

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Dollars in thousands)

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Mid-America, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2004 annual report for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of Mid-America, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at P.O. Box 34390, Louisville, Kentucky 40232-4390, (800) 444-FARM, electronic mail to [efcsales@e-farmcredit.com](mailto:efcsales@e-farmcredit.com), or through our website at [www.e-farmcredit.com](http://www.e-farmcredit.com). You may also contact AgriBank, FCB at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or via electronic mail to [AGRIBANKMN@farmcredit.com](mailto:AGRIBANKMN@farmcredit.com). The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's website at [www.agribank.com](http://www.agribank.com).

## LOAN PORTFOLIO

Gross loans totaled \$8.9 billion at September 30, 2005, a \$682 million increase from December 31, 2004, up 8.3% compared to \$464 million or 6.2% for the same period last year. The growth is due to strong activity in farm real estate financing, particularly more activity on loans above \$1 million. Along with this activity, we are continuing to experience strong growth in the residential lending area.

The following table summarizes risk assets and delinquency information:

As of:	September 30 2005	December 31 2004
Loans:		
Accruing restructured	\$1,183	\$1,700
Past due 90 days or more		
still accruing	1,957	730
Nonaccrual	54,096	53,896
Total risk loans	57,236	56,326
Other property owned	1,120	1,839
Total risk assets	58,356	58,165
Risk loans as a % of total loans	0.6%	0.7%
Total delinquencies as a % of total loans	0.8%	0.6%

Our risk assets have not changed significantly from December 31, 2004, and remain at acceptable levels. At September 30, 2005, 58.6% of our nonaccrual loans were current.

Recent hurricanes have created much uncertainty on the outlook for the general economy. GDP growth is expected to be cut between 0.5% and 1.0% in both the third and fourth quarters of 2005. A rebound in growth is expected in early 2006, as the reconstruction from the hurricanes begins and oil prices fall. The big risk in any forecast at this time is with the energy markets and how consumers and businesses will react to record-high energy prices.

It has been a challenging year for many of our crop operations due to poor yields, low commodity prices and high production costs due to energy related issues. Livestock and milk operations have continued to have pricing opportunities to support profitability with the exception of egg operations.

We don't expect material portfolio challenges from this year because of the financial strength farmers brought into this year and because of risk mitigation practices of many of our farmers through crop insurance.

A view into 2006 and beyond is not as clear and will probably present a more challenging lending environment.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

As of:	September 30 2005	December 31 2004
Allowance as a percentage of:		
Loans	0.24%	0.26%
Nonaccrual loans	39.3%	39.2%
Total risk loans	37.2%	37.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in the loan portfolio at September 30, 2005.

## RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2005, totaled \$86.2 compared to \$82.4 million for the same period of 2004. The following table illustrates profitability information:

As of September 30:	2005	2004
Return on average assets	1.3%	1.4%
Return on average members' equity	7.6%	8.4%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2005 compared to September 30, 2004:

Increase (decrease) in net income	2005 vs. 2004
Net interest income	\$11,749
Provision for loan losses	(2,101)
Patronage income	1,264
Financially related services and miscellaneous income, net	1,408
Operating expenses	(5,955)
Provision for income taxes	(2,556)
Total change in net income	\$3,809

Net interest income was \$135.7 million for the nine months ended September 30, 2005. The following table quantifies changes in net interest income for the nine months ended September 30, 2005 compared to September 30, 2004:

Change in net interest income	2005 vs. 2004
Changes in accrual volume	\$13,344
Changes in net accrual rates	(243)
Changes in nonaccrual income and other	(1,352)
Net change	\$11,749

The change in the provision for loan losses is related to the refinement in our methodology for the allowance for loan losses as well as growth in the portfolio.

The patronage income increased due to the increase in our note payable amount to AgriBank, FCB

Increases in the financially related services and miscellaneous income were related primarily to increased net income from operating leases.

The operating expense increases were primarily related to higher salary and benefit expenses from general salary increases, additional headcount and increased retirement benefit expense. In addition, operating expenses increased due to services purchased from AgriBank, FCB and consulting services related to technology.

The increase in the provision for income taxes is related to increased net income of the PCA, the taxable subsidiary.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed above, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Capital section below.

## FUNDING, LIQUIDITY AND CAPITAL

We borrow from AgriBank, FCB in the form of a line of credit. Our promissory note matured on December 31, 2004, and was renewed for \$8.8 billion with a maturity date of February 28, 2006. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk.

Total members' equity increased \$88.7 million from December 31, 2004, due to net income for the period and an increase in capital stock and participation certificates.

Farm Credit Administration Regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. The calculation of these ratios according to Farm Credit Administration Regulations is discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At September 30, 2005, our ratio was 14.5%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At September 30, 2005, our ratio was 13.8%.
- The core surplus ratio is average unallocated surplus less our investment in AgriBank, FCB divided by average risk-adjusted assets. At September 30, 2005, our ratio was 13.3%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained above and the changes in assets as further discussed in the Loan Portfolio section.

The undersigned certify that Farm Credit Services of Mid-America, ACA's September 30, 2005 quarterly report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Robert Barton  
Chairperson of the Board  
Farm Credit Services of Mid-America, ACA



Donald Winters  
Chief Executive Officer  
Farm Credit Services of Mid-America, ACA

October 31, 2005

**CONSOLIDATED STATEMENT OF CONDITION**

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

(Unaudited)

	September 30, 2005	December 31, 2004
<b>ASSETS</b>		
Loans	\$8,896,289	\$8,214,335
Allowance for loan losses	21,268	21,139
Net loans	8,875,021	8,193,196
Investment in AgriBank	220,225	220,225
Accrued interest receivable	106,910	75,691
Premises and equipment, net	33,447	33,958
Other property owned	1,120	1,839
Assets held for lease, net	114,711	124,889
Other assets	29,780	19,059
Total assets	\$9,381,214	\$8,668,857
<b>LIABILITIES</b>		
Note payable to AgriBank	\$7,694,276	\$7,071,693
Accrued interest payable	84,187	71,698
Net deferred income tax liability	22,119	21,524
Other liabilities	24,537	36,592
Total liabilities	7,825,119	7,201,507
Contingent liabilities		
<b>MEMBERS' EQUITY</b>		
Protected members' equity	23	31
Capital stock and participation certificates	63,456	60,937
Unallocated surplus	1,492,616	1,406,382
Total members' equity	1,556,095	1,467,350
Total liabilities and members' equity	\$9,381,214	\$8,668,857

**CONSOLIDATED STATEMENT OF INCOME**

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

(Unaudited)

Period ended September 30	Three months		Nine months	
	2005	2004	2005	2004
Interest income	\$129,272	\$109,531	\$372,868	\$322,102
Interest expense	84,249	68,849	237,156	198,139
Net interest income	45,023	40,682	135,712	123,963
Provision for loan losses	824	272	2,754	653
Net interest income after provision for loan losses	44,199	40,410	132,958	123,310
<b>Other income</b>				
Patronage income	5,196	4,806	15,353	14,089
Financially related services and miscellaneous income, net	3,146	2,250	8,094	6,686
Total other income	8,342	7,056	23,447	20,775
<b>Operating expense</b>				
Salaries and employees benefits	11,446	10,717	34,103	30,331
Other operating	10,355	7,931	29,075	26,892
Total operating expenses	21,801	18,648	63,178	57,223
Income before income taxes	30,740	28,818	93,227	86,862
Provision for income taxes	2,669	1,615	6,993	4,437
Net income	\$28,071	\$27,203	\$86,234	\$82,425

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

**CONSOLIDATED STATEMENT OF CHANGES****IN MEMBERS' EQUITY**

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at</b>				
December 31, 2003	\$43	\$58,596	\$1,214,768	\$1,273,407
Net income	--	--	82,425	82,425
Capital stock/participation certificates issued	--	5,930	--	5,930
Capital stock/participation certificates retired	(10)	(4,293)	--	(4,303)
<b>Balance at</b>				
September 30, 2004	\$33	\$60,233	\$1,297,193	\$1,357,459
<b>Balance at</b>				
December 31, 2004	\$31	\$60,937	\$1,406,382	\$1,467,350
Net income	--	--	86,234	86,234
Capital stock/participation certificates issued	--	6,428	--	6,428
Capital stock/participation certificates retired	(8)	(3,909)	--	(3,917)
<b>Balance at</b>				
September 30, 2005	\$23	\$63,456	\$1,492,616	\$1,556,095

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

**NOTES TO FINANCIAL STATEMENTS**

(Dollars in thousands)

**NOTE 1: Organization and Significant Accounting Policies**

Our 2004 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2004. You should read these unaudited third quarter 2005 consolidated financial statements in conjunction with the 2004 annual report.

The accompanying consolidated financial statements contain all information necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the year ended December 31, 2005.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of Mid-America, ACA (the parent) and Farm Credit Services of Mid-America, FLCA and Farm Credit Services of Mid-America, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

**NOTE 2: Allowance for Loan Losses**

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

Nine months ended September 30	2005	2004
Balance at beginning of year	\$21,139	\$119,105
Provision for loan losses	2,754	653
Loan recoveries	2,065	2,187
Loan chargeoffs	(4,690)	(2,775)
Balance at end of period	\$21,268	\$119,170

As discussed in our 2004 annual report, we significantly reduced our allowance for loan losses during the fourth quarter of 2004 as a result of a refinement of our allowance methodology.

**NOTE 3: Contingencies**

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which are not reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

**NOTE 4: Employee Benefit Plans**

The amount of total District employer contributions expected to be paid for pension benefits in 2005 has been revised to \$75 million. This \$75 million contribution was made by District employers in September 2005. Our share of this contribution was \$14.4 million and resulted in an increase to our prepaid pension asset (included in Other Assets on our Consolidated Statement of Condition). Our contribution was funded by our Note Payable to AgriBank.



September 30, 2005




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