qualified plan. The CEO has 31.33 years of service at December 31, 2005. The plan formula is 2% times Credited Service times high three-year Average Compensation. Benefits under the Plan are payable as a 5 year certain and life annuity. Benefits are not subject to an offset for Social Security.

		Years of Service				
	Remuneration	15	20	25	30	35
AgriBank, FCB	$125,000	$ 30,000	$ 40,000	$ 50,000	$ 60,000	$ 70,000
	150,000	37,000	49,000	61,000	73,000	86,000
	175,000	43,000	58,000	72,000	87,000	101,000
	200,000	50,000	66,000	83,000	100,000	116,000
	250,000	63,000	84,000	105,000	126,000	147,000
	300,000	76,000	101,000	127,000	152,000	178,000
	400,000	102,000	136,000	171,000	205,000	239,000
	450,000	115,000	154,000	192,000	231,000	269,000
	500,000	129,000	171,000	214,000	257,000	300,000

The definition of compensation in the pension plans includes all taxable wages (base plus incentive) plus deferrals to the 401(k) and flexible spending account plans. Certain special items are excluded (e.g., service awards, expense reimbursements, severance, hiring bonuses, referral bonuses, etc.). The CEO has 25.67 years of service as of December 31, 2005. The normal form of payment is a single life annuity. There are no offsets or deductions.

	Remuneration	Years of Service 15	20	25	30	35	40
CoBank, ACB	$ 125,000	$ 30,982	$ 41,309	$ 51,637	$ 61,964	$ 72,291	$ 82,618
	150,000	37,544	50,059	62,574	75,089	87,604	100,118
	175,000	44,107	58,809	73,512	88,214	102,916	117,618
	200,000	50,669	67,559	84,449	101,339	118,229	135,118
	250,000	63,794	85,059	106,324	127,589	148,854	170,118
	300,000	76,919	102,559	128,199	153,839	179,479	205,118
	400,000	103,169	137,559	171,949	206,339	240,729	275,118
	450,000	116,294	155,059	193,824	232,589	271,354	310,118
	500,000	129,419	172,559	215,699	258,839	301,979	345,118
	750,000	195,044	260,059	325,074	390,089	455,104	520,118
	1,000,000	260,669	347,559	434,449	521,339	608,229	695,118

Compensation as defined under the plans is the highest 60 consecutive month average (FAS60), which includes base salary and incentive compensation measured over a period of one year or less, but excludes other long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation, lump sum vacation payouts, and all severance payments. The CEO has 36.8 years of service as of December 31, 2005 and 2005 plan compensation as of December 31, 2005 was $1,001,101. The above benefits are payable in the form of a single life annuity with 5 years certain and calculated assuming retirement at Normal Retirement Age of 65 as of December 31, 2005. The plans require 5 years of vesting service to become vested. The benefit formula considers Social Security benefits paid to the beneficiary. The formula is 1.5% of FAS60 up to Social Security covered compensation plus 1.75% of FAS60 in excess of Social Security covered compensation, all multiplied by years of service. Social Security covered compensation is the 35 year average of the Social Security Taxable Wage Bases up to Social Security Retirement age. For the calculations above, Social Security covered compensation is $48,816.

	Remuneration	Years of Service 15	20	25	30	35
Farm Credit Bank of Texas	$125,000	36,660	48,880	61,101	73,321	85,541
	150,000	44,723	59,630	74,538	89,446	104,353
	175,000	52,785	70,380	87,976	105,571	123,166
	200,000	60,848	81,130	101,413	121,696	141,978
	250,000	76,973	102,630	128,288	153,946	179,603
	300,000	93,098	124,130	155,163	186,196	217,228
	400,000	125,348	167,130	208,913	250,696	292,478
	450,000	141,473	188,630	235,788	282,946	330,103
	500,000	157,598	210,130	262,663	315,196	367,728

Compensation includes the sum of wages, bonuses and deferrals to the 401(k) and flexible spending account plans, but excludes accrued annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits and any other payments. The CEO had 30 years of credited service as of December 31, 2005. The retirement benefits are computed on a 50% joint and survivor form of payment. There is an offset amount from another Farm Credit System institution for the CEO.

		Years of Service						
	Remuneration	**15**	**20**	**25**	**30**	**35**	**40**	**45**
U.S. AgBank, FCB	$125,000	$ 30,900	$ 41,200	$ 51,500	$ 61,800	$ 72,100	$ 82,400	$ 92,700
	150,000	37,500	49,900	62,400	74,900	87,400	99,900	112,400
	175,000	44,000	58,700	73,400	88,000	102,700	117,400	132,100
	200,000	50,600	67,400	84,300	101,200	118,000	134,900	151,800
	250,000	63,700	84,900	106,200	127,400	148,700	169,900	191,100
	300,000	76,800	102,400	128,100	153,700	179,300	204,900	230,500
	400,000	103,100	137,400	171,800	206,200	240,500	274,900	309,300
	450,000	116,200	154,900	193,700	232,400	271,200	309,900	348,600
	500,000	129,300	172,400	215,600	258,700	301,800	344,900	388,000
	600,000	155,600	207,400	259,300	311,200	363,000	414,900	466,800
	750,000	195,000	259,900	324,900	389,900	454,900	519,900	584,900

The 2005 compensation covered by the plan is $315,000. This is the 2005 limit imposed under section 401(a)(17) of the Internal Revenue Service code for eligible participants in certain governmental plans. The qualified plan benefit formula is 1.5% of the highest 60 consecutive months average pay multiplied by years of benefit service, plus 0.25% of the amount the average pay exceeds covered compensation multiplied by years of benefit service. The highest average pay includes base salary, bonus and incentive compensation. The CEO participates in a supplemental executive retirement plan, which restores the benefits as if the 401(a)(17) limits did not exist. In addition, the SERP calculates the pension benefit utilizing the highest 36 consecutive months average pay. The annual benefits payable from the SERP are offset by the annual benefits payable from the qualified pension plan. For pension plan purposes, the CEO's 3 year average compensation was $522,292 as of December 31, 2005. The CEO has 43.2 years of service, including unused sick leave. The above benefits are computed as annual 50% joint-and-survivor annuities.

		Years of Service					
	Remuneration	**15**	**20**	**25**	**30**	**35**	**40**
Federal Farm Credit Banks Funding Corporation	$ 125,000	$ 30,982	$ 41,309	$ 51,637	$ 61,964	$ 72,291	$ 82,618
	150,000	37,544	50,059	62,574	75,089	87,604	100,118
	175,000	44,107	58,809	73,512	88,214	102,916	117,618
	200,000	50,669	67,559	84,449	101,339	118,229	135,118
	250,000	63,794	85,059	106,324	127,589	148,854	170,118
	300,000	76,919	102,559	128,199	153,839	179,479	205,118
	400,000	103,169	137,559	171,949	206,339	240,729	275,118
	450,000	116,294	155,059	193,824	232,589	271,354	310,118
	500,000	129,419	172,559	215,699	258,839	301,979	345,118
	750,000	195,044	260,059	325,074	390,089	455,104	520,118
	1,000,000	260,669	347,559	434,449	521,339	608,229	695,118

Compensation as defined under the plans is the highest 60 consecutive month average (FAS60), which includes base salary and incentive compensation measured over a period of one year or less, but excludes other long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation, lump sum vacation payouts, and all severance payments. The CEO has 2 years of service as of December 31, 2005 and 2005 plan compensation as of December 31, 2005 was $483,333. The above benefits are payable in the form of a single life annuity with 5 years certain and calculated assuming retirement at Normal Retirement Age of 65 as of December 31, 2005. The plans require 5 years of vesting service to become vested. The benefit formula considers Social Security benefits paid to the beneficiary. The formula is 1.5% of FAS60 up to Social Security covered compensation plus 1.75% of FAS60 in excess of Social Security covered compensation, all multiplied by years of service. Social Security covered compensation is the 35 year average of the Social Security Taxable Wage Bases up to Social Security Retirement age. For the calculations above, Social Security covered compensation is $48,816.

Additionally, the CEO also participates in a Supplemental Executive Retirement Plan (SERP). The SERP ensures, among other things, that participants receive the full amount of benefits to which they would have been entitled in the absence of limits on benefit levels imposed by the Internal Revenue Code. For the CEO, the SERP provides a potential supplemental retirement benefit based on 30 percent of the highest four-year average of base salary plus 25 percent of bonuses. SERP benefits become 100 percent vested upon the completion of 6 years of service. Additional benefits can be incrementally earned up to a maximum 50 percent upon completion of 10 years of service. The annual benefits payable from the SERP are offset by annual benefits payable from the basic pension plan. The 2005 compensation covered by the basic pension plan is subject to IRS limitations.

AUDIT COMMITTEE REPORT

The Farm Credit Administration regulations with respect to disclosure to investors in Systemwide Debt Securities require the board of directors of the Funding Corporation to establish and maintain a System Audit Committee. These regulations specify that the System Audit Committee may not consist of less than three members and at least one member must be a financial expert. A financial expert must be the chairman of the System Audit Committee. Every member must be free from any relationship that, in the opinion of the board of directors of the Funding Corporation, would interfere with the exercise of independent judgment as a System Audit Committee member. The System Audit Committee reports to the board of directors of the Funding Corporation. The charter can be found on the Funding Corporation's website at www.farmcredit-ffcb.com. The responsibilities of the System Audit Committee include:

- the oversight of the Funding Corporation's system of internal controls related to the preparation of the System's quarterly and annual information statements,
- the integrity of the System's quarterly and annual information statements,
- the review and assessment of the impact of accounting and auditing developments on the System's combined financial statements,
- the review and assessment of the impact of accounting policy changes related to the preparation of the System's combined financial statements,
- the responsibility for the appointment, compensation, retention and oversight of the System's independent auditors,
- the pre-approval of allowable non-audit services at the System level,
- the receipt of various reports from management on internal controls, off-balance sheet arrangements, critical accounting policies, and material alternative accounting treatments,
- the review and approval of the scope and planning of the annual audit by the System's independent auditors,
- the approval of policies and procedures for the preparation of the System's quarterly and annual information statements, and
- the review and approval of the System's quarterly and annual press releases and information statements, after discussions with management and the independent auditors.

The System Audit Committee has reviewed and discussed the 2005 System combined financial statements and the System's report on internal control over financial reporting, which were prepared under the oversight of the System Audit Committee, with senior management of the Funding Corporation and the independent auditors. In addition, the System Audit Committee discussed with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 61, as amended.

The System Audit Committee has also received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, and has discussed with the independent auditors their independence.

Based on the review and discussions referred to above, the System Audit Committee recommended that the audited combined financial statements be included in the System's *Annual Information Statement — 2005.*

Arthur R. Wyatt (Chairman)
Larry F. Clyde (Vice Chairman)
William F. Staats
Robert M. Tetrault
Robert G. Weber

AUDIT FEES

The following table sets forth the aggregate fees billed for professional services rendered for the System by its independent auditor, PricewaterhouseCoopers LLP, for the years ended December 31, 2005 and 2004:

	2005	2004
	(in thousands)	
Audit	$7,632	$5,296
Audit-related	251	573
Tax	349	414
All Other	32	498
Total	$8,264	$6,781

The *Audit* fees were for professional services rendered for the audits of System entities and the audit of internal control over financial reporting.

The *Audit-related* fees were for assurance and related services related to employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations, internal control attestations, and consultations concerning financial accounting and reporting standards.

Tax fees were for services related to tax compliance, including the preparation of tax returns and claims for refunds, and tax planning and tax advice.

All Other fees were for services rendered for information technology consulting, treasury advisory services and other advisory and assistance services.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2005, the Funding Corporation carried out an evaluation under the supervision and with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of the Funding Corporation's disclosure controls and procedures[1] with respect to this Annual Information Statement. This evaluation relies upon the evaluations made by the individual Banks and the related certifications they provide to the Funding Corporation. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the reports it files or submits to the Farm Credit Administration. There have been no significant changes in the Funding Corporation's internal control over financial reporting[2] that occurred during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Funding Corporation's internal control over financial reporting.

---

[1] For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this annual information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

[2] For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the System's principal executives and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the System's combined financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the System; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the System's combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's combined financial statements.

CERTIFICATION

I, Jamie B. Stewart, Jr., certify that:

1. I have reviewed the *Annual Information Statement — 2005* of the Farm Credit System.

2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures[1]and internal control over financial reporting[2] for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and

(d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.

Jamie B. Stewart, Jr.
President and CEO

Date: March 1, 2006

[1] See footnote 1 on page S-22.

[2] See footnote 2 on page S-22.

CERTIFICATION

I, H. John Marsh, Jr., certify that:

1. I have reviewed the *Annual Information Statement — 2005* of the Farm Credit System.

2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures[1] and internal control over financial reporting[2] for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and

(d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.

H. John Marsh Jr.

H. John Marsh, Jr.
Managing Director — Financial
Management Division

Date: March 1, 2006

[1] See footnote 1 on page S-22.

[2] See footnote 2 on page S-22.

INDEX TO ANNUAL INFORMATION STATEMENT

Category	Location*
Description of Business	Pages 5 — 14, 22 — 30, 36-39, 41, 42, Notes 1, 2, 3, 5, 8, 10, 13, 19 and Pages S-25 — S-29
Federal Regulation and Insurance	Pages 5, 15 — 21, 57, 58, 61 — 67, and Notes 1, 8, 10 and 11
Description of Legal Proceedings and Enforcement Actions	Pages 15, 24, 65 and Note 19
Description of Debt Securities	Pages 5, 6, 15, 19 — 21, 37, 56 — 60 and Notes 9 and 10
Description of Liabilities	Pages 5, 6, 15, 19 — 21, 37, 56 — 60 and Notes 7, 9, 10, 11, 12, 14 and 15
Description of Capital	Pages 10, 16, 20, 61 — 65, Notes 2, 12, 13 and Page F-46
Selected Financial Data	Pages 3 and 4
Management's Discussion and Analysis of Financial Condition and Results of Operations	Pages 25 — 67
Directors and Management	Pages S-2 — S-13
Compensation of Bank Directors and Senior Officers	Pages S-3 — S-19
Related Party Transactions	Page 24, Note 18 and Page S-12
Relationship with Independent Auditors	Page 24
Financial Statements	Pages F-1 — F-36
Supplemental Combining Information	Pages F-37 — F-45
Supplemental Financial Information	Page F-46
Young, Beginning and Small Farmers and Ranchers	Pages F-47 and F-48
System Audit Committee	Pages 13, 14, S-13, S-14 and S-20

* As used herein, the references to "Notes" mean the Notes to Combined Financial Statements found on pages F-9 through F-36 of this annual information statement.

FARM CREDIT SYSTEM ENTITIES (As of January 1, 2006)

BANKS

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000

AgriBank, FCB
375 Jackson Street
St. Paul, MN 55101-1810
(651) 282-8800

CoBank, ACB
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400

U.S. AgBank, FCB
P.O. Box 2940
Wichita, KS 67201-2940
(316) 266-5100

CERTAIN OTHER ENTITIES

Farm Credit Leasing Services Corporation
Interchange Tower, Suite 300
600 Highway 1695.
Minneapolis, MN 55426
(763) 797-7400

Farm Credit System Financial
Assistance Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302-3913
(201) 200-8000

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302-3913
(201) 200-8000

FCS Building Association
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

The Farm Credit Council
50 F Street, NW
Washington, DC 20001-1530
(202) 626-8710

ASSOCIATIONS

AgFirst District

AgChoice Farm Credit, ACA
900 Bent Creek Blvd.
Mechanicsburg, PA 17050-1860

AgCredit ACA
610 W. Lytle Street
Fostoria, OH 44830-3422

AgGeorgia Farm Credit, ACA
826 Bellevue Avenue
Dublin, GA 31021

AgSouth Farm Credit, ACA
40 South Main Street
Statesboro, GA 30458

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28301

Carolina Farm Credit, ACA
1704 Wilkesboro Road
Statesville, NC 28625

Central Kentucky ACA
640 S. Broadway, Room 108
Lexington, KY 40508

Chattanooga ACA
2826 Amnicola Highway
Chattanooga, TN 37406-5220

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111-0727

East Carolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27620-4789

Farm Credit of Central Florida, ACA
115 S. Missouri Avenue, Suite 400
Lakeland, FL 33815

Farm Credit of North Florida, ACA
12300 NW U.S. Highway 441
Alachua, FL 32615

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32447

Farm Credit of South Florida, ACA
10055 Heritage Farms Road
Lake Worth, FL 33467

Farm Credit of Southwest Florida, ACA
330 North Brevard Avenue
Arcadia, FL 34266-4502

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401-6711

First South Farm Credit, ACA
713 S. Pear Orchard Road, Suite 300
Ridgeland, MS 39157

Jackson Purchase ACA
328 East Broadway
Mayfield, KY 42066

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21158

Pee Dee Farm Credit, ACA
2229 South Irby Street
Florence, SC 29505

Puerto Rico Farm Credit, ACA
213 Domenech Avenue
Hato Rey, PR 00918

Southwest Georgia Farm Credit, ACA
117 South Donalson Street
Bainbridge, GA 39817

Valley Farm Credit, ACA
125 Prosperity Drive
Winchester, VA 22602

AgriBank District

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761

AgCountry Farm Credit Services, ACA
1900 44th Street South
Fargo, ND 58108-6020

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201

AgStar Financial Services, ACA
1921 Premier Drive
Mankato, MN 56002-4249

Badgerland Farm Credit Services, ACA
315 Broadway
Baraboo, WI 53913-0069

Delta ACA
118 E. Speedway
Dermott, AR 71638

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404

Farm Credit Services of America, ACA
5015 So 118th Street
Omaha, NE 68137

Farm Credit Services of Grand Forks, ACA
2424 32nd Avenue South
Grand Forks, ND 58208-3570

Farm Credit Services of Illinois, ACA
2101 W. Park Court
Champaign, IL 61821

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554-5501

Farm Credit Services of Mid-America, ACA
1601 UPS Drive
Louisville, KY 40232-4390

Farm Credit Services of Missouri, ACA
1934 E. Miller Street
Jefferson City, MO 65101-3881

Farm Credit Services of North Dakota, ACA
3100 10th Street, SW
Minot, ND 58702-0070

Farm Credit Services of Western Arkansas, ACA
3115 West 2nd Court
Russellville, AR 72801

GreenStone Farm Credit Services, ACA
1760 Abbey Road
East Lansing, MI 48823

Progressive Farm Credit Services, ACA
240 North Kingshighway
Sikeston, MO 63801

United Farm Credit Services, ACA
3881 Abbott Drive
Willmar, MN 56201-1560

CoBank District

Farm Credit of Maine, ACA
615 Minot Avenue
Auburn, ME 04210

Farm Credit of Western New York, ACA
4363 Federal Drive
Batavia, NY 14020-4105

First Pioneer Farm Credit, ACA
174 South Road
Enfield, CT 06082-4414

Northwest Farm Credit Services, ACA
1700 South Assembly Street
Spokane, WA 99220

Yankee Farm Credit, ACA
289 Hurricane Lane, Suite 102
Williston, VT 05495

Texas District

AgCredit of South Texas, ACA
555 South International Boulevard
Weslaco, TX 78596

Ag New Mexico, Farm Credit Services, ACA
233 Fairway Terrace North
Clovis, NM 88101

AgriLand, Farm Credit Services
3210 W. Northwest Loop 323
Tyler, TX 75702

AgTexas Farm Credit Services
6502 Slide Road, Suite 307
Lubbock, TX 79424

Capital Farm Credit, ACA
507 E. 26th Street
Bryan, TX 77803

Federal Land Bank Association of North Alabama, FLCA
1949 St. Joseph Drive, N.W.
Cullman, AL 35055

Federal Land Bank Association of North Mississippi, FLCA
5509 Highway 51 North
Senatobia, MS 38668

Federal Land Bank Association of South Alabama, FLCA
7602 Halcyon Summit Drive
Montgomery, AL 36117

Federal Land Bank Association of South Mississippi, FLCA
500 Greymont Avenue, Suite D
Jackson, MS 39202-3446

Federal Land Bank Association of Texas, FLCA
215 W. Elm Street
Coleman, TX 76834

First Ag Credit, Farm Credit Services
5715 50th Street
Lubbock, TX 79414-1613

Great Plains Ag Credit, ACA
5701 I-40 West
Amarillo, TX 79106

Heritage Land Bank, ACA
4608 Kinsey Drive, Suite 100
Tyler, TX 75703

Legacy AgCredit, ACA
303 Connally Street
Sulphur Springs, TX 75482

Lone Star Land Bank, ACA
1111 Sante Fe Drive
Weatherford, TX 76086

Louisiana Ag Credit, ACA
1564 North Hazel Street
Arcadia, LA 71001

Louisiana Federal Land Bank Association, FLCA
2413 Tower Drive
Monroe, LA 71201

Panhandle-Plains Federal Land Bank Association, FLCA
5700 Southwest 45th
Amarillo, TX 79109-5204

Southwest Texas, ACA
605 West Hondo Avenue
Devine, TX 78016

Texas AgFinance, Farm Credit Services
545 South Highway 77
Robstown, TX 78380

Texas Land Bank, FLCA
13525 Sandalwood Drive
Waco, TX 76712

U.S. AgBank District

AgPreference, ACA
3120 North Main
Altus, OK 73521

American AgCredit, ACA
200 Concourse Boulevard
Santa Rosa, CA 95403

Chisholm Trail Farm Credit, ACA
805 Chisholm Trail
Enid, OK 73703

Farm Credit of Central Oklahoma, ACA
Mission and Georgia
Anadarko, OK 73005

Farm Credit of Enid, ACA
1500 W. Owen K. Garriott Road
Enid, OK 73703

Farm Credit of Ness City, FLCA
114 West Main Street
Ness City, KS 67560

Farm Credit of New Mexico, ACA
3121 Carlisle Boulevard, N.E.
Albuquerque, NM 87110

Farm Credit of Southern Colorado, ACA
3625 Citadel Drive South
Colorado Springs, CO 80909

Farm Credit of Southwest Kansas, ACA
1606 E. Kansas Avenue
Garden City, KS 67846

Farm Credit of Western Kansas, ACA
1055 South Range Avenue
Colby, KS 67701

Farm Credit of Western Oklahoma, ACA
3302 Williams Avenue
Woodward, OK 73801

Farm Credit Services of Central Kansas, ACA
7940 W. Kellogg Drive
Wichita, KS 67209

Farm Credit Services of Colusa-Glenn, ACA
605 Jay Street
Colusa, CA 95932

Farm Credit Services of East Central Oklahoma, ACA
601 E. Kenosha Street
Broken Arrow, OK 74012

Farm Credit Services of Hawaii, ACA
2850 Paa Street, Suite 100
Honolulu, HI 96819

Farm Credit Services of The Mountain Plains, ACA
4505 29th Street
Greeley, CO 80634

Farm Credit Services Southwest, ACA
3003 S. Fair Lane
Tempe, AZ 85282

Farm Credit West, ACA
2929 West Main Street, Suite A
Visalia, CA 93291

Federal Land Bank Association of Kingsburg, FLCA
1580 Ellis Street
Kingsburg, CA 93631

Federal Land Bank Association of Ponca City, FLCA
1909 E. Lake Road
Ponca City, OK 74604

Fresno-Madera Farm Credit, ACA
4635 West Spruce Ave.
Fresno, CA 93722

Frontier Farm Credit, ACA
2401 N. Seth Child Road
Manhattan, KS 66502

High Plains Farm Credit, ACA
605 Main Street
Larned, KS 67550

Idaho Agricultural Credit Association
188 West Judicial
Blackfoot, ID 83221

Northern California Farm Credit, ACA
3435 Silverbell Road
Chico, CA 95973

Premier Farm Credit, ACA
202 Poplar Street
Sterling, CO 80751

Sacramento Valley Farm Credit, ACA
283 Main Street
Woodland, CA 95695

Western AgCredit, ACA
406 West South Jordan Parkway, Suite 500
South Jordan, UT 84095

Yosemite Farm Credit, ACA
800 West Monte Vista Avenue
Turlock, CA 95382