



Serving Rural America for

YEARS

 **Farm Credit Services**
OF MID-AMERICA

2 0 0 6 A N N U A L R E P O R T

A Report to Farm Credit Members

March 30, 2007

On behalf of everyone at Farm Credit Services of Mid-America, we are very pleased to report another year of strong community support, robust financial success, and innovative, positive change. After 90 years, the FCS commitment to rural America has never been stronger.

The successes of the past year mirror the historic three-fold commitment of our association. First and foremost, we are committed to delivering the best products and services with the best delivery system possible. This commitment has manifested itself in a mobile sales force and office delivery model that has produced growth in key market segments. In fact, Farm Credit Services witnessed a 15.4% growth on volume outstanding during 2006. Commercial loan growth was at 12.9%, while mortgage growth reached 16.0%. Growth in business also meant growth in earnings as well as the financial position and capital strength of the association. Earnings reached \$143.6 million.

This financial growth illustrates not only the success of our organization, but also the success of our product delivery. A decade ago, we began reaching further into markets with our unique mobile sales force, one that would meet you when and where it is convenient for you. Now this year, the success of these efforts continues and is evidenced by new Farm Credit offices in Richmond, Kentucky, Marietta, Ohio, and Chattanooga, Tennessee—with more building initiatives scheduled for 2007.

Secondly, our association is deeply committed to returning value to youth and rural America, and with this commitment in mind, we are introducing a new stewardship program. This program involves reinvesting the dollars our members entrust to us in education and youth initiatives. Nearly \$700,000 now supports young farmers in 4-H, FFA, and other relevant programs. And we're just getting started. With the overwhelming support of our Board of Directors, we will increase that dollar amount almost 50% in 2007, starting with the implementation of a stronger scholarship program (more details available on page 14).

Lastly, we are of course committed to providing our members with the best value—in life and crop insurance, through competitive fixed rates for other product offerings, and by revamping internal structures to make sure that as agriculture evolves, Farm Credit is evolving too.

Our involvement in the nationwide Farm Credit System project known as HORIZONS likewise indicates our desire to keep up with the times—as agriculture changes, we're changing too. HORIZONS explores how updates to our internal regulations can make them more relevant to the changing needs of rural communities. This includes new policy solutions designed to make sure farmers, rural businesses, and rural communities can gain access to the competitive financial tools they need to be successful. Many farm associations and organizations have endorsed this important project, and we are grateful for their support.

In closing, as we reflect on our 90-year heritage of support and commitment to rural America, we also anticipate a bright future—a future full of success and prosperity for our members. We look forward to supporting this success by serving your financial needs in the coming year and beyond.



A handwritten signature in black ink that reads "Robert E. Barton".

Robert E. Barton
Chairperson - Board of Directors



A handwritten signature in black ink that reads "Donald W. Winters".

Donald W. Winters
President and Chief Executive Officer



MISSION

To be a dependable source of constructive credit and high-quality service at the best possible value for farmers and rural residents.

VISION

To be the lender and employer of choice in our marketplace.

VALUES

Integrity, respect, commitment, customer focus, high performance and team focus.



Growing IN Numbers

90 years of financial strength — and we're only getting stronger

Without a doubt, 2006 was a year of milestones. We saw assets surpass \$10 billion early in the year, then \$11 billion by late 2006. We celebrated the 90th anniversary of our commitment to serve farming families and agricultural communities. We witnessed a total of 15.4% growth on volume outstanding during 2006.

These accomplishments are a testament to the strength of the Farm Credit System, a strength measured in quality, member satisfaction, and robust financial growth. And after 90 years in business, we're only getting stronger.

Growth in loans in all market segments

The cooperative experienced a 10.7% growth in loans to larger, full-time farmers. The interest was fueled by expansions in pork, cattle, poultry, new real estate acquisitions, and business-related investments. Agribusiness produced strong results in 2006, growing volume by 44% (year-end agribusiness volume was \$1.7 billion).

New loans to small, part-time farmers showed gains of 10.9% on the commercial side and 13.3% in mortgage lending—a strong indication of our continuing commitment to providing dependable credit and services to all segments of agriculture.

Financial Highlights

Loan Volume
Dollars in millions

2006	\$10,446
2005	\$9,054
2004	\$8,214
2003	\$7,494
2002	\$6,878

Loan volume eclipsed the \$10 billion mark in 2006, up over 15.4% from the previous year and \$631 million more than an aggressive growth plan.

Earnings
Dollars in millions

2006	\$143.6
2005	\$126.5
2004	\$191.6
2003	\$107.5
2002	\$146.3

Growth in business also meant growth in earnings, up 13.5% and \$27.7 million above plan.

Nonaccrual Volume
Dollars in millions

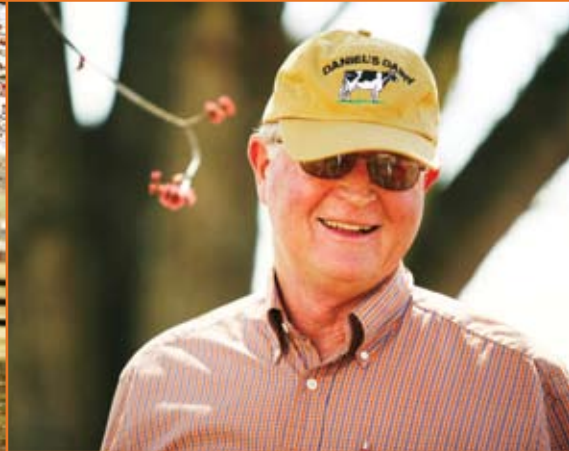
2006	\$57.8
2005	\$51.2
2004	\$53.9
2003	\$54.6
2002	\$73.9

Nonaccrual volume represented less than 1% of our total portfolio, which is a direct result of our membership's strong credit.

Capital
Dollars in millions

2006	\$1,745
2005	\$1,597
2004	\$1,467
2003	\$1,273
2002	\$1,163

Capital continued to climb, up 9.3% in 2006. Our capital plan requires an adequate amount of surplus, which represents our reserve for adversity. Additionally, preserving capital allows us the resources to serve the market and price loans more aggressively.



Since the 1940s, the Daniels of Charlotte, Tennessee, have turned to FCS for financing. The farm—which has been in the Daniel family since the mid-1800s and is recognized as part of the Tennessee Century Farm Program—is an 840-acre dairy, beef cattle and crop operation. Johnny Daniel has a long history with Farm Credit. He was a recipient of a

scholarship over 40 years ago and then later worked for the association. Today he serves on the Dickson Advisory Committee. He is pictured here with his son Benjie and granddaughter Whitley. Also shown are staff members Karen Seals and Ralph Stewart.

New and improved programs give members more choices

Farm Credit continues to create, update, and fine-tune financial programs to broaden the variety of financial solutions we offer members. A number of these initiatives were introduced in 2006.

Part-time farmers and residential customers saw interest rate savings with “Rate Saver.” Using this new feature, customers were able to achieve an interest rate up to 30 basis points lower than a standard product. In turn, the interest rate savings will result in thousands of dollars (less cost) over the lifetime of their mortgages. Rate Saver attracted over \$50 million in new commitments in 2006.

The same money-saving feature has long been offered to farmers. “Flex Rate” passes the savings involved in funding a loan (created by a restriction on early prepayments) to the producer in terms of a lower rate. During 2006, this product became a critical strategy in negotiating and winning many new loan opportunities. In fact, Rate Saver is now often the product of choice for our large agricultural loans.

FCS added a biweekly payment feature on residential loans. Customers accelerate the principal reduction on the loan, saving thousands of dollars and years off their mortgages. The savings come from the discipline to make the equivalent of one extra

Financial Solutions

monthly payment a year. By year end, over 400 customers (representing \$50 million in volume) opted for this program.

Protecting your crop investment from yield and marketing risk is a top priority for FCS. Our vision is to offer producers reliable, trustworthy crop insurance services, and in 2006, we took additional steps to make that happen by adding eight more full-time crop insurance specialists and technicians. Partnering with reliable crop insurance carriers, this growing insurance team wrote \$18.7 million in premiums and saw an 8.6% increase in revenue (to \$1.6 million).

Our life insurance programs witnessed a similar gain of nearly 9.7% in 2006. At year-end, almost 16,000 customers had an insurance program of some type in force. The dollar amount of coverage they share is just under \$1 billion in force, an \$86 million increase from 2005.

Farm Cash Management witnessed a 50% increase in account number, with balances increasing from \$13 million to \$41 million. Additionally, we conducted almost 6,500 lump sum tobacco buyout transactions that netted over \$98 million in new volume.

These are just a few of the ways FCS continues to provide value to rural America.



Marilynn and Ellis McFadden have a 1,500-acre grain farm (Ellmar Farms) in Allen County, Indiana, and have been with Farm Credit since the late 1940s. “We borrowed from Farm Credit when local banks would not finance farm land,” said Marilyn. They have been members since, now working

with their sixth financial services officer, Laura Gentis of Bluffton (pictured here with the McFaddens). They are avid believers in farm technology. They bought their first computer in 1982 and use the latest tracking systems to predict and maintain crop production.

Structural changes reflect the changing needs of agriculture

Agriculture is changing. The reality of farming has evolved over the past 90 years, and Farm Credit Services is evolving along with it. We've spent the last year evaluating our delivery channels and deciding what changes were essential to providing better access and better solutions to our members and future customers.

A delivery team was created to study ways FCS could tap into new business opportunities and better support our current customer base. The team's recommendations found that new offices were warranted in strategic new business markets. Three of these new offices were opened in 2006, and seven more are scheduled to open in 2007.

Another way we are meeting the changing needs of agriculture is through a systemwide initiative known as HORIZONS. This national effort looks at how FCS's governing laws and regulations can be updated to reflect how agriculture has evolved over the past 35 years—and much has changed since the last time the Farm Credit Act was significantly amended in 1971.

Keeping up with the Times

Two national recommendations will directly impact our association, and these are being taken to Congress for their consideration when adopting the next Farm Bill. The first is a proposal to allow businesses that directly support farmers to be eligible for Farm Credit financing. These types of businesses include those that provide necessary input to producers (such as local farm equipment dealers, feed and seed dealers, etc.) or that purchase or handle farm products directly from producers (such as local grain elevators, dairies, etc.).

The second proposal would increase credit availability for home buyers in rural communities. Under the current law, Farm Credit can finance the purchase of a moderately priced rural home located in a community with a population of 2,500 or less. This limit was established in 1971. The proposal would adjust the population limit to 50,000, consistent with USDA definitions of a rural area.

As members of the FCS cooperative, if you would like to send a letter or email supporting these changes to your congressional leader, please contact your local FCS office.

By making these adjustments, the FCS team reiterates our pledge to rural America to provide the resources and access to credit it needs to be successful. We look forward to continuing this important effort for many decades to come!



Jody Mobley of Elizabethtown, Kentucky, has been a member since 1956. He was elected to the Nolin PCA Board in the early '60s, then sat on the original Farm Credit Services Board in the mid-'80s when PCAs and FLBAs across our four states merged to form a single association.

“It was a tough time for agriculture. What I remember most about those initial meetings was how we worked together for the good of the association and its members.” Today, he and his son, Kevin, farm a 650-acre row crop operation. With them are financial services officers from Elizabethtown—Mike Buckman and Bob Gaslin.

Deep roots mean decades of strength and security

We have always maintained a simple formula for success: Instead of dabbling in extraneous products and taxable patronage incentives, we offer steady, low-cost, fixed-rate security to members. After nine decades, we're proud to report this focus continues to pay off. Ninety years of deep roots allow us to nurture new growth in a way the generations before us could only imagine.

Continued commitment to low rates

Looking back, there have been many changes. Technology has changed. Legislation has changed. But one thing has remained constant—the FCS legacy of providing low interest rates to farmers and rural customers. In the 1990s, when critics complained farm lenders were unwilling to offer the security of long-term fixed rates, FCS stepped up to the challenge. Today, it continues to offer farmers 15-, 20- and 30-year fixed-rate terms, promoting stability not only for our members, but also for rural America. Through the years, we've pioneered a large array of lending products. When interest rates dipped, we created a simple conversion process to refinance loans,

Seeds of Future Growth

allowing thousands of members to trade in their old rates for new, lower rates—saving approximately 46,000 members more than \$334 million in future interest costs. This process is a great example of one of the many ways we deliver the best services at the lowest cost of any FCS institution in the country.

Success through grassroots leadership

Another key reason for our continued growth is FCS's ability to truly represent the needs of the members it serves. The Board of Directors, made up of 16 farmers and one appointed member who represent rural communities, focus on grassroots community needs and specific regional concerns. With the Board's dedication and direction comes a willingness by FCS to finance a variety of farm customers who invigorate rural markets and sustain the economy of the communities.

Looking to the future

As its many decades in the agricultural financial industry show, FCS is a lasting, essential part of the fabric of American agriculture. With deep roots and a strategic, prudent approach to capital management, we will continue serving America.



Jean and Dale Broeske have farmed in picturesque Bellville, Ohio, since the early 1950s. Today, their farm is operated by the second generation—their son Ron and his wife, Michelle, have a grain operation, while daughter Becky McKinley owns greenhouses. Ron and Michelle’s children, Raymond and Steven, are in high school, but plan

to return to the farm after their education is complete. The family has a strong Ohio State legacy, and 4-H and FFA have played an integral role in their background and education. With the Broeskes is financial services officer John Grove of Mansfield.

Supporting agriculture by supporting rural America

Farm Credit Services is proud to offer programs targeted to young farmers (under the age of 35), beginning farmers (less than 10 years of farming) and small farmers (under \$250,000 gross farm income). In 2006, we supported this mission by introducing a Financial Management and Planning Workshop in Northern Indiana, as well as contributing nearly \$35,000 in support of individual attendance at various programs throughout our territory.

Our staff also reinvests in local communities, not only through thousands of volunteer hours for programs such as the 4-H, FFA, and young farmer groups, but also through significant financial support to national groups such as the Graham Strategic Marketing program for pork producers and the National Young Farmer Education Association. In total, we contributed almost \$700,000 to community and outreach programs during 2006—and this number will increase over 50% in 2007 through the direction of the Board.

The Future of Farming

In fact, we're already developing partnership plans for local FCS offices and rural community initiatives, such as water treatment improvement at Camp Whitewood, a 4-H Camp in Northeastern Ohio, and the construction of the Kentucky Heartland Regional Marketing and Expo Facility in Hardin County, Kentucky. Our scholarship program provides thousands of dollars each year to students studying agriculture at colleges and universities throughout Kentucky, Ohio, Indiana, and Tennessee.

Last year saw the development of a partnership with the University of Kentucky's Agricultural College to create a \$25,000 scholarship endowment—a result of our work with the university's tobacco buyout. The first two recipients of those scholarships were selected last fall.

And best of all, we're looking forward to even more scholarship investments. In 2007, our scholarship fund will increase to \$100,000—signaling our ongoing commitment to a successful future for farming in rural America. For more information about our new scholarship program, turn to page 14.

FARM CREDIT SERVICES OF MID-AMERICA SCHOLARSHIP PROGRAM

Sowing Success FOR THE *Future*

Farm Credit Services of Mid-America is proud to offer nearly \$100,000 in scholarships.

We are pleased to help deserving students pursue their goals in agriculture, finance, or other agriculture-related fields of study.

Farm Credit awards scholarships each year based on academic record, leadership qualities, and community involvement:

- Ag-related scholarships at 12 universities throughout our four-state territory of Kentucky, Ohio, Indiana and Tennessee
- 18 open scholarships to customer-members of Farm Credit or the children of customer-members
- 8 scholarships to members of the FFA and 4-H organizations

How to Apply

Applications for Farm Credit scholarships are available through the ag departments or campus career centers at eligible universities. Those interested in the 4-H or FFA scholarships should contact their state 4-H or FFA office.

To apply for one of our 18 open scholarships, please contact your local Farm Credit Services of Mid-America office at 1-800-444-FARM or download an application online at www.e-farmcredit.com (under the Community Giving tab). The deadline for application is May 31, 2007.



Farm Credit Services
OF MID-AMERICA

www.e-farmcredit.com | 1-800-444-FARM



2006 Annual Report
to Member-Owners

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Services of Mid-America, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Mid-America, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations.

Forward-Looking Information

Certain sections of this Annual Report contain 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 on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, 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,
- fluctuations in the agricultural and general economies,
- weather-related conditions and plant and animal disease that periodically occur that impact agricultural productivity, consumer demand, and agricultural income,
- changes in United States government support of the agricultural industry, and
- bio-terrorism and other terrorism.

Loan Portfolio

Loan volume totaled \$10.4 billion at December 31, 2006. The changes in loan volume for the last two years were as follows (in thousands)

Change in loan principal	2006 vs. 2005		2005 vs. 2004	
Accrual				
Mortgage	\$1,166,306	16.0%	\$828,275	12.8%
Commercial	219,214	12.9%	14,001	0.8%
Nonaccrual	6,616	12.9%	(2,736)	(5.1%)
Total gross loans	\$1,392,136	15.4%	\$839,540	10.2%

During 2006, our assets grew to \$11.4 billion, \$615 million above our business plan, by continuing an aggressive marketing effort; equipping staff with new tools and processes; introducing new products and maximizing opportunities in key market segments.

- New sales (over \$2 billion in new money) were bolstered by growing the business overall. Our average daily balance (a reflection of both new dollars and keeping existing customer accounts vital and growing) grew by 15.4%.
- The cooperative experienced 10.7% growth in loans to large, full-time farmers. At year end, more than \$2.1 billion was outstanding on over 20,000 loans. By year end, we generated through our branch offices well over one hundred applications totaling \$1 million or more that resulted in over \$200 million in new business closed. Expansions in pork, dairy and poultry, new real estate acquisitions and business-related investments fueled that growth. Our staff brought expertise and new skills (like knowledge of IRC section 1031 likekind exchanges gained during several 2006 workshops) to be the resourceful, dependable lender promised to the market.
- Among key market segments, the AgriBusiness unit produced very strong results in 2006, growing volume by 44% to a level of \$1.7 billion outstanding on commitments well in excess of \$4 billion.
- While many lenders nationwide bemoaned the down-turn of the residential mortgage business in 2006, we kept a steady pace of new loans. Business with part-time farmers showed gains of 10.9% in commercial lending and 13.3% in mortgage lending. In all, new residential mortgage loans to part-time farmers and rural residents were over \$900 million.

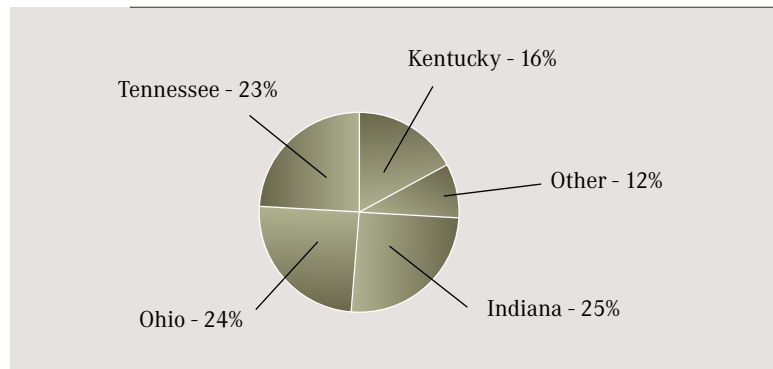
- Results in serving the mid-band of the market segment (farmers with ag sales from \$50,000-\$99,999 and \$100,000 to \$250,000 annually) showed gains of 8.4% and 7.1% respectively, a good signal that we remain focused on the mission of providing dependable credit and services to all bands of agriculture.

Portfolio Distribution

The commercial loan portfolio shows some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest. They then increase throughout the year as farmers borrow for operating and capital needs.

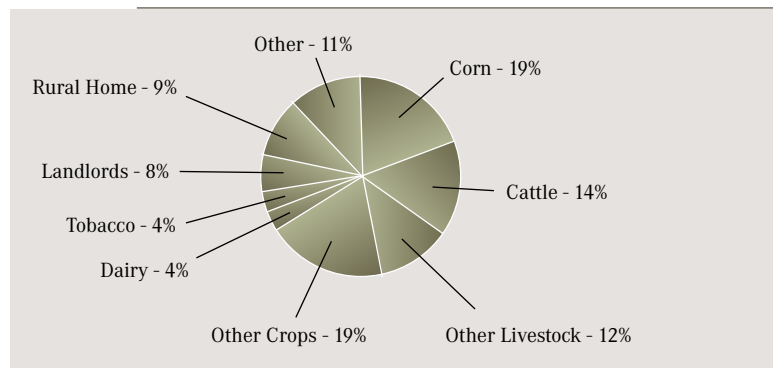
Our loan portfolio is distributed geographically as illustrated in the following chart:

Geographical Concentrations as of December 31, 2006



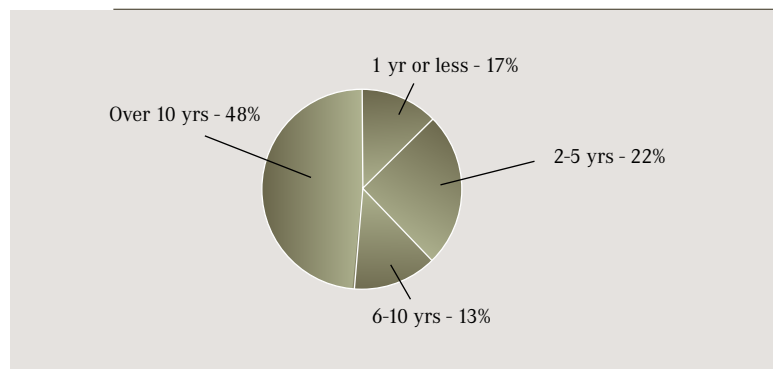
The following chart depicts our loan portfolio by enterprise concentrations:

Enterprise Concentrations as of December 31, 2006



We offer customers a broad spectrum of interest rate products. Those options include monthly variable, indexed adjustable, mid-range fixed and long-term fixed rates that provide interest rate security. The portfolio is broken down by the following fixed rate terms.

Fixed Rate Term Concentrations as of December 31, 2006



Agricultural Conditions

The six-year Farm Security and Rural Investment Act of 2002 just completed its fifth year. The Act includes significant federal financial support for wheat, feed grains, cotton, rice, and oilseeds, and expanded assistance to certain specialty crops and certain livestock operations (particularly smaller dairy farms). The Act provides a high degree of income support for major crops, which helps support credit quality and decreases the volatility of overall farm income over the term of the program. Management believes that the United States budget deficit, world trade negotiations, pressures and demands from other groups including commodity groups whose products are not covered, and litigation under existing trade agreements may result in reduced government support of agriculture in the 2007 Farm Bill, which is yet to be drafted. Management also believes the 2007 Farm Bill will include programs on renewable fuels.

The projected decline in net farm income results from anticipated reduced value of production, reduced government payments, and increased input prices. Net farm income is being negatively impacted by increased fuel, fertilizer and interest costs.

As energy prices have risen, ethanol and bio-diesel production from corn and soybeans has become very profitable. In addition, attitudes toward renewable energy have changed as the Mideast has become even more unstable. Rapid expansion, particularly of ethanol, is strengthening the linkage between the energy sector and agriculture and is raising the prospect that energy use of corn and soybeans may compete aggressively with livestock for available supplies. This rapid expansion in use for energy may have significant impacts on the livestock industries, particularly, in years where supplies are reduced due to weather or other production problems. The impact of a change in feed costs is not as significant for those generally smaller operations which produce most of their feed.

The general economy in 2006 showed remarkable resilience and is expected to show GDP growth of 3.4% for the year. GDP growth for 2007, however, is only expected to average 2.7%, but is expected to return to base line growth of 3% in 2008. Housing is expected to hit bottom in 2007, core inflation is expected to trend down while the unemployment rate is expected to edge up over the next few years, but is expected to remain below 5%.

USDA is predicting net farm income to fall to \$60.6 billion in 2006 compared to \$73.8 billion in 2005. However, the magnitude of the decline in income overstates the financial impact on the farm sector. Net farm income for 2006 will still exceed the previous 10-year average of \$54.9 billion.

We expect our crop operations to achieve good to record earnings in 2006 based on average to above average yields and high prices on grain not priced early in the year. We also expect our hog, cattle and efficient dairy operations to have had a profitable year in 2006. Broiler and egg operations lost money in 2006 due to low prices.

The outlook for 2007 is very positive for grain operations due to high crop prices, but this is expected to present challenges for the livestock sector starting in 2007. Crop prices are expected to remain strong for the next 3-5 years due to the demands of bio-energy and some reduction in the amount of protein being produced is expected over time to help offset higher feed costs. Hogs and poultry are expected to be impacted the most by higher feed cost, since these animals least benefit by feed substitution of Distillers' Dried Grains.

Overall, we don't expect to see material challenges in our portfolio in 2007, but longer term the livestock side of our portfolio could become problematic as producers/integrators are challenged by much higher feed costs, until they see higher selling prices.

We also have the potential to see challenges in our ethanol portfolio starting in late 2007 which consists of 22 plants for \$168 million in commitments. This situation will likely carry into 2008 due to an imbalance in the infrastructure (blenders and supply chain) that will take time to correct. High corn prices will also have a significant impact on the profitability of the plants, but overall if oil stays above \$50 and blenders credits remain in place, this industry can afford to pay much higher prices for corn than the current livestock industry.

Analysis of Risk

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands)

As of December 31	2006	2005	2004
Loans:			
Accruing restructured	\$593	\$893	\$1,700
Past due 90 days or more still accruing	773	303	730
Nonaccrual	57,776	51,160	53,896
Total risk loans	59,142	52,356	56,326
Other property owned	1,142	1,389	1,839
Total risk assets	\$60,284	\$53,745	\$58,165
Total delinquencies			
as a percentage of total loans	0.7%	0.6%	0.6%
Total risk loans			
as a percentage of total loans	0.6%	0.6%	0.7%

The volume of nonaccrual loans remained at an acceptable level at December 31, 2006 and represented 0.5% of our total portfolio. At December 31, 2006, 69.8% of our nonaccrual loans were current.

The credit quality of our portfolio continued to improve during 2006. Adversely classified assets decreased from 1.3% of the portfolio at December 31, 2005 to 1.2% of the portfolio at December 31, 2006. Adversely classified assets are assets that we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2006, \$247.9 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

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 the 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 December 31	2006	2005	2004
Allowance as a percentage of:			
Loans	0.2%	0.2%	0.3%
Nonaccrual loans	29.4%	31.7%	39.2%
Total risk loans	28.7%	31.0%	37.5%
Adverse assets to risk funds	8.5%	8.4%	10.1%

In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2006.

We, along with other Farm Credit System institutions, refined our allowance for loan losses methodology during 2004. The methodology refinement resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised level of allowance for loan losses are based on recent historical net charge-off experience adjusted for relevant environmental factors. As a result of these studies, we significantly reduced our allowance for loan losses during 2004, resulting in net reversal of provision expense of \$94.6 million on the Consolidated Statement of Income for the year ended December 31, 2004. We continued to follow this methodology through December 31, 2006 and it is our intent to continue to use this methodology going forward. See Note 4 for additional discussion.

Young, Beginning and Small Farmers and Ranchers

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- **Young:** A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2006	2005	2004
Net income	\$143,649	\$126,537	\$191,614
Return on average assets	1.4%	1.4%	2.4%
Return on average members' equity	8.6%	8.3%	14.4%

Changes to our return on average assets and return on average members' equity related directly to the changes in income as, discussed below, to the changes in assets discussed in the Loan Portfolio Section, and to the changes in members' equity discussed in the Capital Adequacy Section.

The following table summarizes the changes in components of net income (in thousands):

	2006 vs. 2005	2005 vs. 2004
Increase (decrease) in net income		
Net interest income	\$19,071	\$15,601
Provision for (reversal of) loan losses	(3,354)	(92,571)
Patronage income	2,689	4,655
Financially related services and miscellaneous income, net	2,876	2,044
Operating expenses	(15,967)	(7,991)
(Reversal of) provision for income taxes	11,797	13,185
Total change in net income	\$17,112	(\$65,077)

Net Interest Income

Net interest income was \$200.2 million for the year ended December 31, 2006. The following table quantifies changes in net interest income (in thousands):

	2006 vs. 2005	2005 vs. 2004
Changes in net interest income due to		
Changes in volume	23,680	\$18,584
Changes in rates	(4,727)	(1,349)
Changes in nonaccrual and other income	118	(1,634)
Net change	\$19,071	\$15,601

In 2006 net interest income declined due to a change in rates, resulting primarily from a change in portfolio product mix. The inverted yield curve (when long-term rates are lower than short-term rates) encouraged customers to select longer fixed rate products. Since those longer-term products have smaller spreads, weighted average interest margins dropped on average for the portfolio.

Net interest income included income on nonaccrual loans that totaled \$4.0 million in 2006, \$4.0 million in 2005, and \$5.2 million in 2004. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 2.0% in 2006, 2.1% in 2005, and 2.1% in 2004.

Provision for Loan Losses

The variance in 2005 versus 2004 is primarily due to a significant 2004 reversal resulting from a refined methodology, as discussed further in the Loan Portfolio—Analysis of Allowance for Loan Losses Section. This reversal resulted in a net reversal of provision expense of \$94.6 million for the year ended December 31, 2004. In 2006, we recorded \$1.3 million of provision expense as a result of increased loan volume.

- **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.

Management has developed a young, beginning and small farmer program that provides sound and constructive credit through standard or special programs targeted to this group.

The goal of the young and beginning farmer program is to maintain the percentage that young farmers represent of the total farm members in our portfolio at a level equal to or higher than this percentage in the area we serve, according to the most recent USDA Census Data.

The goal of the small farmer program is to maintain the percentage that small farmers represent of the total farm members in our portfolio at 60% or higher.

In 2006, there were 61,093 farm members in our portfolio. Of that number, there were 18,019 young farmers; 27,970 beginning farmers and 51,504 small farmers. These numbers surpass the goals as follows:

	% of Member Base	
	Actual	Goal
Young	29.5%	6.3%
Beginning	45.8%	26.8%
Small	84.3%	60.0%

The association has also set a goal that 20% or more of new loans or leases closed in a calendar year will be to young or beginning farmers.

	% of Loans	
	Actual	Goal
Young	26.5%	20.0%
Beginning	38.0%	20.0%

It is the responsibility of the President and Chief Executive Officer or his designee for development of appropriate standards and procedures to support implementation of this policy and special programs approved by the Board of Directors. The Board of Directors reviews the ongoing adequacy of this policy at least annually.

We have a young and beginning farmer program with three components:

- Special underwriting program for young and beginning farmers.
- Reimburse 50% of the FSA loan guarantee fee for young and beginning farmers.
- Reimbursement of up to \$500 dollars (one time only) to young or beginning members who attend business, production, financial management or agricultural leadership development programs that will help them in their farm business.

Additional Loan Information

Additional loan information is included in Note 3, Note 13 and Note 14.

Investments and Other Earning Assets

In addition to loans, we hold investments and other earning assets. Investments represent our share of investment securities made up of the guaranteed portion of loans guaranteed by the Small Business Administration. Investments totaled \$13.6 million at December 31, 2006.

Other earning assets result from successor-in-interest contracts from our involvement with the federal government's tobacco buy-out program. The volume was \$376.1 million at December 31, 2006 and \$226.2 million at December 31, 2005 and includes both principal and interest income receivable. The volume was produced primarily in Kentucky, Tennessee and parts of southern Indiana and Ohio. These investments align well with our mission and strategies and we will continue to aggressively pursue purchasing additional contracts in the future.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank, FCB. AgriBank, FCB's Board of Directors sets the patronage rate. We recorded patronage income of \$27.7 million in 2006, \$23.8 million in 2005, and \$18.9 million in 2004. Patronage increased in 2006 because of our higher note payable to AgriBank, FCB. Patronage increased in 2005 due to both a higher patronage rate and higher note payable to AgriBank, FCB. The patronage rates paid on our note payable by AgriBank, FCB were 32.0 basis points in 2006, 32.0 basis points in 2005, and 28.3 basis points in 2004.

We received another component of patronage, referred to as equalization, from AgriBank, FCB. The quarterly average balance of our excess common stock investment in AgriBank, FCB is used to determine this amount. AgriBank, FCB's Board of Directors sets the equalization rate. The targeted rate equals the average cost of funds for all affiliated associations as a group. Equalization income totaled \$0.9 million for 2006, \$2.1 million for 2005 and \$2.4 million for 2004. As of September 30, 2006, we no longer had any excess common stock in AgriBank, FCB.

Financially Related Services and Miscellaneous Income, Net

The increase in financially related services and miscellaneous income, net is primarily due to increased operating lease income and a \$0.9 million gain recognized in 2006 on the sale of Farm Credit System Financial Assistance Corporation stock, as described in Note 15.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (in thousands):

For the year ended December 31	2006	2005	2004
Salaries and benefits	\$49,493	\$43,786	\$39,552
Purchased and vendored services	10,192	10,801	9,496
Communications	1,788	1,635	1,672
Occupancy and equipment	6,656	6,862	6,303
Advertising and promotion	6,022	5,376	4,818
Examination	2,368	2,155	2,045
Farm Credit System insurance	14,341	4,381	3,939
Other	7,762	7,659	6,839
Total	\$98,622	\$82,655	\$74,664
Operating rate	1.0%	1.0%	1.0%

The operating expense increases were primarily related to increased FCS insurance premiums and higher salaries and benefits. The increase in Farm Credit System insurance premiums is due to an increase in the premium rates on accrual loans from 5.0 basis points in 2005 to 15.0 basis points for 2006. We experienced higher salary and benefit expenses associated with additional staff and general salary increases, increased retirement benefit expenses, and higher medical and dental premiums.

Provision for Income Taxes

Since 2001, we have maintained loss contingencies in the form of tax reserves related to our methods of cost allocation between the FLCA and PCA subsidiaries. While our positions and methodology were documented, consistently followed, and regularly reviewed, we felt loss contingency accruals were appropriate based on possible alternative methods that could be raised in a tax audit by the IRS.

In our most recent periodic review of these loss contingencies our analysis supported a change. We based our analysis on documentation, historical information, experience and judgment of cost allocations between subsidiary operations. We also took into consideration recent IRS audit experience for unrelated but similar Farm Credit System entities concerning the cost allocation issue. We believe our cost allocation methodology and processes fairly represent the activity of our taxable entity and are fully supportable.

Under these circumstances, a reversal of the loss contingency was recorded. The reversal, in the amount of \$10.9 million in 2006, is included in the (reversal of) provision for income taxes.

Funding and Liquidity

We borrow from AgriBank, FCB under a note payable, in the form of a line of credit, as described in Note 7. During 2006, our average balance was \$8.7 billion with an average interest rate of 5.0%. Our average balance during 2005 was \$7.5 billion with an average interest rate of 4.4% and during 2004 our average balance was \$6.7 billion with an average interest rate of 4.0%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank, FCB. At December 31, 2006, we had \$914.0 million available under our line of credit. We generally apply excess cash to this line of credit.

We offer variable, fixed, capped, indexed, adjustable interest rate loans, and lease programs to our borrowers. We determine interest margins charged on each lending program based on:

- our cost of funds,
- market conditions, and
- the need to generate sufficient earnings.

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.

Capital Adequacy

Total members' equity increased \$147.7 million during 2006 due to net income for the period and an increase in capital stock and participation certificates outstanding.

Members' equity position information is as follows (in thousands):

As of December 31	2006	2005	2004
Members' equity	\$1,744,784	\$1,597,098	\$1,467,350
Surplus as a percentage of members' equity	96.1%	96.0%	95.8%
Permanent capital ratio	13.9%	14.0%	15.2%
Total surplus ratio	13.2%	13.4%	14.5%
Core surplus ratio	13.2%	12.9%	13.6%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2006, our permanent capital ratio, total surplus ratio and core surplus ratio significantly exceeded the regulatory minimum requirements. See Note 8 for further discussions of these regulatory ratios.

In addition to these regulatory requirements, we establish an optimum long-term permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2006, our optimum permanent capital target was 14.0%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio Section for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

During the year, we executed all of the following strategies to better serve customers:

- Introduced new front end loan origination systems.
- Looked at strategic market expansions and opened new service points for customers.
- Recommitted ourselves to providing high quality life and crop insurance products and services.

- Refined a product development process.
- Hired a record number of new employees and streamlined steps to better track payroll, benefits and handle HR actions.
- Challenged ourselves to not only implement, but establish stretch goals on a multi-layered balanced scorecard approach.
- Kept credit administration and credit quality at high levels.

All of those strategies were completed and much more. Teams from credit, technology, training, accounting, marketing and field-based positions launched the Consumer Trac III consumer loan origination system in the spring of 2006. That was followed with the introduction of our first comprehensive ag loan replacement software in many years. Ag Trac, a new system that integrates 26 distinct processes and combines all product sets, was introduced in the fall.

On the marketing front, a Delivery Team studied new ways that we could reach the customer and penetrate untapped business opportunities. In 2006, we opened a new office in Chattanooga, TN and two new satellite offices in Richmond, KY and Marietta, OH opened. In January 2007, we opened a new satellite office in Gallipolis, OH.

Cross-functional teams worked to improve product lines in 2006. That included adding a Rate Saver option for the residential line-up, a change that improved pricing competitiveness and added more than \$50 million in commitments in 2006. A biweekly payment feature became a reality for us in the fall.

A far larger sweep of new product options took place with Ag Trac implementation in October. Previously, loan scoring systems operated off a limited set of products and that frequently meant diverting a loan to the Credit Processing Unit because products, notes and other necessary agreements were not available. A complete product set is now available for any scored commercial, intermediate or mortgage loan, and that ultimately saves process time for everyone.

Business Opportunities

Listed below are some of the new business opportunities we experienced in 2006:

- Leasing was a bright spot for our association in 2006. Field office lease activity jumped to \$33 million, an 86% increase. AgriBusiness leasing saw \$109 million in new leases added.
- Ethanol and dairy expansion projects; purchases of loan guarantees; and business alliance volume.
- Continued efforts on the federal tobacco buyout program netted over \$170 million in new business.

We continued a strategy for more specialized delivery of crop insurance that's beginning to pay off in additional coverage for members and added revenues. We now have five full-time crop insurance specialists, and three full-time crop insurance technicians who support sales. With these specialized producers, and strong partnerships with outside agencies, crop insurance income rose 8.5% to \$1.6 million total.

Significant gains in life insurance sales now leave us with more than 16,000 customers covered by \$982 million of total risk protection. For the year, we produced a 9.7% gain in lives insured which translates into \$86 million in new insurance.

During 2006, we also consolidated our group insurance coverage programs to one carrier, Minnesota Mutual Life. This effort gave us more automation related to tracking applications and policies, and lowered our administrative expenses for processing applications. As a result of closing out our relationship with Monumental Mutual Life Insurance Company, our policy holders will be receiving an experience refund of premiums during early 2007 of approximately \$1.3 million.

Dealer Credit

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These dealer credit opportunities create more flexible and accessible financing options to borrowers through programs such as dealer point-of-purchase financing.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank, FCB Investment Bond to optimize members' use of funds.

Relationship with AgriBank, FCB

Borrowings

We borrow from AgriBank, FCB to fund our lending operations in accordance with the Farm Credit Act of 1971, as amended. Approval from AgriBank, FCB would be required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship. Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a cost of servicing component,
- a bank spread component, and
- a risk premium component, if applicable.

Our cost of funds included the components above, however we were not subject to the risk premium component. The marginal cost of debt approach simulates match funding the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from interest rate risk.

Investment

We are required to invest in AgriBank, FCB capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank, FCB surplus. As of December 31, 2006, we were required to maintain a common stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank, FCB. AgriBank, FCB's current bylaws allow the required investment to increase to 4.0%. At December 31, 2006, \$220.2 million of our investment in AgriBank, FCB consisted of stock representing distributed AgriBank, FCB surplus and \$11.3 million consisted of purchased investment. Through 2002, the entire stock investment in AgriBank, FCB was dividend bearing. We have received no dividend income since 2002 and we do not anticipate any in future years.

Patronage

We receive patronage income based on the average balance of our note payable to AgriBank, FCB. We also receive, as part of AgriBank, FCB's patronage program, equalization income based on the average balance of our excess common stock investment in AgriBank, FCB. AgriBank, FCB's Board of Directors sets the patronage rates. As of September 30, 2006, we no longer had any excess common stock in AgriBank, FCB.

Purchased Services

We purchase various services from AgriBank, FCB including:

- certain information systems,
- certain financial services,
- certain accounting and reporting services, and
- selected retail product processing and support.

The total cost of services we purchased from AgriBank, FCB was \$7.8 million in 2006, \$8.0 million in 2005, and \$7.0 million in 2004.

Effect on Shareholder's Investment

Due to the nature of our financial relationship with AgriBank, FCB, the financial condition and results of operations of AgriBank, FCB materially affect our shareholders' investment. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at P.O. Box 34390, Louisville, KY, 40232, (800) 444-FARM, and/or www.e-farmcredit.com or contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The reports are also available through AgriBank, FCB's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The quarterly reports are available 45 days after the end of each calendar quarter.

AgriBank, FCB Merger Activity

Effective January 1, 2003, AgriBank, FCB and AgAmerica, FCB merged and retained the AgriBank, FCB name. As part of the merger transaction, one of AgAmerica, FCB's two association shareholders, Northwest Farm Credit Services, an Agricultural Credit Association reaffiliated from AgAmerica, FCB to CoBank, ACB on the effective date of the merger. AgriBank, FCB and AgAmerica, FCB had been operating under a joint management agreement since January 1, 2002.

REPORT OF MANAGEMENT
Farm Credit Services of Mid-America, ACA



We prepare the consolidated financial statements of Farm Credit Services of Mid-America, ACA and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. The consolidated financial statements, in our opinion, fairly present the financial condition of Farm Credit Services of Mid-America, ACA. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of Farm Credit Services of Mid-America, ACA.

The undersigned certify that Farm Credit Services of Mid-America, ACA's annual 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.

A handwritten signature in black ink that reads "Robert E. Barton". The signature is written in a cursive, flowing style.

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

A handwritten signature in black ink that reads "Donald W. Winters". The signature is written in a cursive, flowing style.

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

February 28, 2007

REPORT OF AUDIT COMMITTEE

Farm Credit Services of Mid-America, ACA



The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of six members of the Board of Directors of Farm Credit Services of Mid-America, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2006 with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, *Communication With Audit Committees*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee received the written disclosures and the letter from PwC in accordance with Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and discussed with PwC its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discusses with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2006.

A handwritten signature in black ink that reads "Barney Barnett". The signature is written in a cursive, flowing style.

Barney Barnett
Chairperson of the Audit Committee
Farm Credit Services of Mid-America, ACA

Barney Barnett
J. Edward Yanos
Matthew Walther
Sue Welch
Arthur R. Timberlake
James William Patterson

February 28, 2007

REPORT OF INDEPENDENT AUDITORS



PricewaterhouseCoopers LLP
225 South Sixth Street
Suite 1400
Minneapolis MN 55402
Telephone (612) 596 6000
www.pwc.com

To the Board of Directors and Members of
Farm Credit Services of Mid-America, ACA

In our opinion, the accompanying consolidated statement of condition and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit Services of Mid-America, ACA (the Association) and its subsidiaries at December 31, 2006, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association'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 auditing standards generally accepted in the United States of America. 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 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.

PricewaterhouseCoopers LLP

February 28, 2007

CONSOLIDATED STATEMENT OF CONDITION
Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

As of December 31	2006	2005	2004
<i>Assets</i>			
Loans	\$10,446,011	\$9,053,875	\$8,214,335
Allowance for loan losses	16,990	16,243	21,139
Net loans	10,429,021	9,037,632	8,193,196
Investment in AgriBank, FCB	231,524	220,225	220,225
Investment securities	13,636	–	–
Accrued interest receivable	117,649	92,822	75,691
Premises and equipment, net	32,566	33,039	33,958
Other earning assets	376,081	226,202	–
Other property owned	1,142	1,389	1,839
Assets held for lease, net	151,773	108,732	124,889
Other assets	32,079	35,284	19,059
Total assets	\$11,385,471	\$9,755,325	\$8,668,857
<i>Liabilities</i>			
Note payable to AgriBank, FCB	\$9,463,669	\$8,005,354	\$7,071,693
Accrued interest payable	119,542	91,234	71,698
Net deferred income tax liability	23,524	19,795	21,524
Other liabilities	33,952	41,844	36,592
Total liabilities	9,640,687	8,158,227	7,201,507
<i>Members' Equity</i>			
Protected members' equity	14	18	31
Capital stock and participation certificates	68,202	64,161	60,937
Unallocated surplus	1,676,568	1,532,919	1,406,382
Total members' equity	1,744,784	1,597,098	1,467,350
Total liabilities and members' equity	\$11,385,471	\$9,755,325	\$8,668,857

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

CONSOLIDATED STATEMENT OF INCOME
Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

Year ended December 31	2006	2005	2004
Interest income	\$631,935	\$509,578	\$435,683
Interest expense	431,735	328,449	270,155
Net interest income	200,200	181,129	165,528
Provision for (reversal of) loan losses	1,331	(2,023)	(94,594)
Net interest income after provision for loan losses	198,869	183,152	260,122
Other income			
Patronage income	28,629	25,940	21,285
Financially related services and miscellaneous income, net	13,519	10,643	8,599
Total other income	42,148	36,583	29,884
Operating expense			
Salaries and employee benefits	49,493	43,786	39,552
Other operating expense	49,129	38,869	35,112
Total operating expense	98,622	82,655	74,664
Income before income taxes	142,395	137,080	215,342
(Reversal of) provision for income taxes	(1,254)	10,543	23,728
Net income	\$143,649	\$126,537	\$191,614

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)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<i>Balance at December 31, 2003</i>	\$43	\$58,596	\$1,214,768	\$1,273,407
Net income			191,614	191,614
Capital stock/participation certificates issued		7,860		7,860
Capital stock/participation certificates retired	(12)	(5,519)		(5,531)
<i>Balance at December 31, 2004</i>	31	60,937	1,406,382	1,467,350
Net income			126,537	126,537
Capital stock/participation certificates issued		8,440		8,440
Capital stock/participation certificates retired	(13)	(5,216)		(5,229)
<i>Balance at December 31, 2005</i>	18	64,161	1,532,919	1,597,098
Net income			143,649	143,649
Capital stock/participation certificates issued		9,047		9,047
Capital stock/participation certificates retired	(4)	(5,006)		(5,010)
<i>Balance at December 31, 2006</i>	\$14	\$68,202	\$1,676,568	\$1,744,784

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

Year ended December 31	2006	2005	2004
Cash flows from operating activities			
Net income	\$143,649	\$126,537	\$191,614
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	3,006	3,238	3,037
Depreciation on assets held for lease	21,660	19,235	18,450
Provision for (reversal of) loan losses	1,331	(2,023)	(94,594)
Provision for losses on other property owned	(14)	–	–
Increase in accrued interest receivable	(32,944)	(22,927)	(5,201)
Decrease (increase) in other assets	3,205	(16,225)	(991)
Increase in accrued interest payable	28,308	19,536	6,868
(Decrease) increase in other liabilities	(4,163)	3,523	12,900
Gain on sale of premises and equipment	(9)	(9)	(1)
(Gain) loss on sale of other property owned	(198)	(197)	1
Gain on disposal of assets held for lease	(7)	(903)	(127)
Gain on sale of Farm Credit System Financial Assistance Corporation stock	(905)	–	–
Total adjustments	19,270	3,248	(59,658)
Net cash provided by operating activities	162,919	129,785	131,956
Cash flows from investing activities			
Increase in loans, net	(1,382,254)	(835,324)	(720,155)
Purchases of investment in AgriBank, FCB	(11,299)	–	–
Purchases of investment securities, net	(13,636)	–	–
Purchases of other earning assets, net	(149,879)	(226,202)	–
Purchases of assets held for lease, net	(64,694)	(2,175)	(22,974)
Sales of other property owned, net	1,944	2,346	1,103
Purchases of premises and equipment, net	(2,524)	(2,310)	(2,322)
Sale of Farm Credit System Financial Assistance Corporation stock 905	–	–	–
Net cash used in investing activities	(1,621,437)	(1,063,665)	(744,348)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB	1,458,315	933,661	612,686
Capital stock and participation certificates issued (retired), net	203	219	(294)
Net cash provided by financing activities	1,458,518	933,880	612,392
Net change in cash	–	–	–
Cash at beginning of year	–	–	–
Cash at end of year	\$ –	\$ –	\$ –
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$7,821	\$7,219	\$6,780
Stock applied against loan principal	3,987	4,227	4,157
Interest transferred to loans	8,117	5,796	3,135
Loans transferred to other property owned	1,485	1,699	1,944
Supplemental information			
Interest paid	\$403,427	\$308,913	\$263,287
Taxes paid	10,393	5,380	5,667

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

Note 1: Organization and Operations

Farm Credit System and District

Farm Credit System Lending Institutions: The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2006, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and approximately one hundred associations. AgriBank, FCB and its affiliated associations are collectively referred to as the District. At December 31, 2006, the District consisted of eighteen Agricultural Credit Associations that each have wholly-owned Federal Land Credit Association and Production Credit Association subsidiaries. Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are also authorized to provide lease financing options for agricultural purposes. AgriBank, FCB provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly, or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers. Associations are also authorized to purchase and hold certain types of investments.

Farm Credit System Regulator: The Farm Credit Administration is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the Farm Credit Administration and certain association actions are subject to the prior approval of the Farm Credit Administration and/or AgriBank, FCB.

Farm Credit Insurance Fund: The Farm Credit Act of 1971, as amended, established the Farm Credit System Insurance Corporation to administer the Farm Credit Insurance Fund. The Farm Credit Insurance Fund is used:

- to insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to insure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Farm Credit System Insurance Corporation, the Farm Credit Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Farm Credit System Insurance Corporation. Each Farm Credit System bank is required to pay premiums into the Farm Credit Insurance Fund, based on its annual average loan principal outstanding, until the assets in the Farm Credit Insurance Fund equal 2% of Systemwide debt obligations or such other percentage of the aggregate obligations as the Farm Credit System Insurance Corporation in its sole discretion determines to be actuarially sound. AgriBank, FCB, in turn, assesses the associations premiums each year based on the average principal outstanding of accrual and nonaccrual loans of the associations.

Association

Farm Credit Services of Mid-America, ACA and its subsidiaries, Farm Credit Services of Mid-America, FLCA and Farm Credit Services of Mid-America, PCA are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible shareholders for qualified agricultural purposes in all counties in the state of Indiana; all counties in Ohio, with the exception of Marion, Crawford, Wyandot, Hancock, Seneca, Wood, Ottawa, Lucas and Sandusky; all counties in Kentucky, with the exception of Graves, Hickman, Carlisle, Fulton, Ballard, McCracken, Callaway and Marshall; and all counties in Tennessee.

We borrow from AgriBank, FCB and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans, provides lease financing options, and holds certain investments. The PCA makes short-term and intermediate-term loans and provides lease financing options for agricultural production or operating purposes.

We offer various risk management services, including credit life, term life, credit disability, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow.

Note 2: Summary of Significant Accounting Policies

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. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

The following are our significant accounting policies:

Loans: Mortgage loan terms range from 5 to 30 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Loan fees are read as an offset to the related origination costs. The net amount of these fees and expenses is not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

Investments: We are authorized to purchase and hold certain types of investments. As we have the positive intent to hold the investments to maturity, they have been classified as held-to-maturity and are carried at cost.

Allowance for Loan Losses: 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.

Loans in our portfolio that are considered impaired are analyzed individually under Statement of Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan*, to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When collection is unlikely, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

We apply Statement of Financial Accounting Standard No. 5, *Accounting for Contingencies*, to loans that are not individually assessed as impaired. An allowance is recorded for probable and estimable credit losses as of the financial statement date.

Changes in the allowance for loan losses consist of provision activity, recorded as “Provision for (reversal of) loan losses” on the Consolidated Statement of Income, and charge-offs and recoveries.

Investment in AgriBank, FCB: Accounting for our investment in AgriBank, FCB is on a cost plus allocated equities basis. The investment in AgriBank, FCB is in the form of Class P common stock.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

Other Property Owned: We record other property owned, which consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, at the lower of the carrying amount or the fair value less estimated selling costs. Income and expense from operations and carrying value adjustments are included in “Financially related services and miscellaneous income, net” on the Consolidated Statement of Income.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings on the interest method. The carrying amount of finance leases is included in “Loans” on the Consolidated Statement of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in “Assets held for lease, net” on the Consolidated Statement of Condition and represents the asset cost net of accumulated depreciation.

Employee Benefit Plans: Our employees may be eligible to participate in the defined benefit retirement plan of the Seventh Farm Credit District. The plan is comprised of two benefit formulas. Effective October 1, 2001, all new benefits eligible employees participate in the cash balance formula. Employees hired prior to October 1, 2001 had the option to choose their benefit according to the new cash balance formula or remain on a final average pay formula. The District plan utilizes the “Projected Unit Credit” actuarial method for financial reporting purposes and the “Entry Age Normal Cost” method for funding purposes. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. Employees hired after December 31, 2006 may only participate in the defined contribution plan and are eligible for enhanced benefits as described in the following paragraph.

Our employees may be eligible to participate in a defined contribution plan. The plan allows employees to save for their retirement either pre-tax/post-tax or both with an employer match on a percentage of the employee’s contributions. For employees hired after December 31, 2006 the defined contribution plan is the only retirement plan available and we provide enhanced benefits under this plan in the form of a fixed percentage of salary contribution. These enhanced benefits are in addition to the employer match. Employer contributions are expensed when incurred.

We also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act of 1971, as amended.

Statement of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Recent Accounting Developments: On September 30, 2006, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 158 – *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit pension or other postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The Standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. We will be required to implement the Standard for the year ended December 31, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, we use a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. We are currently evaluating the impact of implementing this Standard. It is anticipated that the implementation of this Standard will have no impact on the Consolidated Statement of Income. Based on the current funded status of the defined benefit and other postretirement benefit plans, implementation of this Standard will reverse our prepaid pension asset and record a prepaid pension liability in the amount of our share of the underfunded status of the plans. The offset to this transaction will be a decrease to equity (through other comprehensive income) by approximately \$32.2 million at December 31, 2007. Our regulatory capital ratios will not be impacted by the implementation of this standard as other comprehensive income does not impact the calculation of these ratios.

In June 2006, the Financial Accounting Standards Board released Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*. This Interpretation clarifies the accounting for uncertainty in income tax positions recognized in an enterprise’s financial statements in accordance with Statement of Financial Accounting Standard No. 109 – *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of an uncertain tax position taken or expected to be taken in a tax return. This interpretation will be effective for the 2007 calendar year, and is not expected to have a material impact on our financial position.

Note 3: Loans, Investments and Other Earning Assets

Loans consisted of the following (in thousands):

As of December 31, 2006	Amount	Percentage
Long-term agricultural mortgage	\$3,180,982	30.3%
Residence loans to farmers	3,211,699	30.5%
Agricultural operating	812,940	7.7%
Agricultural intermediate term	690,476	6.6%
Marketing & processing	122,411	1.2%
Rural home	1,030,702	9.8%
Finance leases	176,126	1.7%
Participations purchased	1,042,911	9.9%
Other	238,369	2.3%
Subtotal	10,506,616	100.0%
Participations sold	(60,605)	
Total loans	\$10,446,011	

As of December 31, 2005	Amount	Percentage
Long-term agricultural mortgage	\$2,907,045	32.1%
Residence loans to farmers	2,768,488	30.6%
Agricultural operating	728,699	8.0%
Agricultural intermediate term	629,350	6.9%
Marketing & processing	94,178	1.0%
Rural home	966,189	10.7%
Finance leases	124,697	1.4%
Participations purchased	735,444	8.1%
Other	110,477	1.2%
Subtotal	9,064,567	100.0%
Participations sold	(10,692)	
Total loans	\$9,053,875	

As of December 31, 2004	Amount	Percentage
Long-term agricultural mortgage	\$2,739,391	33.3%
Residence loans to farmers	2,339,939	28.5%
Agricultural operating	673,792	8.2%
Agricultural intermediate term	610,908	7.4%
Marketing & processing	87,879	1.1%
Rural home	946,059	11.5%
Finance leases	112,525	1.4%
Participations purchased	660,231	8.0%
Other	51,657	0.6%
Subtotal	8,222,381	100.0%
Participations sold	(8,046)	
Total loans	\$8,214,335	

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration Regulations or General Financing Agreement limitations. The following table presents information regarding participations purchased and/or sold (in thousands):

As of December 31, 2006	Participations	
	Purchased	Sold
Participations purchased from / sold to:		
AgriBank, FCB	\$ –	\$25,422
Other Farm Credit System institutions	380,263	32,608
Non-Farm Credit System institutions	662,648	2,575
Total participations purchased/sold	\$1,042,911	\$60,605

The participation volume is largely due to participations on loans to agribusinesses.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory.

At December 31, 2006, volume plus commitments to our ten largest borrowers totaled an amount equal to 44.9% of members' equity. Our ten largest customers are credit-worthy businesses that provide industry, geographic, and product diversification to our portfolio. Though these loans create entity concentration, they contribute to portfolio diversification.

Our portfolio is concentrated in the following four states: Indiana (25%), Ohio (24%), Tennessee (23%), and Kentucky (16%).

Our agricultural commodity concentrations at December 31, 2006 included: corn (19%), other crops (19%), and cattle (14%). No other single commodity exceeded 10% of loan volume. Our commodity concentrations have not changed materially from prior years.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan (accruing volume includes accrued interest receivable) information (in thousands):

As of December 31	2006	2005	2004
Nonaccrual loans:			
Current as to principal and interest	\$40,355	\$28,778	\$36,955
Past due	17,421	22,382	16,941
Total nonaccrual loans	57,776	51,160	53,896
Accruing restructured loans	593	893	1,700
Loans past due 90 days or more still accruing	773	303	730
Total risk loans	\$59,142	\$52,356	\$56,326
Volume with specific reserves	\$1,871	\$3,033	\$2,524
Volume without specific reserves	57,271	49,323	53,802
Total risk loans	\$59,142	\$52,356	\$56,326
Total specific reserves on risk loans	\$438	\$386	\$381
For the year ended December 31	2006	2005	2004
Income on accrual risk loans	\$125	\$154	\$184
Income on nonaccrual loans	4,021	4,014	5,208
Total income on risk loans	\$4,146	\$4,168	\$5,392
Average recorded investment	\$52,479	\$53,324	\$55,119

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2006.

Investments

Beginning in 2006, we purchased shares of investments securities made up of the guaranteed portion of loans guaranteed by the Small Business Administration. Investments totaled \$13.6 million at December 31, 2006.

Other Earning Assets

Beginning in 2005, we purchased successor-in-interest rights to future government payments to tobacco farmers. The total of these contracts, including interest receivable, as of December 31, 2006 was \$376.1 million and \$226.2 million at December 31, 2005.

Note 4: Allowance for Loan Losses

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

For the year ended December 31	2006	2005	2004
Balance at beginning of year	\$16,243	\$21,139	\$119,105
Provision for (reversal of) loan losses	1,331	(2,023)	(94,594)
Loan recoveries	1,919	2,553	3,441
Loan charge-offs	(2,503)	(5,426)	(6,813)
Balance at end of year	\$16,990	\$16,243	\$21,139

Our allowance for loan losses historically has represented a conservative view of the allowance which was reflective of the loss history in the 1980's under the supervision of the Farm Credit Administration in its role as a "safety and soundness" regulator. Accounting for loan loss allowances is a particular area of focus for bank regulators, the Securities and Exchange Commission and those setting industry accounting standards. The Farm Credit System is not subject to oversight by the Securities and Exchange Commission or various banking regulators. Of particular relevance to the Farm Credit System are the views of the American Institute of Certified Public Accountants and the Farm Credit Administration. The guidance proposed by those setting industry accounting standards and issued by the other regulators in recent years focused on the determination of the allowance for loan losses based on current loss experience rather than a more historical view of loss experience. Thus, Farm Credit System institutions determined that studies should be conducted during 2004 to further refine the methodologies for calculating allowances for loan losses.

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

We, along with other Farm Credit System institutions, completed our study during 2004 and refined our methodology to be consistent with the guidance in the preceding paragraph. The methodology refinement resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised level of allowance for loan losses are based on recent historical charge-off experience adjusted for relevant environmental factors. As a result of these studies, we significantly reduced our allowance for loan losses during 2004, resulting in net reversal of provision expense of \$94.6 million on the Consolidated Statement of Income for the year ended December 31, 2004. We continued to follow this methodology through December 31, 2006 and it is our intent to continue to use this methodology going forward.

Note 5: Investment in Agribank, FCB

At December 31, 2006, we were required by AgriBank, FCB to maintain an investment equal to 2.50% of the average quarterly balance of our note payable to AgriBank, FCB. This is an increase over the previous requirement of 2.35% of the average quarterly balance of our note payable at December 31, 2005 and 2.20% of the average quarterly balance of our note payable at December 31, 2004. The balance of our investment in AgriBank, FCB at December 31, 2006, was \$231.5 million and at December 31, 2005, and 2004 was \$220.2 million.

Note 6: Premises, Equipment and Assets Held for Lease

Premises and equipment consisted of the following (in thousands):

As of December 31	2006	2005	2004
Land	\$4,036	\$3,917	\$3,913
Buildings and improvements	38,959	38,109	37,048
Furniture and equipment	13,571	12,545	12,808
Subtotal	56,566	54,571	53,769
Less: accumulated depreciation	(24,000)	(21,532)	(19,811)
Total	\$32,566	\$33,039	\$33,958

We also hold property for agricultural leasing; primarily farm equipment and livestock facilities. The following table provides a summary of our net operating lease income and property held for lease by major category (in thousands):

For the year ending December 31	2006	2005	2004
Net operating lease income	\$7,894	\$6,887	\$5,505
As of December 31:			
Farm equipment/vehicles	\$219,239	\$162,141	\$170,354
Facilities	6,358	7,129	6,972
Subtotal	225,597	169,270	177,326
Less: accumulated depreciation	(73,824)	(60,538)	(52,437)
Total	\$151,773	\$108,732	\$124,889

The following is a schedule of expected future minimum payments on noncancelable operating leases as of December 31, 2006 (in thousands):

For the year ending December 31	
2007	\$31,731
2008	27,771
2009	19,148
2010	14,300
2011	9,273
Subsequent years	6,103
Total minimum future rentals	\$108,326

Note 7: Note Payable to Agribank, FCB

Our note payable to AgriBank, FCB represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and our assets serve as collateral. The total line of credit was \$10.5 billion and the outstanding principal under the line of credit was \$9.5 billion as of December 31, 2006. The interest rate is adjusted monthly and was 5.1% at December 31, 2006. During 2006, our average balance was \$8.7 billion with an average interest rate of 5.0%. Our average balance during 2005 was \$7.5 billion with an average interest rate of 4.4% and during 2004 our average balance was \$6.7 billion with an average interest rate of 4.0%. The maturity date is April 30, 2007 for our note payable, at which time the note will be renegotiated.

The General Financing Agreement provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. We cannot exceed these limitations without approval from AgriBank, FCB. At December 31, 2006, we were within the specified limitations and in compliance with all debt covenants.

Note 8: Members' Equity

Capitalization Requirements

In accordance with the Farm Credit Act of 1971, as amended, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the

Agricultural Credit Act of 1987 and shareholder-approved capitalization bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loans or one thousand dollars, whichever is less. The stock purchase requirement of obtaining a lease is one share of Class D common stock for those eligible to hold such stock, or one participation certificate for those not eligible to hold such stock.

In addition, the purchase of one participation certificate is required of all customers who purchase financial services and are not a stockholder. If necessary to meet our capital needs, the Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan/lease is made, but usually does not make a cash investment. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act of 1971, as amended, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If an association was unable to retire protected borrower equity at par value or stated value, the Farm Credit Insurance Fund would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required 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 in accordance with Farm Credit Administration Regulations is discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk adjusted assets. At December 31, 2006, our ratio was 13.9%.
- 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 December 31, 2006, our ratio was 13.2%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess common stock investment in AgriBank, FCB divided by average risk-adjusted assets. At December 31, 2006, our ratio was 13.2%.

We have an agreement with AgriBank, FCB which defines how our investment in AgriBank, FCB is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all excess common stock which is the amount of our investment in AgriBank, FCB that is in excess of the required amount. At December 31, 2006, we no longer had any excess common stock. At December 31, 2005, we included 16.2%, and at December 31, 2004, we included 30.6% of our investment in AgriBank, FCB as capital. The decline in the percentage included correlates to the increases in the required amount of investment in AgriBank, FCB, as discussed in Note 5. These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2006. All shares and participation certificates were \$5.00 par value.

	Shares Outstanding
As of December 31, 2006	
Class B common stock (protected)	808
Class D common stock (at-risk)	10,549,926
Class A participation certificates (protected)	1,933
Class B participation certificates (at-risk)	3,090,550

Under our bylaws, we are also authorized to issue Class C preferred stock. This stock is at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of this class has been issued.

Only holders of Class B common stock and Class D common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared during the last three years.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31,

2006, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- To holders of Class B and Class D common stock and Class A and Class B participation certificates in the proportion that the aggregate interest paid by each holder over the prior two years bears to the total interest paid by all holders of stock and participation certificates.

In the event of impairment, losses will be absorbed prorata by impairment based on the following order of priority:

- first, to holders of Class B and Class D common stock and Class A and Class B participation certificates,
- second, to holders of Class C preferred stock.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

The Farm Credit Administration prohibits patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2007. However, we do not have a patronage program to make such distributions.

Note 9: Income Taxes

(Reversal of) Provision for Income Taxes

Our (reversal of) provision for income taxes follows (in thousands):

For the year ended December 31	2006	2005	2004
Current:			
Federal	\$5,253	\$11,406	\$2,126
State	662	866	(57)
Loss contingency reversal	(10,898)	–	–
Total current	(4,983)	12,272	2,069
Deferred:			
Federal	3,239	(1,793)	19,371
State	490	64	2,288
Total deferred	3,729	(1,729)	21,659
(Reversal of) provision for income taxes	(\$1,254)	\$10,543	\$23,728
Effective Tax Rate	0.9%	7.7%	11.0%

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	2006	2005	2004
Federal tax at statutory rate	\$48,415	\$46,607	\$75,370
State tax, net	667	573	1,505
Effect of non-taxable entity	(39,588)	(39,024)	(54,873)
Effect of graduated rates	260	223	–
Loss contingency reversal	(10,898)	–	–
Other	(110)	2,164	1,726
(Reversal of) provision for income taxes	(\$1,254)	\$10,543	\$23,728

Tax Related Matters

As discussed in Note 4, during 2004, we reduced the allowance for loan losses resulting in a significant reduction in our deferred tax assets.

Since 2001, we have maintained loss contingencies in the form of tax reserves related to our methods of cost allocation between the FLCA and PCA subsidiaries. While our positions and methodology were documented, consistently followed, and regularly reviewed, we felt loss contingency accruals were appropriate based on possible alternative methods that could be raised in a tax audit by the IRS.

In our most recent periodic review of these loss contingencies our analysis supported a change. We based our analysis on documentation, historical information, experience and judgment of cost allocations between subsidiary operations. We also took into consideration recent IRS audit experience for unrelated but similar Farm Credit System entities concerning the cost allocation issue. We believe our cost allocation methodology and processes fairly represent the activity of our taxable entity and are fully supportable. Under these circumstances, a reversal of the loss contingency was recorded. The reversal, in the amount of \$10.9 million in 2006, is included in the (reversal of) provision for income taxes.

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	2006	2005	2004
Allowance for loan losses	\$3,548	\$3,123	\$4,584
Post-retirement benefits accrual	552	558	569
Previously taxed nonaccrual interest	1,482	1,388	1,652
Net operating loss carryforward	–	102	377
Depreciation	(23,776)	(19,382)	(24,418)
AgriBank, FCB 2002 allocated stock	(2,990)	(2,990)	(2,990)
Accrued pension asset	(2,615)	(2,810)	(1,566)
Other, net	275	216	268
Net deferred tax liabilities	(\$23,524)	(\$19,795)	(\$21,524)
Gross deferred tax assets	\$5,807	\$5,388	\$7,463
Gross deferred tax liabilities	(\$29,331)	(\$25,183)	(\$28,987)

A valuation reserve for the deferred tax assets was not necessary at December 31, 2006, December 31, 2005, or December 31, 2004.

We have not provided deferred income taxes on approximately \$188.8 million of patronage allocations received from AgriBank, FCB prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank, FCB. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$1.7 billion as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Note 10: Employee Benefit Plans

Our employees may be eligible to participate in a District-wide defined benefit retirement plan. The plan is noncontributory and includes eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. Prior to 2005, costs were allocated by a proportionate share of payroll expenses.

We recorded pension expense of \$4.8 million for the year ended December 31, 2006, \$3.2 million for the year ended December 31, 2005, and \$1.8 million for the year ended December 31, 2004. The increase in pension expense reflects decreases in the plan discount rate.

District employers also provide certain health and life insurance benefits to eligible retired employees. We reversed expenses of \$8 thousand in 2006, and \$5 thousand of expenses in 2005, and recorded expenses of \$40 thousand in 2004 for the cost of postretirement benefits other than pensions.

The measurement date is September 30 for the District-wide defined benefit and other postretirement benefit plans. While information on the District plans is not available for our association individually, the following represents the information of the postretirement benefit plans at a District level.

Obligations and Funded Status

The obligations and funded status of the District's postretirement benefit plans follows (in thousands):

As of December 31, 2006	Pension Benefits	Other Benefits
Fair value of plan assets	\$509,411	\$7,135
Benefit obligation	586,510	35,178
Funded status	(\$77,099)	(\$28,043)
Prepaid (accrued) benefit cost recognized in the District's Statement of Condition, net	\$99,792	(\$37,900)
Weighted-average assumptions used to determine benefit obligations		
Discount rate	6.00%	6.00%
Expected return on plan assets	8.50%	6.00%
Rate of compensation increase	4.50%	n/a

The pension benefits funding status above reflects the status based on the projected benefit obligation, which is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to that date based on assumed future compensation levels. The pension plan assets exceed the accumulated benefit obligation, which is the actuarial present value of benefits attributed to employee service rendered before a specified date and based on current employee service and compensation. The accumulated benefit obligation for the pension plan was \$486.6 million for the year ended December 31, 2006.

Benefits Paid, Contributions and Net Periodic Benefit Cost

Additional information on the District's plans follows (in thousands):

For the year ended December 31, 2006	Pension Benefits	Other Benefits
Benefits paid	\$21,621	\$2,091
Employer contributions	–	1,628
Plan participant contributions	–	–
Net periodic benefit cost	24,319	1,693
Weighted-average assumptions used to determine net costs		
Discount rate	5.25%	5.25%
Expected return on plan assets	8.50%	6.00%
Rate of compensation increase	4.50%	n/a

Future Cash Flows

The amount of total District employer contributions expected to be paid during 2007 is \$10.5 million for pension benefits and \$1.5 million for other postretirement benefits.

The following benefit payments are expected to be paid by the District plans and reflect expected future service, as appropriate (in thousands):

At December 31, 2006	Pension Benefits	Other Benefits
Year:		
2007	\$23,730	\$2,098
2008	24,690	2,164
2009	26,550	2,220
2010	28,850	2,273
2011	29,380	2,318
2012 to 2016	203,570	12,024

Assumed Health Care Cost Trend Rates

For measurement purposes, a 10% rate of increase in the per capita cost of covered health care benefits was assumed for 2006. The rate was assumed to decrease gradually to 6% by the year 2011 and remain at that level thereafter.

Plan Assets

The District's pension plan asset allocation by asset category as of the measurement date of September 30, 2006 was 70.9% in equity securities, 28.6% in debt securities, and 0.5% in other. The plan assets for postretirement plans other than pensions were 99.4% in debt securities and 0.6% in other at September 30, 2006.

The funding objective of the plans is to provide present and future retirement or survivor benefits for its members by achieving an attractive rate of return, as defined by the plans' policy statements, without exposing the plan to undue risk. A Board of Trustees, called the Farm Credit Foundations Trust Committee, comprised of certain members of senior management of the participating employers, supervises the investment assets of the plans on behalf of the employers. The Trustees adopt an asset allocation strategy for each plan that reflects return and risk objectives, plan liabilities, and other factors.

The Trustees employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and the participating entities' financial conditions. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, small, mid, and large capitalizations. Other investment strategies may be employed to gain certain market exposures, reduce portfolio risk, and to further diversify portfolio assets. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and monthly and quarterly investment portfolio reviews.

The Trustees have developed an asset allocation policy based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The policy is long-term oriented and consistent with the risk exposure. The Trustees review the asset mixes periodically and rebalance the portfolio mixes at any time that an asset class migrates outside of pre-established allocation ranges. The current asset allocation policy of the pension plan is a target of 60% to 70% of assets in equity securities and 30% to 40% in debt securities.

Retirement Savings Plan

We participate in a District-wide retirement savings plan. We match dollar for dollar up to 2% of employee contributions and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. Our contributions and recorded expenses were \$1.6 million in 2006 and 2005, and \$1.4 million in 2004.

Non-Qualified Retirement Plan

We began participating in a District level non-qualified retirement plan during 2005. This plan is a benefit restoration plan which provides retirement benefits above the IRS compensation limit to certain highly compensated eligible employees. We recorded \$123 thousand of nonqualified pension expense for the year ended December 31, 2006 and \$74 thousand for the year ended December 31, 2005. While benefit obligation information is not available for our association individually, the District level benefit obligation at December 31, 2006 was \$6.5 million.

Note 11: Financial Assistance

The Farm Credit Act provided for capital assistance to Farm Credit System institutions experiencing severe financial stress through the issuance by the Farm Credit System Financial Assistance Corporation of U.S. Treasury-guaranteed 15-year bonds. Bonds totaling \$1.3 billion of principal were originally issued, all prior to October 1, 1992. The last remaining Farm Credit System Financial Assistance Corporation bonds matured and were repaid in June 2005.

Note 12: Related Party Transactions

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in Farm Credit Administration Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2006 involved more than a normal risk of collectibility.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2006	2005	2004
As of December 31:			
Total related party loans and leases	\$14,879	\$13,335	\$9,685
For the year ended December 31:			
Advances to related parties	\$7,238	\$5,754	\$5,308
Repayments by related parties	6,131	5,548	5,486

The composition of related parties can be different each year end due primarily to changes in the makeup of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

Note 13: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be 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.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2006, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$3.0 billion. Additionally, we had \$82.6 million of issued standby letters of credit as of December 31, 2006.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

Note 14: Fair Value of Financial Instruments

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Estimating the fair value of our investment in AgriBank, FCB

is not practical because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank, FCB.

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

Loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the value negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

Investment Securities: The fair value of investment securities is determined by discounting the expected future cash flows using current interest rates.

Other Earning Assets: Estimating the fair value of the other earning assets is determined by discounting the expected future cash flows using current interest rates for the same assets. Since all such assets have the same maturity and repricing characteristics, a single discount rate is used for all such assets.

Note Payable to AgriBank, FCB: Estimating the fair value of the note payable to AgriBank, FCB is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank, FCB for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

As of December 31, 2006	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$10,429,021	\$10,407,263
Other earning assets	376,081	369,794
Investment securities	13,636	13,616
Financial liabilities:		
Note payable to AgriBank, FCB	\$9,463,669	\$9,439,898
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$4,120)
As of December 31, 2005	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$9,037,632	\$9,013,317
Other earning assets	226,202	224,187
Financial liabilities:		
Note payable to AgriBank, FCB	\$8,005,354	\$7,973,653
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$3,291)

As of December 31, 2004	Carrying Amount	Estimated Fair Value
Financial assets:		
Loans, net	\$8,193,196	\$7,986,883
Financial liabilities:		
Note payable to AgriBank, FCB	\$7,071,693	\$7,009,901
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$2,087)

Note 15: Farm Credit System Financial Assistance Corporation Stock Sale

In December 2006, we sold to AgriBank, FCB all Farm Credit System Financial Assistance Corporation stock held by us at 71% of the face value of that stock. Legislation in 1987 required us to purchase this stock to capitalize the Farm Credit System Financial Assistance Corporation. Due to the uncertainty regarding the realization of the asset, the stock had previously been written off and carried at zero book value. The sale resulted in a gain of \$0.9 million in the fourth quarter of 2006.

Note 16: Quarterly Financial Information (unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 follow (in thousands):

2006	First	Second	Third	Fourth	Total
Net interest income	\$48,593	\$49,776	\$50,634	\$51,197	\$200,200
Provision for (reversal of) loan losses	749	66	(115)	631	1,331
Patronage income	5,434	5,632	5,683	11,880	28,629
Other expense, net	20,814	20,820	22,702	26,450	85,103
Provision for (reversal of) income taxes	2,374	2,022	2,559	(8,209)	(1,254)
Net income	\$30,090	\$32,500	\$31,171	\$44,205	\$143,649
2005	First	Second	Third	Fourth	Total
Net interest income	\$43,764	\$46,925	\$45,023	\$45,417	\$181,129
(Reversal of) provision for loan losses	(205)	2,135	824	(4,777)	(2,023)
Patronage income	5,023	5,134	5,196	10,587	25,940
Other expense, net	18,128	18,301	18,655	16,928	72,012
Provision for income taxes	2,094	2,230	2,669	3,550	10,543
Net income	\$28,770	\$29,393	\$28,071	\$40,303	\$126,537
2004	First	Second	Third	Fourth	Total
Net interest income	\$41,926	\$41,355	\$40,682	\$41,565	\$165,528
Provision for (reversal of) loan losses	40	341	272	(95,247)	(94,594)
Patronage income	4,614	4,669	4,806	7,196	21,285
Other expense, net	17,092	17,047	16,398	15,528	66,065
Provision for income taxes	1,591	1,231	1,615	19,291	23,728
Net income	\$27,817	\$27,405	\$27,203	\$109,189	\$191,614

The (reversal of) provision for income taxes in 2006 includes a significant fourth quarter reversal, as discussed in Note 9.

The 2005 (reversal of) provision for loan losses relates to the continued decrease in portfolio risk.

The (reversal of) provision for loan losses in 2004 includes a significant fourth quarter reversal resulting from a refined methodology, as discussed in Note 4.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Services of Mid-America, ACA
(Unaudited)

Description of Business

General information regarding the business is discussed in Note 1 of this annual report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" portion of this annual report.

Description of Property

There are 97 offices located throughout our territory making and servicing long and short-term loans. We own 68 buildings and lease 18 buildings. In addition to our central office facility, there are 82 full time offices, 2 satellite offices, special account units and 5 central processing units. A single building may house multiple offices. In 10 of our owned facilities, we lease a portion of the office space to third parties. Currently, there are no buildings being held for resale. The owned facilities have net book values ranging between \$54 thousand and \$6.8 million. During 2006, we completed the Richmond, Kentucky and Marietta, Ohio satellite offices along with the Chattanooga, Tennessee full service office. The Richmond, Kentucky office is 1,500 sq ft and it opened in July 2006. The annual rental rate is \$10.50 per sq ft based on a three year lease. The total leasehold improvement cost was \$119 thousand. The Marietta, Ohio office is 1,500 sq ft and it opened in October 2006. The annual rental rate is \$11.75 per sq ft based on a three year lease. The total leasehold improvement cost was \$84 thousand. The Chattanooga, Tennessee office is 2,400 sq ft and it opened in September 2006. The annual rental rate is \$11.00 per sq ft based on a five year lease. The total leasehold improvement cost was \$85 thousand. In 2007, the company is planning to build new facilities to replace the Muncie, Indiana, Somerville, Tennessee, and Lucasville, Ohio offices and plans to open 7 additional satellite offices.

Legal Proceedings

Information regarding legal proceedings is discussed in Note 9 and Note 13 of this annual report. We were not subject to any enforcement actions at December 31, 2006.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 8 of this annual report.

Description of Liabilities

Information regarding liabilities is discussed in Note 7 and Note 13 of this annual report.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this annual report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" portion of this annual report.

Board of Directors

Information regarding directors who served as of December 31, 2006, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Name Position	Term of Office	Business experience and employment during past five years
Robert E. Barton Chairperson	First year of a four year term	Self-employed farmer (tobacco, corn, wheat, soybeans; background cattle operation; country grain elevator)
William Roger Robertson Vice Chairperson	Fourth year of a four year term	Self-employed farmer (livestock and row crops)
Sue Welch Secretary	Third year of a four year term	Tax preparer and consultant, Secretary of Lemuel, Inc. and self- employed farmer (hay, livestock, timber, sheep, beans and corn)
Barney Barnett Outside Director	First year of a four year term	Retired (formerly president/owner of management recruiting business)
David A. Bates, III Director	Second year of a four year term	Self-employed farmer (dairy, beef and tobacco)
Ernie Diggs Director	First year of a four year term	Self-employed farmer (corn, soybeans, wheat, and beef cattle)
Roger D. Earley Director	First year of a four year term	Self-employed farmer (wheat, corn, hay, soybeans, and cattle)
Daryl R. Greenfield Director	Fourth year of a four year term	Self-employed farmer (corn, soybeans, wheat and tobacco)
Bert E. Holsapple Director	Third year of a four year term	Self-employed farmer (beef, wheat, corn, hay and soybeans)
Jimmy D. Mays Director	Third year of a four year term	Self-employed farmer (cattle) and retired from Tri County Electric in mid 2005
James William Patterson Director	Third year of a four year term	Manager, Fruit Farm Market (apples, strawberries and peaches); and Vice President of Patterson Farms, Inc. (family farm operation)
Daryl B. Rowe Director	Second year of a four year term	Self-employed farmer – retired in 2006 (alfalfa, hay and Holstein heifers)
George E. Stebbins Director	Second year of a four year term	Self-employed farmer (corn, soybeans, wheat, and weaner pigs)
Arthur R. Timberlake Director	First year of a four year term	Self-employed farmer (cattle, corn, soybeans, and hay)
Matthew D. Walther Director	Second year of a four year term	Self-employed farmer (corn, soybeans, alfalfa, beef cattle and feeder cattle)
David E. Wilson Director	Fourth year of a four year term	Self-employed farmer (corn, soybeans, wheat and cattle)
J. Edward Yanos Director	Fourth year of a four year term	Self-employed farmer (corn and soybeans)

Additional board involvement by our board members includes:

Daryl Greenfield is a Director of Hopkinsville Elevator Company, Inc. (grain and supplies) and is a Director of Todd County Farm Bureau (agricultural association); and a member of the Management Committee of Commonwealth Agri-Energy (ethanol).

Bert Holsapple is a Director of Orange County Indiana REMC which provides electricity to rural communities.

William Roger Robertson is a Director of the Tennessee ADA (dairy production).

Daryl Rowe is a Director of Farmer's Mutual Fire Insurance Company (casualty insurance).

George Stebbins is a Director of Montgomery County Farm Bureau (agricultural association).

Arthur Timberlake is a Director of the Indiana and Kentucky Polled Hereford Associations (Hereford breeders) and the Harrison County, Indiana Cattlemen's Association (beef cattle organization).

Sue Welch is a Director of the Fayette-Lincoln County Industrial Development Board (development) and Director/ Secretary & Treasurer for Lemuel, Inc. (livestock and timber).

Directors are paid compensation in the form of an annual retainer paid at the monthly rate of \$1,500 (not to exceed \$18,000 per year) for time spent in preparing and attending board meetings, advisory committee meetings, customer appreciation meetings, governance or compensation committee meetings and AgriBank, FCB annual meetings. In addition, directors are compensated at the daily rate of \$300 for attendance at designated meetings not specified above but set out by board policy. Directors absent from a scheduled board meeting forfeit one-half of the monthly retainer. Directors are also reimbursed for reasonable expenses incurred in connection with attending such meetings.

Additionally, the Board chairperson receives \$500 per month, the vice-chairperson \$100 per month and the secretary \$250 per month for the additional time commitments of their positions. Board audit committee members receive \$300 for attendance at full meetings and \$150 for telephone conference call meetings.

Information regarding compensation for each director who served during 2006 follows:

Compensation	Number of Days Served Board Meetings	Number of Days Served Other Official Activities	Compensation Paid for Service on a Board Committee*	Name of Committee	Total Compensation Paid in 2006
Robert E. Barton	26.0	11.5			\$21,772
Barney Barnett	26.5	21.5	\$1,650	Audit	21,472
David A. Bates, III	27.5	10.5			18,772
Ernie Diggs	7.5	2.0			5,122
Roger D. Earley	27.5	20.0	1,800	Audit	18,922
Daryl R. Greenfield	25.0	14.5			19,072
Bert E. Holsapple	27.5	14.0	300	Governance	20,422
Jimmy D. Mays	27.5	23.5	300	Governance	20,672
James William Patterson	27.5	26.0	1,800	Audit	
			300	Governance	22,522
William Roger Robertson	25.5	16.5			20,322
Daryl B. Rowe	27.5	13.5			18,172
George E. Stebbins	27.5	16.0	300	Audit	19,822
Arthur R. Timberlake	27.0	30.0	1,800	Audit	20,122
James G. Tyson, Jr.	19.0	12.5	1,200	Audit	14,422
Sue Welch	26.0	12.0	300	Audit	
			300	Governance	20,122
David E. Wilson	27.0	19.0			20,872
Matthew D. Walther	26.5	20.5	750	Audit	21,772
J. Edward Yanos	27.5	29.0	1,500	Audit	
			300	Governance	21,772
Total	456.0	312.5	\$12,600		\$346,146

*The number of board meeting days and per diem totals include travel time to and from meetings.

Senior Officers

The senior officers include:		
Name	Position	Business experience and employment during past five years
Donald W. Winters	President and Chief Executive Officer	President and Chief Executive Officer from October 1989 to present
James D. Kenney, III	Senior Vice President - Corporate Services	Senior Vice President - Corporate Services from November 1997 to present
David Lynn	Senior Vice President - Financial Services	Vice President - Financial Services from July 1996 through September 2002; Senior Vice President - Financial Services from October 2002 to present
Thomas S. Schlenker	Senior Vice President - Financial Services	Senior Vice President - Financial Services from July 1996 to present
James K. Garrison	Senior Vice President - Credit	Senior Vice President - Credit from November 1997 to present
Philip W. Kimmel	Senior Vice President - Business Development	Senior Vice President - Business Development from April 2000 to present
Dianna R. Ragan	General Counsel & Corporate Secretary	General Counsel & Corporate Secretary from November 1997 to present
Paul C. Bruce, Jr.	Senior Vice President - Financial Operations and Chief Financial Officer	Vice-President - Loan Accounting from June 1994 to February 2003; Senior Vice President - Financial Operations and Chief Financial Officer from March 2003 to present

A summary of compensation earned by senior officers during 2006 follows (in thousands):

Name of Individual	Year	Salary	Bonus	Deferred/Perquisites	Other	Total
Donald W. Winters	2006	\$319	\$170	\$4	\$-	\$493
	2005	308	151	4	-	463
	2004	298	131	4	-	433
Aggregate Number of Individuals (excluding CEO):						
Seven	2006	\$1,170	\$466	\$7	\$-	\$1,643
Seven	2005	1,115	417	6	-	1,538
Seven	2004	1,060	364	3	-	1,427

Members may request information on the compensation paid during 2006 to the individuals listed in the preceding table whose compensation exceeded \$50 thousand.

The CEO's incentives are based in part on an individual performance rating established by the Board of Directors. Senior officers' incentives are based in part on individual performance ratings established by the CEO. The remainder of the CEO and Senior officers' incentives are based on corporate performance criteria established by the Board of Directors. The corporate criteria includes: loan growth, credit quality, credit administration and net operating rate. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year-end.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 12 of this annual report.

Travel, Subsistence and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

Farm Credit Services of Mid-America
P.O. Box 34390
Louisville, Kentucky 40232-4390
(800) 444-FARM
efcsales@e-farmcredit.com
www.e-farmcredit.com

The total directors' travel, subsistence and other related expenses were \$160 thousand in 2006, \$184 thousand in 2005, and \$150 thousand in 2004.

Involvement in Certain Legal Proceedings

No material events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2007 or at any time during 2006.

Shareholder Privacy

Farm Credit Administration Regulations protect shareholders' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our shareholders not normally contained in published reports or press releases.

Relationship with Independent Auditors

There were no changes in independent auditors since the last annual report to shareholders and we are in agreement with the opinion expressed by the independent auditors.

Financial Statements

The "Report of Management," "Report of Audit Committee," "Report of Independent Auditors," "Consolidated Financial Statements," and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products is discussed in the "Management's Discussion and Analysis" portion of this annual report.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

NOTICE TO CUSTOMERS CONCERNING INVESTMENT

Farm Credit Services of Mid-America, ACA

This notice contains information about your stock investment in Farm Credit Services of Mid-America, ACA (Association). Please read it carefully and make sure you understand both the benefits and risks of an investment in the Association.

Association Capitalization Bylaws (a copy of which is included as part of this publication) require an investment in stock or participation certificates in the amount of 2 percent of the loan amount or \$1,000, whichever is less, when obtaining a loan from either of its wholly owned subsidiaries, the Farm Credit Services of Mid-America, FLCA (FLCA) or the Farm Credit Services of Mid-America, PCA (PCA). The Association's Board of Directors (Board) has the discretion to apply the stock requirement on a per-customer basis or a per-loan basis. Currently, the stock requirement is on a per-customer basis.

The Association also sells stock or participation certificates to any eligible customer of the FLCA or PCA as a condition of obtaining a lease and as a condition for purchasing related services. The amount of stock or participation certificates required may range from one share to no more than the requirement for obtaining a loan, at the discretion of the Board. At this time, the Board has decided to require one share for both leasing and related services.

The voting stock issued by the Association is called "Class D Stock" (Stock) and is issued only to farmers, ranchers and producers or harvesters of aquatic products. Other persons who are eligible to borrow or lease from or purchase financially related services with the FLCA or PCA, but who are not eligible to own Stock, must purchase "Participation Certificates" (Certificates), which are issued on essentially the same terms as Stock except as described below.

Stock and Certificates issued as a condition of doing business with the Association (which may include stock issued in connection with loan renewals, assumptions, refinancing, etc.) are an investment in the Association that is at risk and not a compensating balance.

How Stock and Certificates Are Purchased

Shares of Stock (and units of Certificates) are sold for their par value (or face amount) of \$5 each and can be paid for either with cash or with the proceeds of a loan.

When the purchase price is borrowed, the amount of the FLCA and/or PCA loan includes the cost of the Stock or Certificates, and interest is charged on the entire loan. The portion of the FLCA or PCA loan proceeds attributable to the purchase price of the Stock or Certificates is withheld and applied to the purchase price of the Stock or Certificates. The total amount of the loan, including the portion used to pay for the Stock or Certificates, is a legally enforceable obligation that must be repaid in full. The Association does not issue physical certificates for Stock or Certificates. Instead, the ownership of Stock or Certificates is

evidenced by entries recorded on the combined books of the Association as reflected in periodic account statements sent to each customer.

Certain Important Characteristics of Stock and Certificates

The principal difference between Stock and Certificates is that the Stock entitles its holder to one vote (regardless of how many shares are owned) with respect to the election of Association directors and other matters on which stockholders are entitled to vote. Holders of Certificates have no voting rights. In all other respects, Stock and Certificates have substantially the same rights and restrictions.

Association bylaws provide that dividends may be paid on Stock or Certificates with the approval of the Board. Dividends may not be paid if, after or due to such action, the permanent capital of the Association would thereafter fail to meet the minimum capital adequacy standards established by FCA.

The FLCA or PCA takes a lien on the Stock or Certificates held by a customer as additional security for the customer's loan. If the customer defaults, the value of the customer's investment (not to exceed par value, or face amount) may be applied against the balance due on the loan. If the customer's Stock or Certificates are transferred, they are still subject to this lien. In any event, Stock and Certificates are transferable only to persons eligible to purchase such equities.

Stock and Certificates do not appreciate in value. Any retirement or conversion will be at their original issue price or, if less, their book value. The possibility that this investment may result in a loss is discussed below under the heading "Impairment."

Retirement of Stock and Certificates

Under Association bylaws, Stock and Certificates are retired only at the discretion of the Board. Stock is retired at the lower of book value or par value, while Certificates are retired at the lower of book value or face amount. Book value will be determined in accordance with generally accepted accounting principles (GAAP).

Under Federal Law, there is no automatic right to have Stock or Certificates retired upon repayment of the customer's loan or when the customer ceases to conduct other business with the FLCA and/or PCA.

Under the Association's existing Equity Policy, equity is on a customer basis and is required on existing fixed, adjustable or variable rate loans originated after July 1, 1995, in an amount not less than two percent or \$1,000, whichever is less, according to the customer's total loan balances (when the customer is the same on each loan).

Equity of one share is required on a lease or for a non-customer to qualify for related services.

The Equity Policy may be amended by the Board at any time at their sole discretion and in accordance with the Act, Regulations and Bylaws.

Effective 01/01/03, the Board's policy permits the retirement of customer equity only if the association's permanent capital percentage is above the Board's stated minimum, established annually. The Board allows stock to be retired by management provided that retirements are in accordance with the association's capital plan; the association's permanent capital ratio will be in excess of 13 percent after any such retirements; the association meets and maintains all applicable minimum surplus and collateral standards; and the aggregate amount of stock purchases and retirements are reported to the Board of Directors monthly.

Except for loans in default, customer equity may be retired under any of the following conditions:

- 1) the customer's indebtedness for a loan or a lease is totally paid off;
- 2) a non-borrower is no longer a purchaser of related services; or
- 3) the customer's loan is sold into the secondary market without recourse.

The retirement policy may be suspended or modified at any time at the discretion of the Board in order to protect the financial condition of the Association.

The Association is prohibited from retiring Stock or Certificates if such retirement results in the Association's failure to satisfy the minimum capital adequacy standards established by the FCA.

Of course, even though you may be given the opportunity to have your stock retired, you are not required to retire your Stock or Certificates after repaying your FLCA and/or PCA loan and may continue to hold this investment. However, if you do not borrow from the FLCA and/or PCA during the following two years, your Class D Stock will be converted into non-voting Class C Stock.

Impairment

Your ownership of Stock or Certificates in the Association is an investment and is subject to certain risks that could result in a partial or complete loss of investment. You are responsible for repayment of the entire amount of the FLCA and/or PCA loan, including the amount borrowed to pay for your Stock or Certificates, regardless of the value of your Stock or Certificates.

These risks include:

- 1) Loan losses experienced by the FLCA and/or PCA as a result of inadequate evaluation of credit risks or adverse trends in agriculture, such as loss of international markets, overproduction, weather conditions or disease,

- 2) Increases in the amount of non-accrual FLCA and/or PCA loans and properties acquired from borrowers that reduce revenues,
- 3) Impairment of AgriBank, FCB's (Bank) stock owned by the Association due to losses in other associations within the district, loan losses and operating expenses of the Bank and the Bank's joint and several liability on Systemwide debt securities issued by other Banks in the national Farm Credit System.

As a result of these or any other risks, the capital of the Association could become impaired. Impairment means that the book value of the Stock or Certificates has declined below par value (or face value), which is \$5 per share or unit. (For example, if the Association were to suffer loan losses which exceeded its other income, its bad debt reserve and its surplus accounts, the Stock and Certificates could have a book value less than \$5 and thus would be impaired.) So long as the capital of the Association is impaired, its customers would receive less than they paid for their stock upon retirement. If the Association were to be liquidated at the time when its capital is impaired, holders of Stock or Certificates would receive less than the par value or face amount of their investment and may suffer a total loss of their investment in the Association. However, in any event, customers would remain liable for the full amount of their loan from the FLCA and/or PCA, including the portion used to pay for the purchase of Stock or Certificates.

Of course, the Association will take all feasible action to prevent its capital from becoming impaired. The FLCA and PCA maintain loss reserves (and surplus accounts) to protect against this possibility.

The Farm Credit Act provides a mechanism for providing financial assistance to distressed Farm Credit System entities. This mechanism is described in the Association's 2006 Annual Report. However, the assistance mechanisms in the Farm Credit Act provide no assurance to customers that Stock and Certificates will be protected. Therefore members are advised to review the financial statements of the Association and of the Bank and other available information about the Farm Credit System. Copies of the Association and the Bank's Annual and Interim Reports to Investors are available from the Association upon request.

Association Permanent Capital Standards

The Association presently meets its minimum permanent capital standard. The Association does not know of any reason it will not meet its permanent capital standard on the next earnings distribution date, though no earnings distribution date is scheduled.

IMPORTANT INFORMATION ON FCS FUNDS HELD PROGRAM

Farm Credit Services of Mid-America, ACA

The Association offers a Funds Held Program (Funds Held) that provides for customers to make uninsured advance payments on loans. The following terms and conditions apply to all Funds Held unless the loan agreement, or related documents, between the Association and the customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment date. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special prepayment of principal.

When a loan installment becomes due, moneys in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held may never exceed the unpaid principal balance of the loan. Many loans have a further limit equal to the total payments due for the next year. In addition, Funds Held on loans with certain prepayment penalties may not exceed 10% of the original principal balance. Funds Held is generally not available on revolving lines of credit loans.

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest that may be changed by the association from time to time. But the rate will not exceed the interest rate charged on the related loan except in rare cases. The current interest rate is based upon the following criteria:

Real estate loans closed under the loan program in effect prior to October 1, 1994, are paid a rate of interest equal to the loan rate.

Real estate loans closed under the loan program in effect on October 1, 1994, and later are paid a rate of interest similar to short-term money market rates. The rate was 4.95% as of 1/1/2007.

Commercial loans, with the exception of lines of credit, closed or renewed after September 1, 1999, are paid a rate of interest similar to short-term money market rates. The rate was 4.95% as of 1/1/2007.

Withdrawals

Money in Funds Held may be withdrawn for the following items, depending on the customer's loan program.

- Customers may request that Funds Held or interest on Funds Held be applied to their loan balance at any time.
- Customers with real estate and commercial loans may use Funds Held for future installments or insurance. In addition, customers may make up to four additional withdrawals for other approved purposes in lieu of increasing the loan amount. These four withdrawals have a minimum size limit of the lesser of \$500 or the remaining balance in Funds Held in a 12-month period.

Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues its Funds Held program, the Association may apply funds in the account to the unpaid balance and other amounts due, and shall return any excess funds to the customer.

If the customers sell, assign or transfer any interest in the underlying collateral, the Association may apply the funds in the account against the remaining loan balance.

If all customers who are party to the loan are deceased, the Association may apply the funds in the account to the remaining loan balance.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to FCA regulations then in effect.

Questions

Please direct all questions regarding Funds Held to your local FCS representative by calling 1-800-444-FARM (3276).

ARTICLE VIII - CAPITALIZATION

800 — Authorized Shares

The Association is authorized to issue:

- (a) one million (1,000,000) shares of Class C Preferred Stock with a par value of \$5 per share to be issued as provided in Section 810.3 of these Bylaws;
- (b) an unlimited number of shares of Class D Common Stock with a par value of \$5 per share to be issued as provided in Sections 810.4 and 845.2 of these Bylaws;
- (c) the outstanding number of Participation Certificates as of the Merger Date, of FLBA 4th, FLBA B and FLBA M and PCA 4th issued prior to October 6, 1988, which were converted by book entry at the par, face or stated value of \$5 per unit into a like number of Class A Participation Certificates of the Association;
- (d) an unlimited number of Class B Participation Certificates, with a face value of \$5 per unit to be issued as provided in Section 810.6 of these Bylaws; and
- (e) such number of shares of such other classes of Capital Stock as may be provided for in an amendment or amendments to these Bylaws as adopted pursuant to Article XIV, provided, however, if the class being proposed in any amendment or amendments is for Preferred Stock other than Preferred Stock to be issued to the Farm Credit System's Financial Assistance Corporation, it shall be approved by majority of the shares of each class of stock affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.

805 — Ownership

Evidence of ownership of Capital Stock and Participation Certificates may be by book entry or in definitive form as prescribed by the Board.

In the event of an Authorization Event under Section 210 hereof, a borrower's required investment in Association stock/participation certificates (and the required conversion of such investment into a different class of equity) shall be determined by reference to the borrowing relationship with MidAm, PCA or MidAm, FLCA, as the case may be. Accordingly, upon an Authorization Event, all references to loans and outstanding loan balances in this Article shall refer to aggregate loans held or originated by Association, MidAm, PCA and MidAm, FLCA.

810 — Issue, Rights, Preferences and Limitations of Classes of Stock

810.1 Class A Preferred Stock

- (a) Issue
There shall be no Class A Preferred Stock issued other than those shares issued as a result of the conversion on Merger Date of PCA 4th's Class A non-voting stock or a conversion in accordance with Section 845.2 of these Bylaws.
- (b) Voting Rights
Class A Preferred Stock shall have no voting rights.
- (c) Rights
Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.
- (d) Stock Protection
When retiring Class A Preferred Stock in accordance with the Act, Regulations and these Bylaws, the stock shall be retired at par value.
- (e) Fractional Shares
No fractional shares of Class A Preferred Stock shall be issued or paid.

810.2 Class B Common Stock

- (a) Issue
There shall be no Class B Common Stock issued other than those shares issued as a result of the conversion of FLBA 4th, FLBA B and FLBA M's voting stock and PCA 4th's Class B voting stock as of the Merger date.
- (b) Voting Rights
Class B Common Stock shall have voting rights.
- (c) Rights
Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.

CAPITALIZATION BYLAWS (CONTINUED)

Farm Credit Services of Mid-America, ACA

(d) Stock Protection
When retiring Class B Common Stock in accordance with the Act, Regulations and these Bylaws, the stock shall be retired at par value.

(e) Fractional Shares
No fractional shares of Class B Common Stock shall be issued or paid.

810.3 *Class C Preferred Stock*

(a) Issue
This stock may be issued in accordance with the Act and Regulations:

1. To the bank and to investors;
2. In such amounts and to such persons as may be permitted under a plan adopted by the Board;
3. For allocated surplus distributions, dividend payments, and patronage distributions; and
4. In accordance with Section 845.2 of these Bylaws.

(b) Voting Rights
Class C Preferred Stock shall have no voting rights.

(c) Rights
Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.

(d) Fractional Shares
No fractional shares of Class C Preferred Stock shall be issued or paid.

810.4 *Class D Common Stock*

(a) Issue
Class D Common Stock may only be issued to borrowers who are farmers, ranchers or producers or harvesters of aquatic products and other requirements of such borrowers as specified in the Act and Regulations.

(b) Voting Rights
Class D Common Stock shall have voting rights.

(c) Rights
Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations

and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.

(d) Fractional Shares
No fractional shares of Class D Common Stock shall be issued or paid.

(e) Condition to Borrowing

1. Any borrower who is entitled to own Class D Common Stock shall acquire voting stock in the Association as a condition for obtaining a loan from the Association, MidAm, PCA or MidAm, FLCA. The amount of Class D Common Stock which a borrower shall be required to acquire shall be two (2) percent of the loan amount or \$1,000, whichever is less. The Board shall establish from time to time whether the stock requirement shall apply to each loan to a borrower or apply to a borrower's aggregate outstanding loan balance on all borrower's loans (as used in this section shall only include those loans, including the new loan, where the borrowers are the same on each loan).

2. If the Association fails to meet the minimum permanent capital standards the Class D Common Stock shall be purchased from the Association.

3. Loan origination fees may be charged as a condition of borrowing from the Association, MidAm, PCA or MidAm, FLCA as the Board from time to time may determine.

(f) Condition to Lease

As a condition of obtaining a lease from Association, MidAm, PCA or MidAm, FLCA any lessee who is entitled to own Class D Common Stock shall be required to acquire Class D Common Stock in an amount as determined by the Board from time to time. The equity requirement to be not less than one share or the minimum requirement as set out in the Act and Regulations, if any, and not to exceed the equity requirement for obtaining a loan.

810.5 *Class A Participation Certificates*

(a) Issue
There shall be no Class A Participation Certificates issued other than those units issued as a result of the conversion of FLBA 4th, FLBA B, FLBA M and PCA 4th's Participation Certificates as of the Merger Date.

- (b) Voting Rights
Class A Participation Certificates shall have no voting rights.
- (c) Rights
Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.
- (d) Protection of Participation Certificates
When retiring Class A Participation Certificates in accordance with the Act, Regulations and these Bylaws, the units shall be retired at par value.
- (e) Fractional Units
No fractional units of Class A Participation Certificates shall be issued or paid.

810.6 *Class B Participation Certificates*

- (a) Issue
Class B Participation Certificates may be issued in accordance with the Act and Regulations:
 1. To borrowers who are rural residents to capitalize their rural housing loans.
 2. To borrowers who are persons or organizations furnishing to farmers and ranchers farm-related services directly related to their agricultural production, to capitalize their loans.
 3. To other persons or organizations who are eligible to borrow or participate in loans from Association, MidAm, PCA or MidAm, FLCA but are not eligible to hold voting stock.
 4. For allocated surplus distributions, dividend payments, and patronage distributions.
 5. To any person who is not a stockholder but who is eligible to borrow from Association, MidAm, PCA or MidAm, FLCA for the purpose of qualifying such person for technical assistance, financially related services, and leasing services offered by Association, MidAm, PCA or MidAm, FLCA.
- (b) Voting Rights
Class B Participation Certificates shall have no voting rights.
- (c) Rights
Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon

impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.

- (d) Fractional Units
No fractional units of Class B Participation Certificates shall be issued or paid.
- (e) Condition to Borrowing
 1. Any borrower who is entitled to own Class B Participation Certificates shall acquire Participation Certificates as a condition for obtaining a loan from Association, MidAm, PCA or MidAm, FLCA. The amount of Class B Participation Certificates which a borrower shall acquire shall be two (2) percent of the loan amount or \$1,000, whichever is less. The Board shall establish from time to time whether the certificate requirement shall apply to each loan to a borrower or apply to a borrower's aggregate outstanding loan balance on all borrower's loans (as used in this section shall only include those loans, including the new loan, where the borrowers are the same on each loan).
 2. If the Association fails to meet the minimum permanent capital standards, the Class B Participation Certificates shall be purchased from the Association.
 3. Loan origination fees may be charged as a condition of borrowing as the Board from time to time may determine.

- (f) Condition to Lease or Purchase of Financially Related Services
As a condition of obtaining a lease or purchasing financially related services from Association, MidAm, PCA or MidAm, FLCA any lessee or purchaser of financially related services who is entitled to own Class B Participation Certificates shall be required to acquire Class B Participation Certificates in an amount as determined by the Board from time to time. The equity requirement to be not less than one share or the minimum requirement as set out in the Act and Regulations, if any, and not to exceed the equity requirement for obtaining a loan.

CAPITALIZATION BYLAWS (CONTINUED)

Farm Credit Services of Mid-America, ACA

815 — Application of Earnings or Losses

815.1 At the end of each fiscal year, the Association shall apply its earnings (including patronage allocations and refunds received from the FCB) for such fiscal year in the following order:

- (a) to cover operating expenses, including additions to loan valuation reserves as provided by law;
- (b) to restore the amount of any impairment of Stock and Participation Certificates as prescribed in Section 855.2 of these Bylaws;
- (c) to restore the amount of any impairment of allocated surplus;
- (d) to restore the amount of any impairment of paid-in surplus;
- (e) to create and maintain an unallocated surplus account as provided in Section 820 of these Bylaws;
- (f) to pay dividends on Stock of the Association if authorized pursuant to Section 830 of these Bylaws;
- (g) to make patronage distributions if authorized pursuant to Section 835 of these Bylaws; and
- (h) to transfer any remaining earnings to the reserved surplus account.

815.2 In the event of a net loss for any fiscal year, after applying earnings for such fiscal year as provided in Section 815.1 above, such loss shall be absorbed by, first, charges to the unallocated surplus account; second, impairment of paid-in surplus; third, impairment of the allocated surplus account; fourth, impairment of Class B Common Stock, Class D Common Stock, Class A Participation Certificates, Class B Participation Certificates, concurrently; and fifth, impairment of Class A Preferred Stock and Class C Preferred Stock, concurrently. Notwithstanding this Section, Class B Common Stock and Class A Participation Certificates shall be retired in accordance with Section 4.9A of the Act.

820 — Surplus Accounts

The Association shall create and maintain an unallocated surplus account and may maintain an allocated surplus account. Except as provided in Section 815, the unallocated surplus account may not be reduced and no part thereof may be transferred to the allocated surplus account.

825 — Allocated Surplus Accounts

825.1 The Association may, subject to the Act and the Regulations, create and maintain an allocated surplus account consisting of earnings held therein and

allocated to borrowers on a patronage basis in accordance with Section 835 of these Bylaws. In the event of a net loss for any fiscal year, such allocated surplus account shall be subject to impairment in the order specified in Section 815.2 of these Bylaws, and on the basis of latest allocations first.

825.2 Association, MidAm, PCA and MidAm, FLCA shall have a first lien on all surplus account allocations owned by any borrower, and all distributions thereof, as additional collateral for such borrower's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be.

825.3 When the debt of a borrower is in default or is in the process of final liquidation, the Association may, upon notice to the borrower, order any and all surplus account allocations owned by such borrower to be applied against the indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be. Any such retirement and application against indebtedness of surplus account allocations shall be before similar retirement and application of Stock or Participation Certificates owned by the borrower.

825.4 At the Board's discretion and subject to the Act, Regulations, and any other restrictions, when all of the Stock and Participation Certificates of the Association owned by a borrower are retired or otherwise disposed of, any surplus account allocations owned by such borrower may also be retired, upon request by the borrower and subject to the approval of the Board, and the proceeds paid to the borrower. Alternatively, if the Board so directs, upon notice to the borrower such surplus account applications may be applied against any of the borrower's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be. As a condition, however, to the approval of a former borrower's application for an advance within two (2) years after retirement hereunder, the applicant must first repay any allocated surplus proceeds resulting from such retirement which would not otherwise have been paid through normal distributions.

825.5 Subject to the Act and the Regulations, allocated surplus may be distributed, oldest allocations first, in Class C Preferred Stock of the Association or in cash. The cash proceeds may be applied against the indebtedness of the borrower to the Association. In no event shall such distributions reduce the surplus account below the minimum amount prescribed by the Act and the Regulations. Distributions of less than the full amount of all allocations issued as of the same date shall be on a pro rata basis. If any part of a distribution in Class C Preferred Stock to one borrower is less than \$5, such distribution may be held by the Association

and accumulated with subsequent partial distributions to equal one whole share of Class A Preferred Stock or Class C Preferred Stock.

830 — Dividends

- 830.1 In accordance with the Act and the Regulations, the Board may declare dividends on the Stock and Participation Certificates of the Association. Such dividends may be paid on Class A Preferred Stock and Class C Preferred Stock alone or on all classes of Stock and Participation Certificates. No dividends may be paid on Class B Common Stock, Class D Common Stock, Class A Participation Certificates or Class B Participation Certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to Section 835 of these Bylaws. The rate of dividends paid on Class A Preferred Stock and Class C Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Class B Common Stock, Class D Common Stock, Class A Participation Certificates or Class B Participation Certificates for such year and, similarly, the rate of dividends on Class B Common Stock and Class D Common Stock may not be less than the rate paid on Class A Participation Certificates and Class B Participation Certificates.
- 830.2 Dividends may be paid to holders of record on the effective date of the declaration, provided the Stock or Participation Certificates were outstanding for at least sixty (60) calendar days prior to the effective date of the declaration.
- 830.3 Dividends on Stock and Participation Certificates may be paid in cash, Class C Preferred Stock, or partly in cash and partly in Stock, except that dividends on Stock held by the FCB shall be paid in cash. If any part of such dividends payable in Stock to one borrower are less than \$5, the dividends may be distributed in cash or held by the Association and accumulated with subsequent dividends until the retained dividends equal \$5, so that the dividends may be distributed as one whole share of Class C Preferred Stock.
- 830.4 Dividends shall be noncumulative.

835 — Patronage Refunds

- 835.1 Prior to the beginning of any fiscal year, the Board may adopt a resolution in accordance with the Act and the Regulations, so as to obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings of Association for such fiscal year, or for that and subsequent fiscal

years. However, no patronage distribution will be paid if the earnings available for distribution do not exceed \$500,000.

- 835.2 All patronage distributions shall be in the proportion that the amount of interest earned by Association, MidAm, PCA or MidAm, FLCA on its loans to each borrower bears to the total interest earned by Association, MidAm, PCA or MidAm, FLCA on all such loans outstanding during the fiscal year, except that another proportionate patronage basis may be used upon approval by the Board in accordance with the Act and the Regulations.
- 835.3 Net earnings of any fiscal year shall be available for patronage distribution only after making the applications as required in (a) through (e) of Section 815 and paying dividends on Class A Preferred Stock and Class C Preferred Stock. Patronage allocations and refunds received from the FCB in the form of stock shall be excluded from net earnings available for patronage distributions and dividends. The amount available for patronage distributions for any fiscal year shall in no event exceed the net earnings from patronage from Association, MidAm, PCA and MidAm, FLCA borrowers and from the patronage received from the FCB in the form of cash for such year.
- 835.4 Patronage distributions may be in cash, Class C Preferred Stock, allocations of earnings retained in an allocated surplus account, or any one or more of such forms of distribution, except that at least twenty percent of the total patronage distributions to any borrower for any fiscal year shall always be in cash. Cash distributions may not exceed twenty percent of the patronage distribution if such distribution would cause the surplus account at the end of the fiscal year for which the distribution is paid to be less than the minimum amount prescribed by the Act and the Regulations. Any part of a patronage distribution in Class C Preferred Stock to one borrower that is not a multiple of \$5 may be distributed in cash or held by the Association for the borrower and included in a subsequent distribution.
- 835.5 Each holder of Class B Common Stock or Class D Common Stock of this Association shall, by such act alone, consent that the amount of any distributions with respect to patronage which are made in written notices of allocation, as defined in 26 U.S.C. 1388 (i.e., patronage allocations of surplus account and patronage refunds paid in Class C Preferred Stock of the Association, and which are received by him or her from the Association) will be taken into account as income by such person at the stated dollar amounts

CAPITALIZATION BYLAWS (CONTINUED)

Farm Credit Services of Mid-America, ACA

in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received. Such holder of Class B Common Stock or Class D Common Stock also consents by such act alone to take into account as income in the same manner the amount of any distributions with respect to patronage provided he or she receives written notice from the Association that such amount has been applied on his or her indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be.

835.6 The Association shall obtain the written consent of each holder of Class A Participation Certificates or Class B Participation Certificates that the amount of any distributions with respect to the holder's patronage, which are made in written notices of allocations as defined in 26 U.S.C. 1388 (i.e., patronage allocations of surplus account, patronage refunds paid in Class C Preferred Stock, or distributions with respect to patronage that have been applied to the holder's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be, and for which the holder has received written notice) will be taken into account as income by the holder at the stated dollar amounts in the manner provided for in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received. The form of consent shall be prescribed by the Board, except that it shall be continuing in effect until revoked by the Class A Participation Certificate or Class B Participation Certificate holder, and it may be included as part of the loan application or other appropriate form signed by borrowers. Consent may also be obtained by use of a qualified check in the manner provided for in 26 U.S.C. 1388.

835.7 In the event of an Authorization Event under Section 210 hereof, the Association's net earnings for purposes of computing and paying patronage dividends shall include the net earnings of MidAm, PCA and MidAm, FLCA (computed on a consolidated basis).

840 — Transfer

840.1 Stock and Participation Certificates may be transferred to persons or organizations eligible to receive or to hold such Stock or Participation Certificates as provided in Section 810 of these Bylaws.

840.2 The Association shall be its own transfer agent in all matters relating to its Stock and Participation Certificates.

845 — Conversion

845.1 Each class of Stock and Participation Certificates may be converted into any other class of Stock or Participation Certificates for which the holder is eligible as provided in Section 810.

845.2 Class B Common Stock shall be converted into Class A Preferred Stock within two years after the holder thereof ceases to be a borrower from Association, MidAm, PCA or MidAm, FLCA. Class D Common Stock shall be converted into Class C Preferred Stock within two years after the holder thereof ceases to be a borrower from Association, MidAm, PCA or MidAm, FLCA.

850 — Retirement

850.1 Class A Preferred Stock, Class B Common Stock, and Class A Participation Certificates
Retirement may be upon repayment of a loan or under a retirement plan in effect prior to January 6, 1988, and for such equities issued after that date, a retirement plan in effect at the time the loan was made. Such equities shall be retired at par, even if book value is less than par. Such equities may also be retired under other conditions approved by the Board with prior approval of the FCA.

850.2 Class C Preferred Stock, Class D Common Stock and Class B Participation Certificates
Subject to the Act, Regulations and any other restrictions, such equities shall be retireable only at the discretion of the Board and not on a date certain or upon the happening of an event such as repayment of a loan or pursuant to an automatic retirement or revolvement plan. Such equities shall be retired at their book value and shall not exceed their par value. No such equities shall be retired unless after the retirement the institution would continue to meet the minimum permanent capital standards or the interim permanent capital standards, as the case may be.

850.3 Mandatory Retirement

At the Board's discretion and subject to the Act, Regulations and any other restrictions (including minimum permanent capital standards), the Board may order the retirement of such amounts of Class A Preferred Stock or Class C Preferred Stock as it may determine in accordance with procedures which assure equitable treatment of all holders of Class A Preferred Stock or Class C Preferred Stock.

850.4 Retirement in the Event of Default

When the debt of a borrower is in default, the Association may, upon notice to such borrower, order the retirement of any Stock or Participation Certificates held by the borrower and the proceeds thereof applied against the borrower's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be. Any such retirement and application of Stock or Participation Certificates shall be after similar retirement and application of surplus account allocations owned by the borrower.

855 — Impairment

- 855.1 Any losses which result in an impairment of the Association's capital shall be borne ratably by, first, each share of Class B Common Stock and Class D Common Stock, and each unit of Class A Participation Certificates and Class B Participation Certificates outstanding; and second, each share of Class A Preferred Stock and Class C Preferred Stock outstanding. Notwithstanding this Section, Class B Common Stock and Class A Participation Certificates shall be retired in accordance with Section 4.9A of the Act.
- 855.2 Impaired Stock and Participation Certificates shall be restored in the reverse of the sequence set forth in Section 855.1 until each share of Stock and unit of Participation Certificates has a book value equal to the par value or face value, respectively.

860 — Liquidation

In the event of a voluntary or involuntary liquidation of the Association, following the payment of all claims in accordance with the Act and Regulations, the remainder of the assets of the Association shall be distributed to the holders of Stock and Participation Certificates. In the event there are insufficient funds to pay the holders of Stock and Participation Certificates at par value, then distribution should be made in accordance with the priorities for impairment set forth in Section 855.1 of these Bylaws. In the event funds are sufficient to pay all holders of Stock and Participation Certificates at par value, any excess funds shall be distributed, insofar as practicable, to the holders of Class B Common Stock, Class D Common Stock, Class A Participation Certificates and Class B Participation Certificates in the proportion that the aggregate interest paid by each holder over the prior two years bears to the total interest paid by all holders of stock and participation certificates.

865 — Lien

Except with respect to Stock or Participation Certificates held by other System institutions, each of Association, MidAm, PCA and MidAm, FLCA shall have a first lien on all Stock and Participation Certificates in the Association owned by its borrowers as additional collateral for any indebtedness of such borrower. Upon an Authorization Event, all Stock and Participation Certificates shall be pledged to MidAm, PCA or MidAm, FLCA, as the case may be, as additional collateral for any indebtedness of the borrower to MidAm, PCA or MidAm, FLCA, respectively. Stock and Participation Certificates may not be pledged or hypothecated to third parties.

870 — Paid-In Surplus

The Association is authorized to receive paid-in surplus from the FCB in accordance with the Act and the Regulations.

875 — Secondary Market Loans

875.1 Equity Retirement

On or after 12-01-96 no stock or participation certificate is required to be purchased as a condition for obtaining a loan which is designated, at the time the loan is made, for sale to a secondary market. Designated loans not sold within the 180-day period shall be subject to the equity requirement for loans as stated in bylaw 810.4(e) or 810.6(e).

875.2 Retirement

The Board is authorized to retire stock or participation certificates on those loans sold to a secondary market prior to 12-01-96 and on those loans designated for sale to the secondary market but not sold within the 180-day time period, provided however that the Association shall not retire such stock or participation certificates if the action would result in the failure of the Association to meet the minimum permanent capital adequacy standard established in the FCA regulations.

BORROWER PRIVACY

Farm Credit Services of Mid-America, ACA

Your privacy is important to us. We want you to know that we hold your financial and other personal information in strict confidence. Since 1972, Farm Credit Administration regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without your consent. We do not sell or trade our members' personal information to marketing companies or information brokers.

FCA rules allow us to disclose customer information to others only in these situations:

- We may give it to another Farm Credit institution in which you do business.
- We can be a credit reference for you with other lenders and provide information to a credit bureau or other consumer reporting agency.
- We can provide information in certain types of legal or law enforcement proceedings.
- FCA examiners may review loan files during regular examinations of our association.
- If one of our employees applies to become a licensed real estate appraiser, we may give copies of real estate appraisal reports to the State agency that licenses appraisers when required. We will first remove as much personal information from the appraisal as possible.

As a member/owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs.

OBTAINING DISTRICT ANNUAL REPORT INFORMATION

The financial condition and results of operations of AgriBank, FCB materially affect shareholders' investments in the Association. A copy of the combined AgriBank, FCB and AgriBank District's financial reports may be requested free of charge by contacting:

AgriBank, FCB	Farm Credit Services of Mid-America
P.O. Box 64949	P.O. Box 34390
St. Paul, MN 55164-1810	Louisville, KY 40232-4390
651-282-8800	800-444-3276
agribankmn@farmcredit.com	efcsales@e-farmcredit.com
www.agribank.com	www.e-farmcredit.com

OBTAINING ASSOCIATION ANNUAL OR QUARTERLY REPORT INFORMATION

Copies of the Association's annual or quarterly reports are available on www.e-farmcredit.com or may be requested free of charge by contacting the Association as stated above. The quarterly reports are available 45 days after the end of each calendar quarter.

BECOMING INVOLVED IN YOUR COOPERATIVE

As a member of Farm Credit Services of Mid-America, you own stock in the Association and have a say in how it is run. Many members exercise membership privileges by voting in the annual election of directors and Nominating Committee members. But if you want to become more actively involved, there are a number of ways you can do so:

Advisory Committee

There are over 800 members of our Advisory Committees who serve as grassroots advisors to the Farm Credit Board of Directors. Acting on the local level, advisors meet quarterly to provide input and help direct the governance of the Farm Credit cooperative by making concerns of the general membership known to its elected officials.

Nominating Committee

Membership in the Nominating Committee demands that one be knowledgeable in the needs of the organization and a good judge of other people's abilities to serve those needs in an executive capacity. The Nominating Committee selects and places before the membership candidates for election to the Farm Credit Services Board of Directors.

Board of Directors

The Board of Directors, whose responsibility is to govern Farm Credit Services, answers to the members of our cooperative. They are members elected to their office because they have demonstrated an understanding of cooperative principles and the rural financial marketplace and have shown a willingness to commit their time in providing leadership and direction to the organization for the benefit of its members. For more information, please contact your local office at 1-800-444-3276.

Farm Credit Services Board of Directors

Indiana

Bert Holsapple
6565 East Weeks Road
Orleans, IN 47452

Art Timberlake
11550 River Road SW
Mauckport, IN 47142

Matt Walther
6957 Philomath Road
Centerville, IN 47330

Ed Yanos
8839 South County Road
675 E
Cambridge City, IN 47327

Kentucky

Bob Barton, Chair
4095 Huffman Mill Road
Lexington, KY 40511

David Bates
894 Pecan Lane
Shepherdsville, KY 40165

Daryl Greenfield
455 Butler Road
Elkton, KY 40220

Jimmy Mays
199 Cemetery Road
Scottsville, KY 42164

Outside Director

Barney Barnett
1175 McMakin Road
Shelbyville, KY 40065

On March 28, the Board of Directors will welcome its 18th member and second appointed director. David Hahn is a faculty member in the College of Food, Agricultural and Environmental Sciences at The Ohio State University. He currently owns and manages a 650-acre grain farm in Huron County, Ohio.

Ohio

Roger Earley
5741 Runk Lane
Hillsboro, OH 45133

Bill Patterson
11580 Rust Drive
Chesterland, OH 44026

George Stebbins
7985 N. Montgomery
Co. Line Road
Englewood, OH 45322

David Wilson
10485 County Road 10
East Liberty, OH 43319

Tennessee

Ernie Diggs
2200 Jones Bend Road
Paris, TN 38242

Roger Robertson, Vice Chair
539 County Road 422
Englewood, TN 37329

Daryl Rowe
174 Jarrett Road
Limestone, TN 37681

Sue Welch, Secretary
268 Patrick Road
Fayetteville, TN 37334

Indiana

Anderson 1-800-878-0195
Bluffton 1-800-477-4737
Columbia City 1-888-823-2719
Columbus 1-800-231-2747
Corydon 1-800-835-2501
Crawfordsville 1-800-875-5531
Evansville 1-800-345-2835
Franklin 1-800-327-5099
Greencastle 1-800-446-0306
Greensburg 1-877-850-6488
Huntingburg 1-800-752-7429
Kokomo 1-888-956-5666
Lafayette 1-888-232-9000
LaGrange 1-888-823-2718
Marion 1-800-327-9887
Martinsville 1-800-372-3276
Muncie 1-800-647-0299
Rensselaer 1-888-290-0936
Rochester 1-800-508-9873
Rushville 1-800-797-0002
Scottsburg 1-800-742-9930
South Bend 1-888-208-5603
Sullivan 1-800-952-6171
Valparaiso 1-888-212-5308
Vincennes 1-800-288-9348
Williamsport 1-888-898-3276

Kentucky

Bowling Green 1-800-264-0310
Campbellsville 1-800-880-2396
Danville 1-800-880-1114
Dry Ridge 1-800-880-6785
Elizabethtown 1-800-880-7288
Glasgow 1-800-880-9425
Grayson 1-800-880-6453
Hardinsburg 1-877-212-8616
Henderson 1-800-783-9776
Hopkinsville 1-800-489-5626
Lexington 1-800-880-2741
London 1-800-880-6598
Maysville 1-800-880-5931
Mt. Sterling 1-800-261-3071
Owensboro 1-800-844-1148
Richmond 1-800-880-2741
Shelbyville 1-800-880-1420
Somerset 1-800-880-4311

Ohio

Alliance 1-800-327-2551
Archbold 1-800-232-1660
Bellefontaine 1-800-589-6118
Cambridge 1-888-713-4293
Celina 1-800-953-8330
Circleville 1-888-515-5626
Delphos 1-800-522-7728
Eaton 1-800-686-4146
Gallipolis 1-800-325-3086
Lucasville 1-800-325-3086
Mansfield 1-888-200-1380
Marietta 1-888-713-4293
Oberlin 1-800-454-2072
Orwell 1-800-638-9390
Springfield 1-800-633-4135
Utica 1-800-937-6050
Versailles 1-800-206-3001
Washington CH 1-800-334-9325
Winchester 1-800-321-3013
Wooster 1-800-216-9651

Tennessee

Athens 1-800-444-3276
Chattanooga 1-877-633-2399
Columbia 1-800-665-9242
Cookeville 1-800-346-2190
Dandridge 1-800-524-0932
Dickson 1-800-227-7414
Dresden 1-800-346-2191
Greeneville 1-800-218-1040
Johnson City 1-800-444-3276
Knoxville 1-800-524-0931
Lawrenceburg 1-800-273-0260
Lebanon 1-800-765-7172
McMinnville 1-800-444-3276
Murfreesboro 1-800-444-3276
Oneida 1-800-226-7017
Ripley 1-800-635-5003
Shelbyville 1-800-444-3276
Somerville 1-800-469-2794
Springfield 1-800-894-9998
Tazewell 1-866-630-5017
Three Way 1-888-855-0631

Farm Credit Services Executive Leadership Team

Donnie Winters
*President & Chief
Executive Officer*

Paul Bruce
*Senior Vice President-
Financial Operations & Chief
Financial Officer*

Jim Garrison
Senior Vice President-Credit

Jim Kenney
*Senior Vice President-
Corporate Services*

Phil Kimmel
*Senior Vice President-
Business Development*

David Lynn
*Senior Vice President-
Financial Services*

Dianna Ragan
*General Counsel &
Corporate Secretary*

Tom Schlenker
*Senior Vice President-
Financial Services*

Board of Directors

(Pictured on back page)

Front row: Matt Walther, Art Timberlake, Jimmy Mays, Sue Welch, Bob Barton, Roger Robertson, Ernie Diggs, Bert Holsapple and Roger Earley.

Back row: Barney Barnett, Ed Yanos, David Wilson, Bill Patterson, Daryl Greenfield, David Bates, Daryl Rowe and George Stebbins.



P.O. Box 34390
 Louisville, KY 40232
 1-800-444-FARM
 www.e-farmcredit.com



A HEAD FOR FINANCE. A HEART FOR FARMING.

They may look like members of any other board, but this board is different. It's steeped in agriculture and focused on the needs of farmers and rural people in Kentucky, Indiana, Tennessee and Ohio.

This board governs Farm Credit Services of Mid-America, the \$11 billion cooperative that is the nation's largest agricultural lender.

Under its guidance, FCS provides lower interest rates and more lending products than any other farm lender in America.

In the 1990s, when no farm lender offered long-term, fixed-rate loans, FCS stepped up to the plate. In 1999, the board rolled back rates by

30 basis points on every loan, saving customers millions. Then, FCS invented "conversion," a simple process that allowed customers to trade their old rates for lower ones. In the last six years, more than 46,000 customer-members converted more than \$6.8 billion in loans and saved \$334 million.

As one customer noted: "That's the first time in my life my banker ever called me and told me he could lower my interest rate." You can be assured FCS will continue to look out for your best interests.

With 85 offices to serve you in Indiana, Kentucky, Ohio and Tennessee.

1-800-444-FARM | www.e-farmcredit.com



Farm Credit Services
OF MID-AMERICA

A head for finance. A heart for farming.™