


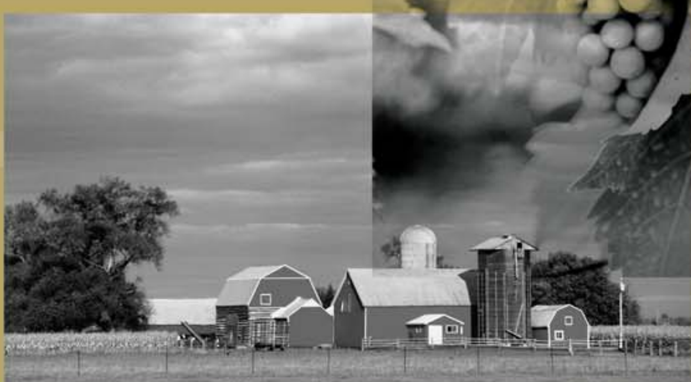

U.S. AGBANK DISTRICT

2006 ANNUAL REPORT

U.S. AgBank District

Board of Directors

Middle Row

Oghi A. "Tony" DeGiusti, Jr.
Tuttle, Oklahoma

George Jenik
Sedgwick, Colorado

Edward L. Schenk
Chickasha, Oklahoma

John J. "Jack" Breen
Middletown, New Jersey

Wesley D. Brantley, Jr.
Ada, Oklahoma

Robert J. "Bob" Wietharn
Clay Center, Kansas

Donnell Spencer
Richfield, Utah

Front Row

J. "Less" Guthrie
Porterville, California

Glen A. "Andy" Rector, Chairman
Agate, Colorado

Marvin W. Lohse, Vice Chairman
Glenn, California

Lyle H. Gray
Leon, Kansas

Back Row

David S. Phippen
Ripon, California

Kenneth Shaw
Mountainair, New Mexico

John Eisenhut
Turlock, California

Wayne Allen
Nevada City, California

Sheldon D. Richins
Henefer, Utah

Glen A. "Andy" Rector
Chairman
Agate, Colorado

Marvin W. Lohse
Vice Chairman
Glenn, California

Jerold L. Harris
Retired President &
Chief Executive Officer

Darryl W. Rhodes
President &
Chief Executive Officer

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Executive Officers

Darryl W. Rhodes, President & Chief Executive Officer

David D. Janish, Senior Vice President - Finance

James L. Grauerholz, Senior Vice President - Administration

Dennis E. Grizzell, Senior Vice President - Credit

Gregory J. Buehne, Senior Vice President - Legal and Legislative Services

Corporate Address

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U.S. AgBank, FCB
245 N. Waco
P. O. Box 2940
Wichita, KS 67201-2940
(316) 266-5100

Field Office
U.S. AgBank, FCB
3636 American River Dr.
Suite 100
Sacramento, CA 95864-5901
(916) 973-3014

U.S. AgBank Website
www.usagbank.com

U.S. AGBANK DISTRICT
2006 ANNUAL REPORT

Message from the Chairman of the Board and the Chief Executive Officer

To Our Stockholder Customers:

We are pleased to provide the U.S. AgBank (AgBank) District Annual Report for the third full year of operations. Our primary business is serving the credit needs of agriculture and rural America. This has been our business since the Farm Credit System was formed and since the first Farm Credit System loan was made in 1917. This first loan was a Federal Land Bank loan to a farmer near Larned, Kansas. We believe our proud heritage and our ongoing dedication to agriculture are rare characteristics in today's banking environment, where the pursuit of profit opportunities seems to be the primary objective. Our exceptional knowledge and specialization in agricultural lending also makes us unique. But, most importantly, this allows us to be more effective in contributing to the success of our customers. Finally, our broad array of loan products and services has been specifically designed for agricultural producers.

Business results were outstanding in 2006 and are discussed in detail in this report. The positive growth trend in loan volume continued, earnings were very sound, and credit quality ended the year at very lofty levels. As a result, Association Boards of Directors approved the payment of a record amount of $95.8 million in patronage refunds to customers in 2006. The payment of patronage to customers clearly differentiates Farm Credit from our commercial competitors and further demonstrates the value of the cooperative membership structure of the Farm Credit System. For this and many other reasons, we benefit from a loyal customer base and a growing market share.

If you have any questions about this report, or if we can assist you with your financing needs, please contact your local Association office. We believe you will find our employees are talented, professional, knowledgeable, and experienced. We also believe you will find our employees have a passion for agriculture and for providing service to the people who provide the food and fiber for our country. Information for Association offices, including the address, phone number, and website, is available on the AgBank website at www.usagbank.com under the "Location" link. Also, a list of Association office locations and websites is included at the back of this report.

If you would like to access the Farm Credit System's financial information, the System's Annual Information Statement and Quarterly Information Statements are available at www.farmcredit-ffcb.com.

We thank you for your business and wish you a productive and prosperous year in 2007!

Glen A. Rector
Chairman of the Board

Darryl W. Rhodes
President and Chief Executive Officer

Corporate Profile

U.S. AgBank, FCB (AgBank) is part of the U.S. AgBank District (District) that is made up of AgBank, 29 affiliated Associations (Associations), and AgVantis, Inc., which is primarily a technology service corporation owned by AgBank and seventeen Associations. Each of these institutions is part of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through our commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States.

The Farm Credit Administration is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions. System institutions are instrumentalities of the United States.

As a federated cooperative, AgBank is owned by its 29 customer Associations. This structure provides the Associations a vested interest and a voice in the business affairs of AgBank. The Associations benefit from their ownership of AgBank in two important ways. In the delivery of funding to all Associations, AgBank achieves economies of scale that could not be achieved by the Associations individually. In addition, AgBank shares its profits with the Associations through patronage refunds. The patronage refunds paid to Associations reduce the cost of borrowing and benefit the farmer and rancher customers of the Associations.

AgBank is a stockholder in the Federal Farm Credit Banks Funding Corporation which sells Systemwide Debt Securities in the nation's capital markets. Because the System issues large volumes of securities that carry agency status, the System benefits from a dependable and competitively priced source of capital. Systemwide Debt Securities are the general unsecured joint and several obligations of the System Banks. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the United States. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be directly available to satisfy any principal or interest payments on Systemwide Debt Securities.

AgBank meets the funding needs of Associations with products and pricing methodologies that provide "match funding" of loans in the Association portfolios. The wholesale funding AgBank provides typically matches the terms and embedded options of the retail loans held by Associations. Therefore, the main sources of interest rate risk are incurred and managed at AgBank, and Associations are substantially protected from interest rate risk.

The District's chartered territory is comprised of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. AgBank provides loan funds and other services to Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and other financing institutions that serve these eleven states. Each Association offers a wide range of loan products and financial services in its chartered territory.

This annual report does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation on behalf of the System Banks pursuant to offering circulars for each type of debt offering.

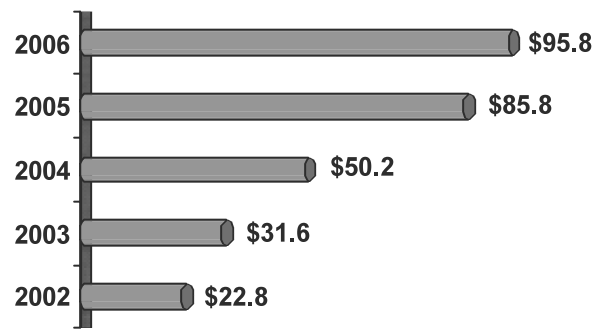
FINANCIAL PERFORMANCE HIGHLIGHTS

Net Income

$ in millions

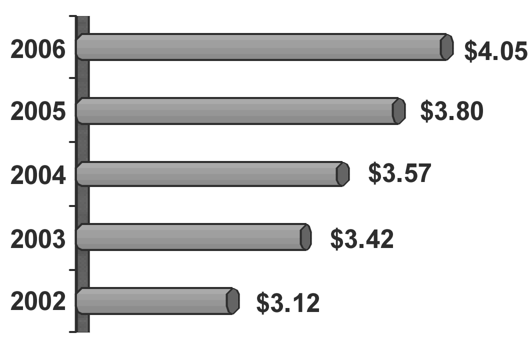
Patronage Refunds

$ in millions



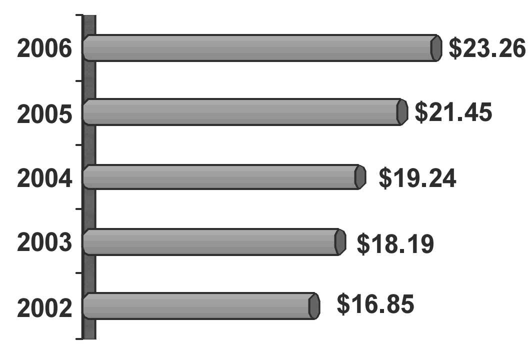
Total Risk Funds

$ in billions

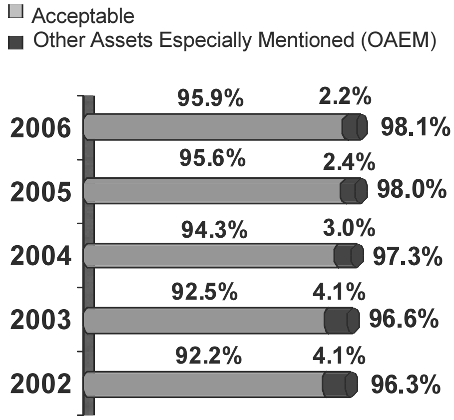


Total Assets

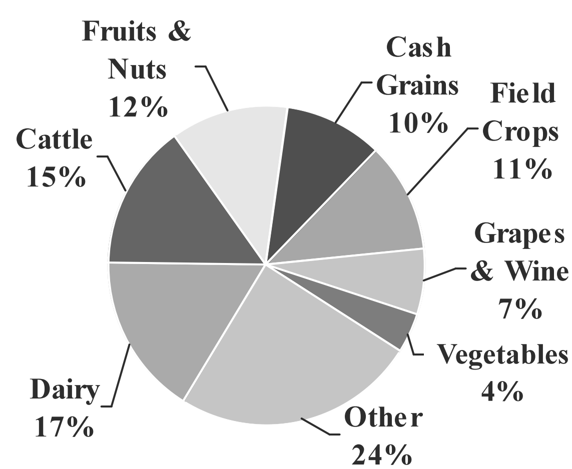
$ in billions



Credit Quality



Loan Portfolio



FIVE-YEAR SUMMARY OF SELECTED COMBINED FINANCIAL DATA

U.S. AgBank District

(Dollars in thousands)

	December 31				
	2006	2005	2004	2003	2002
Combined Statement of Condition Data					
Loans	**$ 17,625,736**	$ 16,781,194	$ 15,536,421	$ 14,890,350	$ 14,692,371
Less: Allowance for loan losses	**64,637**	65,309	81,018	291,503	340,218
Net loans	**17,561,099**	16,715,885	15,455,403	14,598,847	14,352,153
Cash and federal funds	**217,465**	246,785	307,931	162,122	190,430
Investment securities	**4,913,848**	4,015,006	3,093,881	3,010,147	1,948,023
Other property owned	**6,793**	2,331	4,299	7,390	2,404
Other	**558,488**	470,694	383,174	412,080	361,916
Total assets	**$ 23,257,693**	$ 21,450,701	$ 19,244,688	$ 18,190,586	$ 16,854,926
Obligations with maturities of one year or less	**$ 7,101,415**	$ 6,389,415	$ 5,931,663	$ 5,252,085	$ 6,928,931
Obligations with maturities greater than one year	**12,174,431**	11,329,280	9,824,113	9,814,557	7,144,624
Total liabilities	**19,275,846**	17,718,695	15,755,776	15,066,642	14,073,555
Stock and participation certificates	**219,291**	240,136	229,285	233,087	125,388
Retained earnings	**3,817,841**	3,573,829	3,334,883	2,933,426	2,706,723
Accumulated other comprehensive income/(loss), net of tax	**(55,285)**	(81,959)	(75,256)	(42,569)	(50,740)
Total shareholders' equity	**3,981,847**	3,732,006	3,488,912	3,123,944	2,781,371
Total liabilities and shareholders' equity	**$ 23,257,693**	$ 21,450,701	$ 19,244,688	$ 18,190,586	$ 16,854,926

	For the Year Ended December 31				
	2006	2005	2004	2003	2002
Combined Statement of Income Data					
Net interest income	**$ 592,031**	$ 529,864	$ 480,146	$ 444,101	$ 426,164
(Provision for loan losses)/Loan loss reversals	**(7,516)**	10,165	194,096	18,976	(27,083)
Noninterest expenses, net	**(236,430)**	(206,427)	(204,066)	(200,418)	(187,774)
Benefit from/(Provision for) income taxes	**427**	(2,994)	(14,231)	(3,295)	(8,712)
Net income	**$ 348,512**	$ 330,608	$ 455,945	$ 259,364	$ 202,595
Combined Key Financial Ratios					
Return on average assets	**1.58%**	1.67%	2.50%*	1.48%	1.25%
Return on average total shareholders' equity	**8.87%**	9.00%	13.75%*	8.78%	7.44%
Net interest income as a percentage of average earning assets	**2.76%**	2.73%	2.67%	2.57%	2.69%
Net charge offs as a percentage of average net loans	**0.05%**	0.04%	0.11%	0.21%	0.10%
Shareholders' equity as a percentage of assets	**17.12%**	17.40%	18.13%	17.17%	16.50%
Debt to shareholders' equity	**4.84:1**	4.75:1	4.52:1	4.82:1	5.06:1
Allowance for loan losses as a percentage of gross loans	**0.37%**	0.39%	0.52%*	1.96%	2.32%
Operating expense as a percentage of net interest income	**45.20%**	44.41%	47.72%	51.63%	48.54%
Operating expense as a percentage of average assets	**1.22%**	1.19%	1.26%	1.31%	1.27%
Permanent capital ratio (Bank only)	**20.42%**	21.93%	22.53%	21.36%	19.44%
Total surplus ratio (Bank only)	**17.00%**	18.70%	19.33%	18.46%	16.03%
Core surplus ratio (Bank only)	**11.56%**	12.96%	13.89%	12.95%	13.03%
Net collateral ratio (Bank only)	**105.06%**	105.03%	105.14%	105.17%	105.23%
Net Income Distribution					
Patronage refunds to borrowers	**$ 95,810**	$ 85,835	$ 50,208	$ 31,552	$ 22,796
Dividends	**$ 8,690**	$ 5,827	$ 4,280	$ 1,109	$ 1,437

* Included in the calculation of 2004 returns on average assets and average shareholders' equity and the allowance for loan losses as a percentage of assets were one-time reversals of the allowance for loan losses of $186.1 million. For additional information see "Refinement of the Allowance for Loan Losses Methodology" on page 44. Excluding the one-time reversals of the allowance for loan losses, the return on average assets would have been 1.48 percent and the return on average shareholders' equity would have been 8.14 percent.

INTRODUCTION/ORGANIZATION

The following discussion summarizes the combined financial position and results of operations of U.S. AgBank, FCB (AgBank), the affiliated Associations and AgVantis, Inc. (AgVantis) for the year ended December 31, 2006. Comparisons to prior years are included. The affiliated Agricultural Credit Associations (ACAs), Federal Land Credit Associations (FLCAs), and Production Credit Associations (PCAs) are collectively known as "Associations," and AgBank, the Associations and AgVantis are collectively referred to as the "District."

We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact the financial condition and results of operations of the District. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The Management's Discussion and Analysis includes the following sections:

- Basis of Presentation
- District Overview
- Results of Operations
- Agricultural Overview
- Loan Portfolio
- Credit Risk Management
- Liquidity Risk Management
- Capital Resources
- Interest Rate Risk (IRR) Management
- Other Risks
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

BASIS OF PRESENTATION

The combined financial statements and related financial information in this Annual Report include the accounts of AgBank, the Associations and AgVantis. The financial statements are presented on a combined basis due to the financial and operational interdependence of the District entities. This interdependence results, in part, from AgBank serving as an intermediary between the financial markets and the retail lending activities of the Associations. As a result, the loans made by Associations to their borrowers are substantially funded by AgBank with the issuance of Systemwide Debt Securities. Although only AgBank is jointly and severally liable for the repayment of Systemwide Debt Securities, the repayment is dependent upon the ability of the borrowers to repay their loans from the Associations and the Associations to repay their loans from AgBank. Under this presentation, the accounts of the District entities are combined, with all intra-District transactions and balances eliminated in combination. Certain amounts in prior years' financial statements have been reclassified to conform to current financial statement presentation.

DISTRICT OVERVIEW

Each Association operates with a chartered territory. Each ACA has an FLCA subsidiary and a PCA subsidiary. FLCAs and FLCA subsidiaries of ACAs make mortgage loans to members. Funds for these loans are borrowed from AgBank. AgBank also loans funds directly to ACAs, PCA subsidiaries and other financing institutions (OFIs) which, in turn, provide operating and intermediate-term credit to farmers and ranchers. The Associations serve territories in Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho and the far western edge of Wyoming. At December 31, AgBank loans to Associations in total were $14.13 billion for 2006, $13.37 billion for 2005, and $12.62 billion for 2004. Loans to the Associations have been eliminated in combination.

Effective January 1, 2005, AgCredit Financial, ACA merged with American AgCredit, ACA. As of December 31, 2006 and 2005, there were 29 Associations in the District. There were 30 Associations as of December 31, 2004.

Each Association serves a unique marketplace and must address its own competitive lending environment. Competition from other lenders continues to be particularly strong for high-quality large accounts. The degree of competition varies, depending on the appetite for agricultural loans by local and regional banks, large commercial banks, and insurance companies in any given area. We have been very competitive with other lenders by offering a variety of loan products, high quality service, attractive interest rates, and patronage refunds. The payment of patronage refunds to borrowers is a sharing of operating profits and is unique in the marketplace and a significant financial benefit to our borrowers.

AgVantis is a service corporation owned by AgBank and 17 Associations. AgVantis provides technology and other operational services to certain Associations and AgBank. Financial activity between AgVantis and AgBank or AgVantis and Associations has been eliminated in combination.

RESULTS OF OPERATIONS

Earnings Summary

In 2006, we recorded net income of $348.5 million compared with $330.6 million for 2005, and $455.9 million for 2004. The increase in 2006 is primarily due to an increase in net interest income. The decrease in 2005 is primarily due to the one-time recognition of loan loss reversals of $186.1 million as a result of a change in allowance for loan loss methodology which increased 2004 earnings. The following table presents the changes in the significant components of net income from the previous year.

	2006 Versus 2005	2005 Versus 2004
Net income, prior year	**$ 330,608**	$ 455,945
Increase/(Decrease) from changes in:		
Net interest income	**62,167**	49,718
Provision for loan losses	**(17,681)**	(183,931)
Noninterest income	**551**	(1,234)
Noninterest expenses	**(30,554)**	(1,127)
Provision for income taxes	**3,421**	11,237
Total increase/(decrease) in net income	**17,904**	(125,337)
Net income, current year	**$ 348,512**	$ 330,608

As a result of growth in average assets and average shareholder's equity in 2006, return on average assets decreased to 1.58% from 1.67% in 2005, and return on average shareholders' equity decreased to 8.87% from 9.00% in 2005.

Net Interest Income

Net interest income for 2006 was $592.0 million compared with $529.9 million for 2005 and $480.1 million for 2004. The increase in net interest income was due to increased growth in average interest earnings assets in 2006, in addition to the increase in market interest rates and the active management of debt. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The effects of changes in average volumes and interest rates on net interest income for these periods are reflected in the following table.

	2006 vs. 2005 Increase/(Decrease) due to			2005 vs. 2004 Increase/(Decrease) due to		
(dollars in millions)	**Rate**	**Volume**	**Total**	Rate	Volume	Total
Interest income:						
Loans	**$ 176.8**	**$ 80.2**	**$257.0**	$ 158.5	$ 49.2	$ 207.7
Investments	**44.8**	**49.9**	**94.7**	32.7	23.1	55.8
Total interest income	**221.6**	**130.1**	**351.7**	191.2	72.3	263.5
Interest expense	**200.2**	**89.3**	**289.5**	170.6	43.1	213.7
Change in net interest income	**$ 21.4**	**$ 40.8**	**$ 62.2**	$ 20.6	$ 29.2	$ 49.8

Components of net interest income for the past three years are presented in the following table. Interest income, expense, and interest rates include the effect of associated derivative financial instruments used for hedging and/or risk management.

	For the Year Ended December 31, 2006			For the Year Ended December 31, 2005			For the Year Ended December 31, 2004		
(dollars in millions)	**Income/ Expense**	**Average Balance**	**Rate**	Income/ Expense	Average Balance	Rate	Income/ Expense	Average Balance	Rate
Interest earning assets:									
Loans by type									
Real estate mortgage	**$ 752.2**	**$ 10,395.4**	**7.24%**	$ 621.3	$ 10,074.3	6.17%			
Production and intermediate-term	**287.4**	**3,853.0**	**7.46%**	209.3	3,427.4	6.11%			
Agribusiness	**143.9**	**2,043.4**	**7.04%**	102.7	1,773.1	5.79%			
Communication	**7.5**	**106.1**	**7.11%**	3.0	44.1	6.86%			
Energy	**8.8**	**127.4**	**6.93%**	7.1	125.6	5.64%			
Rural residential real estate	**3.6**	**50.7**	**7.15%**	3.5	51.4	6.71%			
Lease receivables	**9.2**	**128.4**	**7.18%**	4.9	80.8	6.05%			
OFI (other financing institutions)	**1.4**	**25.1**	**5.69%**	1.7	42.3	4.00%			
Nonaccrual	**6.8**	**86.2**	**7.85%**	10.3	91.5	11.30%			
Total loans	**1,220.8**	**16,815.7**	**7.26%**	963.8	15,710.5	6.13%	756.1	14,908.6	5.07%
Investments	**239.1**	**4,629.0**	**5.17%**	144.5	3,665.0	3.94%	88.7	3,081.3	2.88%
Total	**1,459.9**	**21,444.7**	**6.81%**	1,108.3	19,375.5	5.72%	844.8	17,989.9	4.70%
Interest bearing liabilities	**867.9**	**17,693.8**	**4.91%**	578.4	15,874.0	3.64%	364.7	14,695.4	2.48%
Net interest income	**$ 592.0**			$ 529.9			$ 480.1		
Interest rate spread			**1.90%**			2.08%			2.22%
Impact of equity financing		**$ 3,750.9**	**0.86%**		$ 3,501.5	0.65%		$ 3,294.5	0.45%
Net interest margin			**2.76%**			2.73%			2.67%

* Beginning with year-end 2004, the District changed loan type information to provide additional detail on the types of loans made. As a result average volume is not available for 2004.

The 2006 interest rate spread between interest earnings assets and interest bearing liabilities decreased 18 basis points to 1.90%, compared with 2.08% in 2005. The decrease in interest rate spread resulted from a 127 basis point increase in interest expense offset by a 109 basis point increase in interest income. Net interest margin (net interest income to average earning assets) increased 3 basis points to 2.76% compared with 2.73% in 2005. The net interest margin increase was due to an increase in the impact of equity financing of 21 basis points. The competitive environment for loans has resulted in the narrowing of loan spreads as market interest rates have increased. Additionally, Associations are experiencing narrowing spreads as a result of competing for high quality loans.

Loan Loss Reversal/Provision for Loan Losses

AgBank and Association managements review their respective loan portfolios on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal to the allowance for loan losses is warranted based on each entity's assessment of the probable losses in its loan portfolio. In aggregate, we recorded provisions for loan losses of $7.5 million for the year ended December 31, 2006, compared with loan loss reversals of $10.2 million in 2005 and $194.1 million in 2004. Thirteen Associations recorded provisions for loan losses of $12.8 million during 2006 with twelve Associations and AgBank recording loan loss reversals of $5.3 million. The provisions for loan losses recorded in 2006 were primarily due to charge-offs and increased risk on certain loans in the loan portfolio. The loan loss reversals recorded in 2005 were primarily due to reduced risk exposure in certain loans. Of the 2004 loan loss reversals, $186.1 million was the result of one-time adjustments due to the implementation of enhanced allowance for loan losses methodologies and $8.0 million were for adjustments related to reduced risk in the portfolio.

Noninterest Income

Noninterest income for each of the three years ended December 31 is detailed in the following table:

				Percent Increase/(Decrease)	
	2006	2005	2004	**2006/2005**	2005/2004
Loan and prepayment fee income	**$ 16,400**	$ 16,811	$ 21,708	**(2.4%)**	(22.6%)
Fees for financially related services	**4,706**	4,903	4,751	**(4.0%)**	3.2%
Mineral income	**11,200**	10,401	7,154	**7.7%**	45.4%
Net gains on sales of investments and other assets	**1,052**	1,164	1,727	**(9.7%)**	(32.6%)
Other noninterest income	**6,713**	6,241	5,414	**7.6%**	15.3%
Noninterest income	**$ 40,071**	$ 39,520	$ 40,754	**1.4%**	(3.0%)

For the year ended December 31, 2006, we recorded noninterest income of $40.1 million compared with $39.5 million in 2005 and $40.8 million in 2004. Mineral income increased $0.8 million in 2006 due to high prices for oil and natural gas and active mineral leasing. Additionally, we recorded class action settlements of $0.8 million in 2006 and of $0.5 million in 2005. We own mineral rights in the states of Arizona, California, Colorado, Kansas, Nevada, New Mexico, Oklahoma and Utah. These mineral rights are held at an historic cost of nominal value. Mineral income is primarily generated from leasing bonuses and rental payments and from royalties on natural gas and crude oil production. This income may vary from year to year based on fluctuations in energy demand, prices and production.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is summarized below:

				Percent Increase/(Decrease)	
	2006	2005	2004	**2006/2005**	2005/2004
Salaries & employee benefits	**$ 157,322**	$ 145,647	$ 141,244	**8.0%**	3.1%
Occupancy & equipment	**15,920**	15,221	14,405	**4.6%**	5.7%
Insurance fund premium	**24,976**	8,025	7,516	**211.2%**	6.8%
Supervisory expense	**8,011**	7,340	7,654	**9.1%**	(4.1%)
Other operating expense	**61,390**	57,844	55,566	**6.1%**	4.1%
Merger-implementation costs	**-**	1,248	2,752	**(100.0%)**	(54.7%)
Operating expense	**$ 267,619**	$ 235,325	$ 229,137	**13.7%**	2.7%
Losses on other property owned	**354**	539	4,835	**(34.3%)**	(88.9%)
Intra-system financial assistance expense	**-**	3,378	7,215	**(100.0%)**	(53.2%)
Loss on early extinguishment of debt	**-**	-	1,781	**NA**	(100.0%)
Loss on discontinuance of cash flow hedges	**8,528**	6,705	1,852	**27.2%**	262.0%
Noninterest expense	**$ 276,501**	$ 245,947	$ 244,820	**12.4%**	0.5%

Noninterest expense for the year ended December 31, 2006, increased $30.6 million, or 12.4% to $276.5 million, compared with the same period in 2005. During 2006, salaries and employee benefits expense increased $11.7 million, or 8.0%, due to merit and incentive compensation necessary to attract and retain employees with market-based salaries. At December 31, 2006, our workforce decreased slightly to 1,524 employees from 1,535 employees at December 31, 2005. Insurance fund premiums paid to the Farm Credit System Insurance Corporation increased $17.0 million, compared with 2005, due to both asset growth and an increase in the premium charged on accrual loan volume to 15 basis points for 2006 compared with 5 basis points in 2005. Refer to Note 1B of the Notes to Financial Statements for further information on the Farm Credit System Insurance Corporation.

The merger-implementation costs in 2005 and 2004 represent one-time costs of an Association merger. A significant portion of these merger-implementation expenditures were due to employee severance and special early retirement programs. Intra-system financial assistance expense decreased $3.4 million compared with 2005 due to the final maturity of the remaining Financial Assistance Corporation debt issue in 2005.

During 2006, we closed out eight interest rate cap derivatives and recorded a loss of $8.5 million. These caps were either three-month LIBOR caps or six-month LIBOR caps originally purchased as hedges against rising interest rates on debt. These were replaced with interest rate caps indexed to 1-month LIBOR to better match the portfolio of liabilities being hedged. By discontinuing these caps the remaining unamortized premiums of $8.5 million were recognized and premium amortization included in interest expense in future periods will be reduced by a similar amount. In 2005, we terminated five interest rate swaps that were cash flow hedges and recorded a $6.7 million loss. These were pay fixed swaps entered into at higher interest rates that were replaced with lower cost debt.

Provision for/(Benefit from) Income Taxes

We recorded $0.4 million in benefit from income taxes for the year ended December 31, 2006, compared with provision for income taxes of $3.0 million in 2005 and $14.2 million in 2004. The decrease was primarily due to the write-off of the deferred tax liability related to interest received on IRS refunds. The decrease from 2004 was primarily due to the increased 2004 expense recognized from the reversal of deferred tax assets related to the loan loss reversals at taxable entities across the District. Tax expense was also impacted by patronage refund programs in certain District Associations. Most of the District Associations operate as Subchapter T cooperatives for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 10 for additional details.

AGRICULTURAL OVERVIEW

Our financial condition can be directly impacted by factors affecting the agricultural, rural and general economies. These factors impact the ability of farmers and ranchers to repay loans to our Associations and consequently the ability of the Associations to repay their loans with us. Factors include but are not limited to the following:

- weather, disease, or other adverse climatic or biological conditions that impact the production of agricultural products;
- availability and cost of labor;
- changes in input costs and production expenses;
- irrigation water availability, cost and environmental standards;
- access to technology and the successful implementation of production technologies;
- the relationship of demand relative to supply of agricultural commodities produced including access to domestic and export markets;
- changes in the level of government expenditures on agricultural and conservation programs;
- major international events, changes in foreign economies, and trade barriers which affect the demand for agricultural products sold or the cost of production;
- changes in the general economy that can affect interest rates and/or availability of off-farm employment for some farm households; and,
- the demand for agricultural commodities for alternative uses including ethanol and other biofuel production and the resulting increase in commodity prices and increased production costs for livestock, poultry and dairy producers.

The February 2007 United States Department of Agriculture (USDA) forecast estimates 2007 farmers' net cash income (a measure of the cash income after payment of business expenses) will increase slightly to $67.2 billion. Estimated increases in cash receipts for crops and livestock of $15.9 billion and increases in farm-related income of $700 million are forecasted to be offset by an estimated decrease of $3.9 billion in direct federal government payments and an estimated increase of $12.2 billion in production expenses. The USDA forecast estimates 2006 farmers' net cash income to be $66.7 billion. After being considerably above its 10 year moving average in 2003 through 2005, 2007 and 2006 farmers' net cash income is expected to return to just above the 10 year average level of $64.6 billion (1997 - 2006), but below the historically high level of $81.2 billion for 2005.

According to the latest USDA forecast, farm business balance sheets have continued to strengthen in the last couple of years, as measured by debt relative to assets and equity levels. Farmers' equity (farm business assets less farm business debt) is expected to rise 4% in 2007 after rising 7% in 2006, as farm asset values have risen more rapidly than debt levels.

Agricultural economic conditions in the western part of the District remained favorable overall. Crop yields were impacted negatively by abnormal weather in some areas. The grape and wine industry continues to do well, with the exception of a few varieties, and consumption remains strong. Almond growers continue to benefit from good yields, with above average prices and a strong market demand for the product. Tree fruit growers benefited from improved economic conditions in 2006, although the recent freeze in California will negatively impact the 2007 production and income. For the most part commodity prices continue to be favorable, but profit levels have been impacted by higher interest rates and higher operating costs. In addition, availability of farm labor continues to be a challenge in some areas.

In general, the agricultural economy in the eastern part of the District remained favorable in 2006. Drought conditions in parts of the Midwest and Southern plains led to below average crop yields and difficult grazing conditions for livestock. However, grain prices increased significantly during the year and have helped offset some of the reduced yields. Grain producers' profitability was also impacted by higher operating costs for fuel and fertilizer.

Throughout the District higher grain prices were positive for grain producers, but have resulted in increased feed costs for livestock producers. With generally stable fed cattle prices, higher costs have resulted in challenges for cattle feeders during the latter part of 2006. Cow/calf operators continued to benefit from favorable prices, although adversely impacted by poorer grazing conditions in some areas and by higher hay costs. Stocker cattle placements were also impacted in some areas by dry conditions and low profit margins. Hogs and poultry, while small segments in our portfolio, were also negatively impacted by higher grain prices. For part of 2006, the dairy industry experienced milk prices below break-even for some dairy operators. Recent increases in milk prices have been offset by increasing production costs.

Agricultural real estate values in the District have been stable to increasing depending on the type of land and local market conditions. Factors having significant influence on values include favorable income levels in agriculture, tax-free exchange transactions available under the Internal Revenue Code, recreational interests and lifestyle ownership.

In many areas of the District, significant competition from other lenders exists for high-quality, large accounts. The degree of competition varies throughout the District, depending on the appetite for agriculture loans by local, regional and large commercial banks, foreign banks, and/or insurance companies. Associations in the District have been very competitive with other lenders by offering a variety of loan products, high quality service, attractive interest rates and patronage refund programs. Associations in the District continue to build market share.

Loan Portfolio

Total loan volume was $17.63 billion at December 31, 2006, an increase of $844.5 million, or 5.0%, from December 31, 2005, and $2.09 billion, or 13.4%, increase over December 31, 2004. Marketing efforts, patronage programs, an active real estate market, and borrowers expanding operations have all contributed to loan growth. Bank loans to District Associations have been eliminated in the combined financial statements. The types of loans outstanding at December 31 are reflected in the following table.

(dollars in millions)	**2006**		2005		2004	
Type of Loan	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Real estate mortgage	**$ 10,586.8**	**60.0%**	$ 10,503.8	62.5%	$ 9,945.7	63.9%
Production and intermediate-term	**4,300.2**	**24.4%**	4,031.3	24.0%	3,586.5	23.1%
Agribusiness:						
Loans to cooperatives	**353.3**	**2.0%**	314.2	1.9%	336.7	2.2%
Processing and marketing	**1,368.4**	**7.7%**	1,009.2	6.0%	831.3	5.4%
Farm related business	**539.2**	**3.1%**	529.7	3.2%	475.6	3.1%
Communication	**123.1**	**0.7%**	84.1	0.5%	31.7	0.2%
Energy	**133.7**	**0.8%**	120.0	0.7%	152.3	1.0%
Water and waste disposal	**8.5**	**-**	-	-	-	-
Rural residential real estate	**51.0**	**0.3%**	51.5	0.3%	52.9	0.3%
Lease receivables	**134.2**	**0.8%**	94.8	0.6%	71.9	0.5%
OFIs	**27.3**	**0.2%**	42.6	0.3%	51.8	0.3%
Total	**$ 17,625.7**	**100.0%**	$ 16,781.2	100.0%	$ 15,536.4	100.0%

Real estate mortgage loan volume increased to $10.59 billion, compared with $10.50 billion at year-end 2005. These long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By law, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies.

The production and intermediate-term loan volume increased 6.7% to $4.30 billion, compared with 2005 loan volume of $4.03 billion. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are typically used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Loan volume in AgBank's correspondent lending portfolio is included in the previous table. This portfolio increased 10.4% to $758.4 million, compared with $686.7 million at December 31, 2005. This volume is primarily comprised of participations purchased and other multi-lender transactions in large Agribusiness, Production and intermediate-term, Energy, and Communication loans with lead lenders who demonstrate high-quality servicing and credit administration practices. This portfolio increased even though there continues to be aggressive competition for these types of loans. Competitors included national and international commercial banks, insurance companies, captive finance companies and, increasingly, non-traditional lenders, such as fixed-income mutual funds.

As a District, we were a significant net purchaser of loan volume from non-District entities in 2006. From non-District entities, we purchased loan volume of $714.8 million and sold loan volume of $90.3 million at December 31, 2006. The trend for financing large agribusiness companies has been to utilize multi-lender transactions. AgBank provides funding to Associations for these various large and complex financing arrangements. In addition, AgBank purchases interests in loans from Associations, commercial banks and other Farm Credit institutions in loan transactions through correspondent lending.

Approximately 53% of loans in our portfolio are variable rate loans. Most of these variable rate loans are administered and not tied to an external index. Fixed rate loans comprise approximately 40% and adjustable rate loans are approximately 7% of our portfolio. Most of the adjustable rate loans are indexed to an external rate.

Portfolio Diversification

We believe diversification is a sound risk management strategy. For a number of reasons, including the territory structure and cooperative nature of the System, geographic and commodity concentrations exist. The underlying collateral in our District portfolio is diversified by the variety of commodities financed and the large and diverse geographic area served.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Codes (SIC) System published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for its products; however, generally a large percentage of agricultural operations include more than one commodity. There are over 350 commodities produced in our District. Our largest commodity concentration is in dairy loans, which are geographically dispersed across ten states. Our second largest commodity, cattle, has further industry segmentation including feedlots, cow/calf operations, and stocker cattle. In each of the other concentrations above 3.5%, there is further commodity diversification or industry segmentation within the primary SIC category. Diversification is also achieved from loans to rural home owners and part-time farmers which typically derive most earnings from non-agricultural sources, are less subject to agriculture cycles and would likely be more affected by weaknesses in the general economy. Loans to rural home borrowers are segregated in the following table as their own commodity. Loans to part-time farmers are spread throughout the commodities produced.

	December 31		
Commodity/Primary Business	**2006**	2005	2004
Dairy farms	**17.00%**	16.32%	15.39%
Cattle	**15.42**	15.93	14.30
Grapes	**6.94**	7.51	7.08
Tree nuts	**6.42**	6.14	6.00
Field crops	**5.53**	5.80	5.56
Food products	**4.97**	4.06	3.03
Fruits	**4.41**	4.77	4.48
Vegetables	**3.73**	4.18	4.93
Other livestock	**3.73**	3.99	3.48
Farm related business services	**3.58**	3.12	1.95
Wheat	**3.48**	3.83	4.19
Corn	**3.20**	3.41	3.21
Horticulture specialties	**2.19**	2.43	2.26
General farm	**1.81**	1.84	1.20
Rural homes	**1.80**	1.88	2.12
Logging and wood products	**1.77**	0.78	0.60
Cotton	**1.74**	1.86	2.13
Rural utilities	**1.60**	1.36	0.69
Cash grains	**1.51**	1.45	1.95
Rice	**1.30**	1.39	1.65
Citrus fruits	**1.13**	1.32	1.38
Forestry	**1.09**	0.98	1.06
Sugarcane, sugar beets and Irish potatoes	**0.94**	0.95	0.91
Farm supplies	**0.90**	0.70	0.54
Soybeans	**0.60**	0.60	0.56
Finance/Credit	**0.41**	0.51	0.95
Other	**2.80**	2.89	8.40
Total	**100.00%**	100.00%	100.00%

As of December 31, 2006, 29 Associations serve our chartered territory, which includes the states of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. The following table illustrates the geographic distribution of the loan volume in our aggregate portfolio.

	Number of Associations	December 31 **2006**	2005	2004
California	**8**	**46.8%**	49.2%	47.4%
Kansas	**6**	**13.1**	12.9	13.8
Colorado	**3**	**8.6**	8.3	8.5
Oklahoma	**7**	**5.7**	6.0	6.0
New Mexico	**1**	**4.7**	4.5	4.2
Arizona	**1**	**4.1**	3.8	3.6
Utah	**1**	**1.9**	2.0	2.0
Idaho	**1**	**1.3**	1.3	1.3
Nevada	-	**0.8**	0.9	1.0
Hawaii	**1**	**0.5**	0.4	0.6
Wyoming	-	**0.2**	0.2	0.2
Non-District participations	-	**12.3**	10.5	11.4
Total	**29**	**100.0%**	100.0%	100.0%

Only the states of California and Kansas have volume representing more than 10% with California representing 46.8% of the total District loan volume. The significant geographic and commodity diversification of California agriculture, along with relatively high levels of non-farm income of retail borrowers, helps mitigate this concentration. California agriculture ranks first in the nation in agricultural production, with over $30 billion in cash receipts from 77,000 farms and ranches and more than 350 different commodities raised. California produces more than half of the U.S. total fruit, nuts and vegetable crops and total agricultural cash receipts in California represent 13% of the U.S. total. California's unmatched commodity diversification, from a number of different geographic locations throughout the state, provides an attractive agricultural lending environment.

Loans less than $250 thousand make up 20.9% of loan volume and 81.7% of the number of loans. Loan volume above $5 million is 17.2% of the portfolio and 0.5% of the number of loans. The table below details the loan principal by dollar size.

	December 31, 2006		December 31, 2005		December 31, 2004	
(Range in thousands)	**Amount outstanding ($ in millions)**	**Number of loans**	Amount outstanding ($ in millions)	Number of loans	Amount outstanding ($ in millions)	Number of loans
$1 - $250	**$ 3,673.4**	**58,258**	$ 3,673.8	57,418	$ 3,643.7	57,343
$251 - $500	**2,080.3**	**5,935**	2,127.7	6,297	2,015.4	6,050
$501 - $1,000	**2,471.3**	**3,521**	2,552.7	3,788	2,335.3	3,636
$1,001 - $5,000	**6,364.8**	**3,216**	6,280.9	3,343	5,359.6	3,087
$5,001 - $25,000	**2,736.2**	**347**	2,046.0	287	2,030.6	301
$25,001 - $100,000	**299.7**	**19**	100.1	3	151.8	5
Total	**$ 17,625.7**	**71,296**	$ 16,781.2	71,136	$ 15,536.4	70,422

Credit Commitments

AgBank and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our 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 contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2006, $6.47 billion of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

AgBank and Associations may also participate in standby letters of credit to satisfy the financing needs of their borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2006, the District had $129.9 million of standby letters of credit.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual, restructured, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

	December 31		
	2006	2005	2004
Nonaccrual loans			
Real estate mortgage	**$ 48,039**	$ 48,088	$ 54,104
Production and intermediate-term	**31,141**	13,622	27,452
Agribusiness	**3,962**	14,249	3,009
Communication	**-**	-	1,074
Energy	**-**	-	15,453
Rural residential real estate	**108**	123	316
Lease receivables	**189**	-	6
Total nonaccrual loans	**83,439**	76,082	101,414
Accruing restructured loans			
Real estate mortgage	**4,316**	6,353	6,592
Production and intermediate-term	**-**	6	16
Rural residential real estate	**21**	24	26
Total accruing restructured loans	**4,337**	6,383	6,634
Accruing loans 90 days past due			
Real estate mortgage	**536**	133	3,716
Production and intermediate-term	**688**	489	451
Total accruing loans 90 days past due	**1,224**	622	4,167
Total impaired loans	**89,000**	83,087	112,215
Other property owned	**6,793**	2,331	4,299
Total high risk assets	**$ 95,793**	$ 85,418	$ 116,514
Nonaccrual loans to total loans	**0.47%**	0.45%	0.65%
Impaired loans to total loans	**0.50%**	0.50%	0.72%
High risk assets to total loans	**0.54%**	0.51%	0.75%
High risk assets to total shareholders' equity	**2.41%**	2.29%	3.34%

Total high risk assets increased $10.4 million to $95.8 million compared with year-end 2005. Nonaccrual volume increased $7.4 million to $83.4 million at December 31, 2006 primarily due to specific isolated loans transferring into nonaccrual. Nonaccrual loans current with respect to principal and interest represented 41.3% of total nonaccrual volume at December 31, 2006, compared with 54.9% at year-end 2005 and 67.3% at year-end 2004. Although current, these loans did not meet all requirements for reinstatement to accrual status. In addition, most of these loans are secured by real estate. Other property owned increased to $6.8 million, compared with $2.3 million at year-end 2005. The increase in other property owned was due to participations purchased by two District Associations that transferred into other property owned during December 2006. Overall, high risk asset ratios increased slightly, but remain very low relative to the size of our loan portfolio.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses.

	December 31		
	2006	2005	2004
Balance at beginning of year	**$ 65,309**	$ 81,018	$ 291,503
Charge-offs:			
Real estate mortgage	**510**	30	372
Production and intermediate-term	**8,210**	3,013	5,727
Agribusiness	**1,693**	4,066	2,109
Communication	**-**	-	656
Energy	**-**	-	9,451
Rural residential real estate	**-**	1	-
Lease receivables	**-**	6	-
Total charge-offs	**10,413**	7,116	18,315
Recoveries:			
Real estate mortgage	**87**	123	188
Production and intermediate-term	**694**	1,056	1,648
Agribusiness	**1,424**	16	2
Communication	**-**	36	-
Energy	**-**	341	88
Rural residential real estate	**20**	-	-
Total recoveries	**2,225**	1,572	1,926
Net charge-offs	**8,188**	5,544	16,389
Provision for loan losses/(Loan loss reversal)	**7,516**	(10,165)	(7,986)
Nonrecurring loan loss reversal	**-**	-	(186,110)
Balance at December 31	**$ 64,637**	$ 65,309	$ 81,018
Net charge-offs to average net loans	**0.05%**	0.04%	0.11%

The following table presents the allowance for loan losses by loan type as of December 31.

	2006	2005	2004
Real estate mortgage	**$ 21,552**	$ 22,854	$ 29,281
Production and intermediate-term	**30,521**	29,868	34,966
Agribusiness	**9,937**	10,623	12,571
Communication	**804**	150	466
Energy	**325**	523	1,994
Water and waste disposal	**2**	-	-
Rural residential real estate	**119**	87	133
Lease receivables	**1,377**	1,204	283
OFIs	**-**	-	1,324
Total	**$ 64,637**	$ 65,309	$ 81,018

The allowance for loan losses decreased $0.7 million from December 31, 2005, to $64.6 million at December 31, 2006. The primary factors impacting the reduction in allowance were the net charge-offs of $8.2 million, offset by provision for loan losses of $7.5 million. Charge-offs recorded during 2006 resulted primarily from two District Associations recording $7.1 million in charge-offs on Production and intermediate-term participations purchased. Overall charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators is presented in the following table.

	December 31		
	2006	2005	2004
Allowance as a percentage of:			
Gross loans	**0.37%**	0.39%	0.52%
Total impaired loans	**72.64%**	78.60%	72.20%
Nonaccrual loans	**77.47%**	85.84%	79.89%

The allowance for loan losses as a percent of gross loans declined to 0.37% at December 31, 2006, from 0.39% at 2005. The lower allowance coverage ratio was primarily due to net charge-offs, discussed above, and the resulting reduction in allowance for loan losses as a result of improved credit quality in the loan portfolio. The allowance as a percentage of total impaired loans and of nonaccrual loans decreased since December 31, 2005, due to the decline in the allowance for loan losses and the increase in the nonaccrual loans and impaired loans. See Notes 3 and 4 to the accompanying combined financial statements for detailed information regarding the allowance for loan losses.

Credit Risk Management

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio (including unfunded loan commitments and standby letters of credit). Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized by each institution to determine an applicant's operational, financial, and management resources available for repaying debt within the term of the note and loan agreement. Underwriting standards include, among other things, an evaluation of:

- character - borrower integrity and credit history;
- capacity - repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral - to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital - ability of the operation to survive unanticipated risks; and,
- conditions - including use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, institutions cannot have loan commitments to one borrower for more than 25.0% of the institution's permanent capital. Through lending delegations AgBank further restricts individual loan size limits to 15.0% of an Association's permanent capital. Within these parameters, each Association in the District sets its own lending limits to manage loan concentration risk. Lending limits can be established for individual loan size, commodity, special lending programs and geographic concentrations. Several Associations have further limited their exposure by adopting an individual loan size limit less than 15.0% of permanent capital.

Internal lending delegations are established within AgBank and each Association to properly control the loan approval process. Delegations to staff are based on each institution's risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex or risky loans are typically approved by loan committees with the most experienced and knowledgeable credit staff serving as members.

AgBank and most Associations have participation programs with other System and non-System institutions. For each institution, buying and selling loan volume, within and outside the System, can help reduce its concentrations and manage growth and capital position. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Federal Agricultural Mortgage Corporation (Farmer Mac) guarantee programs. Volume in the government guarantee programs was $196.7 million at December 31, 2006 and $201.7 million at December 31, 2005. In addition, the District holds $1.08 billion in Farmer Mac securities, which are guaranteed by Farmer Mac and backed by agricultural mortgage loans. Certain lending institutions in the District have further diversified agricultural commodity concentrations by developing rural residence, part-time farmer and agribusiness portfolios.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by Farmer Mac to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac guarantees was $672.9 million at December 31, 2006 and $947.5 million at December 31, 2005. Included in other operating expenses were fees paid for Farmer Mac guarantees totaling $4.1 million in 2006 and $4.8 million in 2005. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay guarantee fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event that the loan becomes significantly delinquent (typically 4 months past due). If the borrower cures the default, we must repurchase the loan and the guarantee remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 4. Other than the contractual obligations arising from these business transactions between Farmer Mac and entities in the District, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Each institution in the District has internal control programs that evaluate the accuracy of credit quality reporting and effectiveness of credit administration. Furthermore, AgBank has loan covenant provisions in the General Financing Agreement that require Associations to maintain accurate credit quality reporting and satisfactory credit administration management. All Associations were in compliance with these covenants as of December 31, 2006.

Approximately 60% of our loans are first mortgage real estate loans which must be secured by first liens on real estate. Production and intermediate-term lending accounts for most of the remaining loan volume and is also typically secured. Collateral evaluations are completed in compliance with Farm Credit Administration (FCA) and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All appraisals and collateral evaluations are performed by qualified appraisers. Certain appraisals must be performed by individuals with a state certification or license.

District institutions began implementing a Combined System Risk Model (Model) in 2004. The Model is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model is utilized in loan and portfolio management processes. It is also used in the allowance for loan losses estimates, as it contains much more portfolio granularity, particularly related to acceptable loan classification under the Uniform Classification System (UCS). The Model's 14-point scale provides for nine acceptable categories, one other assets especially mentioned category, two substandard categories, one doubtful category and one loss category. In addition, this Model serves as the basis for economic capital modeling.

We also continue to classify our loans based on the UCS. These classifications are as follows:

Classification	Description
Acceptable	Assets are expected to be fully collectible and represent the highest quality.
Other Assets Especially Mentioned (OAEM or Special Mention)	Assets are currently collectible but exhibit some potential weakness.
Substandard	Assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
Doubtful	Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
Loss	Assets are not considered collectible.

The following table presents statistics related to the credit quality of the loan portfolio, including accrued interest, at year-end.

	December 31					
(dollars in millions)	**2006**		2005		2004	
Acceptable	**$ 17,160.6**	**95.84%**	$ 16,259.6	95.62%	$ 14,810.9	94.28%
OAEM	**395.2**	**2.21**	405.4	2.38	475.1	3.03
Substandard	**350.5**	**1.95**	339.5	2.00	420.3	2.68
Doubtful	**0.3**	**-**	0.3	-	0.9	0.01
Total	**$ 17,906.6**	**100.00%**	$ 17,004.8	100.00%	$ 15,707.2	100.00%

The financial position of most agricultural producers has strengthened during the past decade. With borrowers' strengthened financial positions, credit quality remains very strong. Acceptable and OAEM loan volume increased to 98.05% at December 31, 2006 compared with 98.00% at December 31, 2005. There were no loans classified as Loss at the end of any of the three years presented. While credit quality is anticipated to remain sound in 2007, we expect that less favorable agricultural economic conditions would lead to some slight weakening in the loan portfolio.

Liquidity Risk Management

Liquidity is necessary to meet the District's financial obligations. For AgBank and the Associations, liquidity is needed to pay Systemwide Debt Securities as they mature, fund loans and other commitments and for business operations. The primary source of liquidity is AgBank's ability to issue Federal Farm Credit Banks Consolidated Systemwide bonds and discount notes. The System is a government-sponsored enterprise (GSE) and has access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt that is critical for supporting our mission of providing funding to agriculture and rural America. We rely on System funding as we do not have access to funding through deposits. Moody's Investors Service and Standard and Poor's rate the System's long-term debt as Aaa and AAA, respectively, and short-term debt as P-1 and A-1, respectively. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's government-sponsored enterprise status. Material changes to the factors could result in a different debt rating. Based on the System's current standing in the capital markets, we anticipate continued access to favorable funding. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities.

The System Banks have jointly developed and adopted a Common Minimum Liquidity Standard (Standard). This Standard is designed to maintain adequate liquidity to meet the business and financial needs of each System Bank. AgBank has incorporated this Standard into its liquidity policy. This Standard requires that cash (including the proceeds of debt newly issued but not settled) and investments on hand (excluding Farmer Mac securities) be maintained in amounts sufficient to meet 90 days of maturing debt obligations on a continuous basis assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing debt obligations with the total amount of cash and investments maintained.

As of December 31, 2006, AgBank held liquid assets comprised of cash and marketable investments to be able to fund 168 days of debt maturities. During 2006, AgBank held liquid assets to be able to cover funding for an estimated 197 days on average. AgBank also has contingency plans in place in the event that ready access to traditional debt markets is not available. These plans identify other possible avenues for funding or liquidity generation such as borrowing overnight via federal funds, selling investments, or pledging investments, including Farmer Mac securities, as collateral for securitized borrowings.

Information regarding cumulative debt maturities of bonds and notes with maturities within one year as of December 31 is outlined below:

	Cumulative Volume *(in millions)*		
Debt maturing in:	**2006**	2005	2004
1 day	**$ 276.1**	$ 275.2	$ 250.0
7 days	**$ 581.1**	$ 700.2	$ 445.0
90 days	**$ 2,931.4**	$ 2,630.6	$ 2,145.1
180 days	**$ 3,882.0**	$ 3,648.6	$ 3,219.1
365 days	**$ 6,030.5**	$ 5,572.3	$ 5,463.1

Funding Sources

As previously discussed, AgBank raises funds in the capital markets. All System debt is the joint and several obligation of all System Banks. The debt shown represents AgBank's portion of Systemwide bonds and notes. AgBank is primarily responsible for this debt. This debt is senior to the claims of general creditors by FCA regulation and does not carry any covenants, events of default, trustee or indenture and is not subject to acceleration in the event of default. In 2006, AgBank issued a total of $61.24 billion in new and replacement debt to support its business activities. The debt issuances occurred through the Systemwide funding programs. This included designated and term bonds for longer maturity financing, and discount notes or floating rate obligations, for shorter maturity or floating rate financing.

AgBank had the following Systemwide Debt Securities outstanding as of December 31.

	2006			2005		
	Amount	**Average Interest Rate**	**Average Maturity**	Amount	Average Interest Rate	Average Maturity
Bonds	**$ 15,795,488**	**5.03%**	**3.44 years**	$ 14,885,725	4.31%	3.05 years
Discount notes	**$ 2,019,253**	**5.23%**	**21 days**	$ 1,542,784	4.12%	14 days
Medium-term notes	**$ 366,356**	**5.50%**	**2.33 years**	$ 458,746	5.43%	2.75 years

AgBank's Systemwide debt obligations were $18.18 billion at December 31, 2006, up $1.29 billion from $16.89 billion at December 31, 2005. The increase in debt obligations reflects the funding for the increase in our assets during 2006. Funding is actively managed and new loans and investments are funded at approximately the same time the assets are priced. The funding mix is comprised of various amounts of floating rate or fixed rate debt, which may be callable and is distributed across the maturity spectrum depending on the terms and the optionality of the assets being funded.

AgBank has various credit arrangements with other financial institutions, although at December 31, 2006, none are formally committed facilities. See Note 8 in the accompanying financial statements for additional details related to our bonds and notes.

Investments

As a means of mitigating the risk of short-term disruptions in our ability to obtain funding for business operations, AgBank maintains an investment portfolio. Liquidity is an essential characteristic for the investments held in this portfolio. A secondary objective of our investment portfolio is to generate earnings. As a general rule, liquidity investments are classified as available-for-sale, but typically we hold these investments to maturity. We do not actively trade this portfolio. See Note 5 for additional details related to our investment securities.

Under FCA regulations, AgBank is authorized to hold investments for purposes of maintaining a diverse source of liquidity, managing short-term surplus funds, and managing interest rate risk. The investment portfolio is subject to a regulatory limit of 35% of total loans. We are required by FCA to divest of any investment within six months should it become ineligible under the regulations. As of December 31, 2006, AgBank's investments held for liquidity purposes were 26.4% of its total loans and AgBank did not hold any investments requiring divestiture.

AgBank's liquid assets are comprised of cash, federal funds, and investment securities but exclude Farmer Mac securities. Liquid assets increased $308.2 million during 2006 to $3.97 billion. This increase in investments enhanced our liquidity position. Liquid assets were 20.3% of AgBank's total assets at December 31, 2006 and 20.2% at December 31, 2005.

In accordance with FCA regulations and AgBank's board approved Investment policy, we purchase only high credit quality investments to ensure the portfolio is readily marketable. Short-term securities (including federal funds), along with corporate securities, must be rated in either the top rating category or in the top two highest rated categories by a nationally recognized credit rating service for these securities. All mortgaged backed securities (MBS) and asset backed securities (ABS) must be in the highest rated category.

Most of our investment securities are classified available-for-sale and are reported at their estimated fair value on the combined Statement of Condition. The portfolio contained net unrealized losses of $26.2 million at year-end 2006 and $32.9 million at year-end 2005. As of December 31, the composition of the District's investment portfolio, including federal funds, was as follows:

	2006		2005	
	Carrying Value	**Percent of Total**	Carrying Value	Percent of Total
Available-for-sale:				
Federal funds	**$ 102,833**	**2.0%**	$ 138,321	3.3%
Mortgage backed securities (MBS)	**3,223,975**	**64.3%**	2,855,263	68.8%
Asset backed securities (ABS)	**605,131**	**12.1%**	652,145	15.7%
Farmer Mac securities	**771,368**	**15.4%**	299,660	7.2%
	4,703,307	**93.8%**	3,945,389	95.0%
Held-to-maturity:				
Farmer Mac securities	**313,374**	**6.2%**	207,938	5.0%
Total	**$ 5,016,681**	**100.0%**	$ 4,153,327	100.0%

Investment securities which were in an unrealized loss position, consisted of MBS, ABS and a Farmer Mac security. The length of time that these securities have been valued below acquisition price ranges from one month to over twelve months with unrealized losses ranging from $1 thousand to nearly $2.0 million. The total unrealized loss for these investments is

0.69% of the fair value of the investment securities. The cause of the unrealized loss is primarily due to the rising interest rates. None of these losses are due to credit downgrades.

Under separate Board approved policies, we may hold Farmer Mac securities which are pools of agricultural loans that have been securitized and guaranteed by Farmer Mac. At year-end, we held $1.08 billion of Farmer Mac securities, compared with $507.6 million at year-end 2005. (See the Credit Risk Management section for more discussion about Farmer Mac.) All of these Farmer Mac securities are backed by loans originated by Associations and previously held by the Associations under Farmer Mac standby purchase commitments. The Farmer Mac securities are not included in the liquidity calculations as they do not have the same liquidity characteristics as other investments.

Capital Resources

Capital supports asset growth and provides protection for unexpected credit and operating losses. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through retained net income after patronage. Shareholders' equity at December 31, 2006 totaled $3.98 billion, compared with $3.73 billion at year-end 2005 and $3.49 billion at year-end 2004. The $249.8 million increase in shareholders' equity reflects net income and reductions in accumulated other comprehensive losses, partially offset by patronage refunds, dividends paid, and net stock and participation certificate retirements. Our strong capital position is reflected in the following ratio comparisons.

	December 31		
	2006	2005	2004
Shareholders' equity as a percent of total assets	**17.12%**	17.40%	18.13%
Retained earnings as a percent of capital	**95.88%**	95.76%	95.59%

Shareholders' equity as a percent of total assets decreased during 2006, as assets grew proportionately faster than equity.

Retained Earnings

Our retained earnings increased $244.0 million to $3.82 billion at December 31, 2006 from $3.57 billion at December 31, 2005. The increase was a result of net income of $348.5 million, partially offset by $104.5 million of patronage refunds and dividends.

Stock and Participation Certificates

Stock and participation certificates decreased $6.7 million to $65.3 million at December 31, 2006, from $72.0 million at December 31, 2005. The decrease was due to $29.4 million of stock and participation certificate retirements, partially offset by issuances of $22.7 million. Certain Associations require stock for each borrower loan, while other Associations require stock for each borrower. The initial investment requirement varies by Association and ranges from the statutory minimum of two percent of the loan amount or one thousand dollars, whichever is less, to three percent of the loan. Stock is discussed further in Note 9 of the Notes to the Financial Statements.

Preferred Stock

Three Associations have FCA approved preferred stock programs. Preferred stock totaled $153.1 million at December 31, 2006, compared with $166.9 million at December 31, 2005. The decrease is primarily due to $14.0 million of net stock retirements, partially offset by dividends paid in stock of $0.2 million.

Accumulated Other Comprehensive Income and Losses

Accumulated other comprehensive losses totaled $55.3 million at December 31, 2006, a decrease of $26.7 million compared with year-end 2005. Our accumulated other comprehensive losses are comprised of unrealized losses on our investment portfolio, derivative portfolio, and an unfunded pension liability.

As our investment portfolio is held primarily for liquidity purposes, the majority of the portfolio is considered available-for-sale, and is carried at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity. Our unrealized loss on investments decreased $6.9 million to $26.5 million at December 31, 2006. Approximately 36% of the available-for-sale investments are fixed rate securities. As rates have generally increased from the time of purchase, the market value of these investments has declined.

Our derivative portfolio includes certain derivatives designated as cash flow hedges. Unrealized gains or losses on the effective portion of cash flow hedges are reported as a separate component of shareholders' equity. Our unrealized loss on derivatives decreased $9.1 million to $14.5 million at December 31, 2006. The decrease was largely due to the recognition through the income statement of $8.5 million of the loss on closeout of eight cash flow hedges.

Most District employees participate in the Eleventh Retirement Plan or the Ninth Retirement Plan. The Eleventh Retirement Plan's unfunded portion of pension obligations is recognized as a liability and also recorded as a charge to accumulated other comprehensive losses. The unfunded portion of the Eleventh Retirement Plan net of tax decreased $10.6 million to $14.3 million at December 31, 2006. At December 31, 2006, the value of the Eleventh Retirement Plan's pension investments represented 79.8% of the accumulated benefit obligation. As of December 31, 2006, the Ninth Retirement Plan was fully funded. The Ninth Plan's pension investments represented 107.5% of the accumulated benefit obligation. Employee benefit plans are discussed further in Note 11 of the Notes to Financial Statements.

For a complete discussion of the changes in shareholders' equity, you should refer to the Combined Statement of Changes in Shareholders' Equity and Note 9 of the Notes to Financial Statements.

Capital Plan and Regulatory Requirements

Each Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plans assess the capital level necessary for financial viability and to provide for growth. Each plan is updated at least annually and approved by the institution's Board of Directors. FCA regulations require Boards of Directors to consider certain factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of an institution's customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, potential obligations under joint and several liability, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relevant risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Additionally, all System banks are required to maintain a minimum net collateral ratio of 103%. The net collateral ratio is basically a leverage ratio and is not risk-based. A net collateral ratio below 104% triggers provisions of the System's Market Access Agreement (MAA) that could restrict or prohibit AgBank's issuance of Systemwide Debt Securities. AgBank closely monitors the level of the net collateral ratio and targets a ratio of 104.75% to 105.25%. AgBank's capital ratios and net collateral ratio as of December 31 and the FCA minimum requirements are as follows:

	Regulatory Minimum	**2006**	2005	2004
Permanent Capital Ratio	7.00%	**20.42%**	21.93%	22.53%
Total Surplus Ratio	7.00%	**17.00%**	18.70%	19.33%
Core Surplus Ratio	3.50%	**11.56%**	12.96%	13.89%
Net Collateral Ratio	103.00%	**105.06%**	105.03%	105.14%

The above first three AgBank regulatory ratios decreased at year-end 2006 due to risk-weighted assets growing proportionately faster than capital. Risk-weighted assets were higher due to an increase in unused loan commitments, loan volume and investment securities. The increase in capital primarily related to an increase in stock and added earnings. The net collateral ratio does not risk weight assets and increased due to assets increasing at a slightly greater proportion than the offsetting increase in liabilities.

Information on the Association capital ratios is detailed below.

		2006			2005		
	Regulatory Minimum	**High**	**Low**	**Weighted Average**	High	Low	Weighted Average
Permanent Capital Ratio	7.00%	**31.40%**	**11.18%**	**17.32%**	28.88%	12.19%	17.69%
Total Surplus Ratio	7.00%	**30.61%**	**11.00%**	**15.94%**	28.11%	9.78%	16.16%
Core Surplus Ratio	3.50%	**29.61%**	**10.46%**	**15.42%**	28.01%	9.78%	15.55%

All District Associations and AgBank exceeded the regulatory requirements at December 31, 2006, and are expected to do so throughout 2007.

For a complete discussion of the changes in shareholder's equity, you should refer to the Statement of Changes in Shareholder's Equity and Note 9 of Notes to Financial Statements.

Interest Rate Risk (IRR) Management

Our overall IRR management objective is to maintain a sound level of capital, earnings, market value of equity, and liquidity, regardless of the interest rate environment. IRR is the variability in earnings or long-term value that may result from changes in interest rates. Because AgBank match funds most of the Association loans, AgBank incurs and manages the majority of IRR for the District. Our primary sources of IRR include:

- Yield curve risk - results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Repricing risk - caused by the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk - results from "embedded options" that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Lending practices or loan features that provide the borrower with flexibility frequently introduce a risk exposure for the lender. For example, the cash flows on some of our fixed-rate agricultural loans and most of our mortgage-related investment securities are sensitive to changes in interest rates because borrowers may have the flexibility to partially or completely repay the loan ahead of schedule. If interest rates have fallen, we may be forced to reinvest prepaid principal at a lower rate, which may reduce our interest rate spread unless the underlying debt can be similarly refinanced. Interest rate caps are another form of embedded option risk that may be present in certain investments and adjustable rate loans. Interest rate caps typically prevent the rate on the loan or investment from increasing above a defined limit. In a rising rate environment, our spread may be reduced if caps limit upward adjustments to loan rates while debt costs continue to increase.
- Basis risk - results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating rate index tied to a loan or investment differs from the index on the debt issued to fund the loan or investment.

The process for managing IRR is based on the policies and guidelines established by our Boards of Directors and Asset/Liability Management Committees. These policies address measuring and managing IRR and establish limits for IRR exposure. IRR retained by the Associations is predominately related to the change in earnings on capital.

One of the primary benefits of our status as a government-sponsored enterprise is daily access to the debt markets and a great deal of flexibility in the maturity and types of debt securities issued. Structural flexibility enables us to issue System Debt Securities that offset some of the primary IRR exposure embedded in our loans. For example, by issuing LIBOR and/or prime indexed, floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by our LIBOR-indexed, variable-rate and prime rate loans. As previously discussed, some of our fixed-rate loans provide borrowers with the option to prepay their loans. In most interest rate environments, we can issue callable debt to help manage this risk exposure. Callable debt provides us with the option to call and retire debt early in order to maintain a better match between the duration of our assets and our liabilities.

While some of our fixed-rate loans provide the borrower with the option to prepay the loan at any time, a significant portion of our fixed-rate loans contain provisions requiring a reinvestment fee to partially or fully compensate us for the cost of retiring the debt that is funding the loan asset.

Our IRR exposure is relatively low as monitored through various analyses. The techniques utilized to measure and manage our IRR exposure on a monthly and quarterly basis are:

- Interest Rate Gap Analysis - compares the amount of interest sensitive assets to interest sensitive liabilities in defined time periods.
- Duration Gap Analysis - measures the difference between the estimated durations of assets and liabilities.
- Net Interest Income Sensitivity Analysis - projects the impact of changes in the level of interest rates on net interest income for the next year.
- Market Value of Equity Sensitivity Analysis - estimates the market value of assets, liabilities and equity, given various interest rate scenarios.

The assumptions used in these analyses are monitored routinely and adjusted as necessary.

Interest Rate Gap Analysis

The difference between the amount of interest earning assets and interest bearing liabilities repricing or maturing in a given time period is referred to as a "gap." A positive gap denotes asset sensitivity, whereby more assets would be repricing than liabilities. A negative gap denotes liability sensitivity or a greater amount of liabilities repricing than assets, over a given period of time. Within the gap analysis, gaps are also created when capital is used to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. When interest rates are falling, our capital is invested in loans and investment securities that are repricing to lower yields. When interest rates are rising, our capital is invested in assets that are being repriced to higher yields. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of the balance sheet (including rate and spread changes), and may not necessarily indicate the sensitivity of net interest income in a changing rate environment. The following analysis reflects the District's gap position in defined time segments, including the impact of derivatives.

INTEREST RATE GAP ANALYSIS
As of December 31, 2006

(dollars in millions)	0-6 Months	7-12 Months	1 Year-5 Years	Over 5 Years	Total
INTEREST EARNING ASSETS					
Loans and notes receivable, net	$ 11,694.5	$ 825.4	$ 3,228.9	$ 1,876.9	$ 17,625.7
Investment securities and federal funds	3,305.0	275.5	873.3	562.9	5,016.7
Total interest earning assets	$ 14,999.5	$ 1,100.9	$ 4,102.2	$ 2,439.8	$ 22,642.4
INTEREST BEARING LIABILITIES					
Systemwide debt securities	$ 10,463.0	$ 643.8	$ 3,855.1	$ 3,219.2	$ 18,181.1
Other bonds and notes	568.0	0.9	0.4	0.2	569.5
Total interest bearing liabilities	$ 11,031.0	$ 644.7	$ 3,855.5	$ 3,219.4	$ 18,750.6
Static Gap	$ 3,968.5	$ 456.2	$ 246.7	$ (779.6)	$ 3,891.8
Cumulative Gap	$ 3,968.5	$ 4,424.7	$ 4,671.4	$ 3,891.8	$ -

We had a positive cumulative gap through 1 year of $4.42 billion as of December 31, 2006. Given our asset sensitivity, earnings would generally increase in the short-term from a market characterized by rising interest rates and decrease in a declining interest rate environment.

Duration Gap Analysis

Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. Duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time. A positive duration gap indicates the duration of assets exceeds the duration of liabilities. A negative duration gap indicates the duration of assets is less than the duration of liabilities. A duration gap within the range of a positive three months to a negative three months generally indicates a small exposure to changes in interest rates. The duration gap provides a relatively concise and simple measure of the IRR inherent in the balance sheet, but it is not directly linked to expected future earnings performance. At December 31, 2006, our duration of assets was 15.2 months and duration of liabilities was 17.5 months, resulting in a negative duration gap of 2.3 months. At December 31, 2005, the duration gap was negative 1.2 months.

Interest Rate Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by interest rate gap and duration gap analysis, we conduct simulations of net interest income and market value of equity. Our net interest income (NII) reflects the difference between the interest income earned on loans and investments (interest earning assets) and the interest expense paid on debt, typically Systemwide bonds and notes (interest bearing liabilities). A common method utilized to measure NII sensitivity is rate shock analysis. Rate shock analysis simulates the impact of an immediate parallel change in interest rates, typically plus and minus 2.00% (200 basis points). A 200 basis point shock is a general standard considered by the Basel Committee on Banking Supervision. We also model NII exposure to other types of interest rate changes, such as rate ramp and yield curve slope changes.

Market Value of Equity (MVE) represents the market value of our assets less the market value of our liabilities. MVE approximates the value that could be received, in theory, through the liquidation of our assets and liabilities at a given period in time. Rate shock analysis is also utilized to measure MVE sensitivity.

The following table reflects our NII and MVE sensitivity to interest rate changes as of December 31.

	Net Interest Income Sensitivity Analysis				Market Value of Equity Sensitivity Analysis			
	-200 b.p.	**-100 b.p.**	**+100 b.p.**	**+200 b.p.**	**-200 b.p.**	**-100 b.p.**	**+100 b.p.**	**+200 b.p.**
December 31, 2006	**(5.2%)**	**(3.9%)**	**6.2%**	**12.34%**	**0.0%**	**0.4%**	**(0.3%)**	**(0.5%)**
December 31, 2005	(6.3%)	(3.9%)	5.0%	9.1%	0.5%	0.5%	(0.7%)	(1.4%)
CIPA Limit *	(15.0%)			(15.0%)	(15.0%)			(15.0%)

* *Limit established in System Contractual Interbank Performance Agreement (CIPA). For more discussion of CIPA, refer to the Structural Risk section under Other Risks.*

Based on these sensitivity results, our NII would generally benefit, in the short-term, from a market characterized by rising interest rates. However, a 200 basis point increase in interest rates would result in a slightly negative impact to our MVE. In contrast, our NII would generally deteriorate in a declining interest rate environment while the impact to MVE would be stable to slightly positive.

Derivative Instruments

Our creditworthiness also enables us to effectively participate in the derivatives markets. Derivative instruments are used as hedges against interest rate and liquidity risks and to lower the overall cost of funds. Derivative transactions are not entered into or held for trading or speculative purposes. The ability to issue various types of debt securities, or modify the debt securities by using derivative instruments, provides greater and necessary flexibility to manage interest rate risk. The aggregate notional amount of derivative financial instruments, most of which consisted of interest rate swaps (swaps) and interest rate caps, decreased to $5.96 billion at December 31, 2006, compared with $6.62 billion at December 31, 2005.

The derivative information below represents the types of derivatives and their notional amounts outstanding for the periods indicated. The fair values of these derivatives were recognized in the Statement of Condition.

	December 31		
(dollars in millions)	**2006**	2005	2004
Pay floating swaps	**$ 4,105.0**	$ 4,457.6	$ 4,394.8
Pay fixed swaps	**34.2**	51.5	162.7
Interest rate caps	**1,425.0**	1,715.0	2,200.1
Interest rate floors	**400.0**	400.0	100.0
Total	**$ 5,964.2**	$ 6,624.1	$ 6,857.6

In managing our interest rate and liquidity risks, different derivative types are used to achieve a variety of objectives. Our pay floating swaps are used to improve liquidity and obtain lower cost funding. They are used to change the repricing characteristics of certain liabilities from a fixed rate to a floating rate matching the floating rate repricing characteristics of the assets they fund. Pay fixed swaps are used primarily to change the repricing characteristics of liabilities from floating rate to fixed rate, generally to take advantage of lower rates or to lock in the cost of future debt issuance. Interest rate caps are used to protect interest income by offsetting caps that are present in certain adjustable rate loans we make and floating rate investments we hold. Interest rate caps are also used to place a ceiling on the interest rates on issuances of debt thereby managing interest expense. Interest rate floors are useful in offsetting the declines in interest income on variable or floating rate assets which occur when interest rates fall.

By using derivative instruments, AgBank is exposed to the credit risk of the counterparty. We manage this counterparty credit risk by:

- Diversifying our derivative positions among various counterparties;
- Selecting highly rated counterparties;
- Using master agreements that provide for the "netting" of payments and the "right of offset" with a counterparty; and
- Executing collateral support agreements which may require either the posting or receipt of collateral and which limits the unsecured exposure to the counterparty.

Notional amounts of these instruments, which are not reflected on the Combined Statement of Condition, are indicative of the activities in derivative instruments, but are not indicative of the significantly lower level of credit risk associated with these instruments. The following table summarizes counterparty notional amounts outstanding by credit rating of the counterparty.

	December 31, 2006			December 31, 2005		
(dollar in millions) S&P Credit Rating	**Number of Counterparties**	**Notional Amounts**	**Percent of Notional**	Number of Counterparties	Notional Amounts	Percent of Notional
AA	**2**	**$ 1,230.0**	**20.6%**	1	$ 765.0	11.6%
AA-	**5**	**2,164.2**	**36.3**	5	2,930.0	44.2
A+	**3**	**2,570.0**	**43.1**	3	2,677.1	40.4
A	**-**	**-**	**-**	1	252.0	3.8
Total	**10**	**$ 5,964.2**	**100.0%**	10	$ 6,624.1	100.0%

The credit risk exposure is a small percentage of the notional amounts and represents the replacement cost of the derivative in the marketplace in the event of non-performance by the counterparty. To the extent that the derivative has a positive fair value, the counterparty would owe us on early termination of the derivative and therefore we are exposed to credit risk from the counterparty. The following table shows our exposure to credit risk from counterparties at December 31, 2006. Credit exposure to counterparties on derivatives is shown below by credit rating and maturity. In cases where we would owe the counterparty on early termination of the derivative, credit risk is not created and is excluded from the table. Those counterparties that have been excluded at December 31, 2006 total $4.69 billion of notional amounts with the counterparties' exposure to us of $43.4 million. No collateral was required to be posted at December 31, 2006, but we were required to post collateral under one of those agreements as of December 31, 2005 for $1.7 million.

(dollars in millions)

			Years to Maturity (1)						
S&P Credit Rating	Number of Counterparties	Notional Principal	Less than 1 year	1-5 Years	Over 5 Years	Maturity Distribution Netting (2)	Exposure	Collateral Held	Exposure Net of Collateral
AA	1	$ 380.0	$ -	$ -	$ 1.2	$ (0.3)	$ 0.9	$ -	$ 0.9
A+	1	890.0	-	1.6	0.5	(0.2)	1.9	-	1.9
Total	2	$ 1,270.0	$ -	$ 1.6	$ 1.7	$ (0.5)	$ 2.8	$ -	$ 2.8

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

(2) Represents the cumulative impact of netting gains and losses where the result of the netting is negative within a maturity category with the same counterparty.

Other Risks

Structural Risk

Structural risk exists from the fact that AgBank, along with our affiliated Associations are part of the Farm Credit System. The System is comprised of five Banks and 95 Associations that are cooperatively owned, directly or indirectly, by their borrowers. As System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the System Banks are jointly and severally liable for payments of Systemwide Debt Securities. If a System Bank defaults on payments on Systemwide debt obligations, the assets of the Farm Credit System Insurance Corporation (FCSIC) would be utilized until depleted. Then, under joint and several liability, the non-defaulting System Banks would be called upon to fulfill those remaining obligations. Total Systemwide debt at December 31, 2006 was $133.63 billion. The assets of FCSIC were $2.31 billion. Refer to Note 1B of the Notes to Financial Statements for further information on the FCSIC. Although capital at the Association level reduces a Bank's credit exposure with respect to its direct loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

Several levels of discipline and protection are in place to mitigate this risk of joint and several liability, including two integrated contractual agreements - the Amended and Restated Contractual Interbank Performance Agreement (CIPA), and the Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each District using various ratios that take into account capital, asset quality, earnings, interest rate risk and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each District must achieve and maintain.

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

The MAA establishes criteria and procedures for the Banks to provide certain additional information and, under specified circumstances, for restricting or prohibiting an individual Bank's participation in issuances of System Debt Securities. AgBank must maintain sufficient collateral and other financial performance ratios as a condition for participation in those issuances. The MAA was designed for the early identification and resolution of individual Bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions of participation for each Bank's participation in each issuance of Systemwide Debt Securities.

During the three years ended December 31, 2006, AgBank significantly exceeded the minimum standard required by the CIPA, and was in compliance with all aspects of the MAA.

Operational Risk

Operational risk relates to the risk of loss resulting from inadequate or failed processes or systems, human error or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. The Bank and Associations are required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over, and accountability for, operations, programs and resources.

By FCA regulation, all District institutions are required to develop, maintain, and annually test a business continuity plan. These plans enable mission critical systems and functions to be resumed in the event of a disruption. Effective business continuity planning should minimize disruptions of service to the institution and its customers, ensure timely resumption of operations, and limit financial loss.

Political Risk

We are an instrumentality of the federal government and are intended to further governmental policy concerning the extension of credit to agriculture and rural America. We may be directly affected by federal legislation through changes to the Farm

Credit Act, or indirectly, through such legislation as agricultural appropriations bills. Political risk to the System is the risk of reduction or loss of support for the System or agriculture by the U.S. government.

The System manages political risk through The Farm Credit Council (Council), which is a full-service, federal trade association. The Council represents the System before Congress, the Executive Branch, and others. The Council involves System directors and executives to develop System positions and policies and works to provide input on federal legislation and other government actions that impact the System. In addition to the Council, our District has its own District Council, which is a member of the Council. Our District Council represents the interests of our Bank and the 29 Associations on a local and state level, as well as participating with the Council on a federal level.

Regulatory Matters

As of December 31, 2006, there were no enforcement actions in effect and FCA took no enforcement actions during the year relating to AgBank or District Associations.

In July 2006, the FCA Board approved a rule governing the ability of a Bank or Association to terminate its System charter and become a financial institution under another federal or state chartering authority. This rule, which became effective in January 2007, is intended to update the existing regulations.

In November 2006, the FCA Board approved a rule that amends existing regulations relating to System-level disclosure and reporting requirements and the disclosure and reporting requirements of Banks and Associations. The final rule includes revisions that, among other things:

- require Banks and Associations with total assets over $1 billion include an assessment of their internal control over financial reporting in their annual reports;
- reduce reporting filing deadlines with the FCA to 40 and 75 calendar days for Bank and Association quarterly and annual reports;
- require the Funding Corporation include an assessment of the System's internal control over financial reporting in the System's annual information statements and obtain an attestation from the independent auditor; and,
- revise regulations with respect to auditor independence and rotation, non-audit services and fees paid to the independent auditors.

The rule is expected to become effective in the first quarter of 2007. Based upon the provisions of the rule, full compliance will be delayed until January 1, 2008.

Governance

Boards of Directors

AgBank and each Association have a separate board of directors that provides direction and oversees the management of the institution. Each board of directors is comprised of directors elected by the stockholders and at least one non-affiliated director appointed by the stockholder elected directors. Each board of directors represents the interests of the stockholders of their particular institution. Each board performs the following functions, among others:

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

Director Independence

All directors must exercise sound judgment in deciding matters in the entity's best interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act, FCA Regulations or Bylaws require elected directors to have a loan relationship with an Association. No AgBank directors have a loan relationship with AgBank.

The elected directors have a vested interest in ensuring their Association remains strong and successful. However, an Association borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, some Boards have established independence criteria to ensure that an Association loan relationship does not compromise the independence. In addition, FCA regulations require AgBank approval of all Association loan actions or loan servicing actions that involve an Association or AgBank director or the immediate family member of an Association or AgBank director.

Audit Committee

The Boards of Directors of AgBank and each Association have established audit committees. Each audit committee reports to its respective board of directors. The audit committee responsibilities generally include, but are not limited to:

- oversight of financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls or auditing matters.

Code of Ethics

All directors and employees of the various institutions are responsible for maintaining the highest of standards in conducting our business. In that regard, each institution has established a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and certain other senior financial professionals who are involved, directly or indirectly, with the preparation of financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement each institution's Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, the Chief Executive Officer, Chief Financial Officer and certain other senior financial professionals certify compliance with the institution's Code of Ethics on an annual basis.

Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

Programs are maintained for employee complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. These programs allow employees to submit concerns regarding accounting, financial reporting, internal accounting controls, or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

Forward-Looking Information

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;

- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies and Estimates

Our financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying combined financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed with the Audit Committee of AgBank's Board of Directors. A summary of critical policies relating to determination of the allowance for loan losses, valuation of certain financial instruments, accounting for hedging activities and assumptions regarding pension expense follows.

Allowance for Loan Losses

The allowance for loan losses is management's best estimate of the amount of probable loan losses existing in and inherent in the loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of each loan portfolio, which generally considers recent historic charge-off experience adjusted for relevant factors.

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

Changes in the factors we consider in the evaluation of losses in the loan portfolios could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 3 and 4 to the accompanying combined financial statements for detailed information regarding the allowance for loan losses.

Valuation of Certain Financial Instruments

We apply various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the items being valued.

Our investment securities that are classified as "available-for-sale" are reported at their fair value based on estimated market prices. Valuing certain investments requires the use of cash flow models which are sensitive to the timing and amount of cash flow.

The fair values of derivatives are an estimate based on the value at which each financial instrument could be currently exchanged or settled between willing parties. Changes in the fair value of derivatives are recorded in accumulated other comprehensive income or current period earnings depending on the type of derivative and whether it qualifies for hedge accounting.

We utilize significant estimates and assumptions to value financial instruments for which an observable liquid market does not exist. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on market values and on our results of operations. See Note 17 to the accompanying combined financial statements for detailed information regarding valuation of certain financial instruments.

Accounting for Hedging Activity

We use derivatives in our hedging strategies. Accounting for hedging activities requires significant judgment and interpretation in the application of very complex and evolving accounting principles. Judgments involve, but are not limited to, the determination of whether a financial instrument or other contract meets the definition of a derivative in accordance with Statement of Financial Accounting Standard Nos. 133/138, as amended, and the applicable hedge criteria, including whether the derivatives used in hedging transactions have been, and are expected to be, highly effective as hedges. See Note 16 to the accompanying combined financial statements for detailed information regarding derivatives.

Pension Plans

We currently have employees and retirees covered by two separate defined benefit retirement plans in the District as a result of the 2003 merger between Western Farm Credit Bank (Western Bank) and Farm Credit Bank of Wichita (Wichita Bank). Most of our employees are covered under one or the other of these pension plans. These plans are non-contributory and benefits are based on compensation and years of service. In addition, we also participate in a defined contribution retirement savings plan. We include pension expense for all plans as part of employee benefits expense. We recognize a prepaid asset for contributions we make to the Ninth Retirement Defined Benefit Plan in excess of pension expense and we recognize accumulated other comprehensive loss and a minimum liability for unfunded obligations in excess of current expense related to the Eleventh Retirement Defined Benefit Plan. The prepaid asset, accumulated other comprehensive loss, minimum liability and pension expense are determined by actuarial evaluations based on assumptions that are evaluated annually as of September 30, the measurement date for our defined benefit pension plans. The most significant assumptions are the expected long-term rate of return on the plans' assets and the discount rate used to determine the present value of pension obligations. We have established current year assumptions related to the accounting for the defined benefit plans based on our review of current market conditions and our view of anticipated longer-term market conditions. Pension expense and the assumptions used in the calculation are presented in Note 11 to the accompanying financial statements.

Customer Privacy

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

U.S. AGBANK, FCB

REPORT OF MANAGEMENT

The combined financial statements of U.S. AgBank, FCB (AgBank), affiliated Associations and AgVantis, Inc. (AgVantis) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and in the opinion of management, fairly present the combined financial condition of AgBank, the affiliated Associations, and AgVantis. Other financial information included in the 2006 Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on AgBank's, Associations' and AgVantis' accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards. AgBank, Associations, and AgVantis are also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has overall responsibility for AgBank's system of internal control and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

The undersigned certify that the U.S. AgBank District 2006 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.

Glen A. Rector

Glen A. Rector
Chairman of the Board
U.S. AgBank, FCB

Darryl W. Rhodes
President and Chief Executive Officer
U.S. AgBank, FCB

March 5, 2007

AUDIT COMMITTEE REPORT

During 2006, the Audit Committee (Committee) included eight directors from the entire Board of Directors of U.S. AgBank, FCB (AgBank). In 2006, eleven Committee meetings were held. The Committee oversees the scope of AgBank's internal audit program, the independence of the outside auditors, the adequacy of AgBank's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Audit Committee Charter as found on AgBank's website. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as AgBank's independent auditor for 2006.

The following table sets forth the aggregate fees for professional services rendered for the District by its independent auditor PricewaterhouseCoopers LLP for the years ended December 31, 2006, and 2005:

(dollars in thousands)	**2006**	2005
Audit	**$ 1,126**	$ 1,113
Tax	**127**	127
All Other	**27**	3
Total	**$ 1,280**	$ 1,243

The Audit fees were for professional services rendered for the audits of District entities. Tax fees for most Associations were for services related to tax compliance, including the preparation of tax returns and claims for refunds, and tax planning and tax advice. The All Other fees in 2006 were for services rendered for information technology services.

Management is responsible for AgBank's internal controls and the preparation of the combined 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 District's combined financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the District's Quarterly Reports and the District's audited combined financial statements for the year ended December 31, 2006 (the "Audited Financial Statements") with management and PwC. The Committee also reviews 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 AgBank's internal auditors directly provide reports on significant matters to the Committee.

The Committee received the written disclosures and the letter from PwC in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discussed with PwC its independence from AgBank District entities. The Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the AgBank District Annual Report to Shareholders for the year ended December 31, 2006.

Donnell Spencer

Donnell Spencer
Chairman of the Audit Committee

March 5, 2007

PRICEWATERHOUSECOOPERS

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Tulsa, OK 74136
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Report of Independent Auditors

To the Boards of Directors and Shareholders
of U.S. AgBank, FCB, District Associations,
and AgVantis:

In our opinion, the accompanying combined statements of condition and the related combined statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of U.S. AgBank District (the District) at December 31, 2006, 2005 and 2004, and the results of its operations and its 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 District'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

March 5, 2007

U.S. AgBank District

(Dollars in thousands)

	December 31		
	2006	2005	2004
ASSETS			
Loans	**$ 17,625,736**	$ 16,781,194	$15,536,421
Less: Allowance for loan losses	**64,637**	65,309	81,018
Net loans	**17,561,099**	16,715,885	15,455,403
Cash	**114,632**	108,464	89,710
Federal funds	**102,833**	138,321	218,221
Investment securities - available for sale	**4,600,374**	3,807,068	2,861,463
Investment securities - held to maturity	**313,474**	207,938	232,418
Accrued interest receivable	**345,912**	275,934	210,727
Other property owned	**6,793**	2,331	4,299
Premises and equipment, net	**91,176**	82,410	72,511
Derivative assets	**13,277**	18,707	18,597
Other assets	**108,123**	93,643	81,339
Total assets	**$ 23,257,693**	$ 21,450,701	$19,244,688
LIABILITIES			
Systemwide debt securities	**$ 18,181,097**	$ 16,887,255	$15,281,029
Other bonds and notes	**569,514**	393,666	171,392
Accrued interest payable	**207,093**	156,708	101,301
Patronage refunds payable	**88,171**	73,209	47,630
Derivative liabilities	**53,897**	81,495	40,513
Other liabilities	**176,074**	126,362	113,911
Total liabilities	**19,275,846**	17,718,695	15,755,776
Commitments and Contingencies (Note 15)			
SHAREHOLDERS' EQUITY			
Protected stock	**872**	1,201	1,592
Preferred stock	**153,125**	166,892	135,246
Stock and participation certificates	**65,294**	72,043	92,447
Allocated retained earnings	**3,008**	5,997	7,897
Unallocated retained earnings	**3,814,833**	3,567,832	3,326,986
Accumulated other comprehensive income/(loss), net of tax	**(55,285)**	(81,959)	(75,256)
Total shareholders' equity	**3,981,847**	3,732,006	3,488,912
Total liabilities and shareholders' equity	**$ 23,257,693**	$ 21,450,701	$19,244,688

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

COMBINED STATEMENT OF INCOME

U.S. AgBank District

(Dollars in thousands)

	For the Year Ended December 31		
	2006	2005	2004
INTEREST INCOME			
Loans	**$1,220,814**	$ 963,785	$ 756,117
Investment securities	**239,115**	144,482	88,753
Total interest income	**1,459,929**	1,108,267	844,870
INTEREST EXPENSE	**867,898**	578,403	364,724
Net interest income	**592,031**	529,864	480,146
Provision for loan losses/(Loan loss reversals)	**7,516**	(10,165)	(194,096)
Net interest income after provision for loan losses	**584,515**	540,029	674,242
NONINTEREST INCOME			
Loan and prepayment fee income	**16,400**	16,811	21,708
Financially related services income	**4,706**	4,903	4,751
Mineral income	**11,200**	10,401	7,154
Other noninterest income	**7,765**	7,405	7,141
Total noninterest income	**40,071**	39,520	40,754
NONINTEREST EXPENSE			
Salaries and employee benefits	**157,322**	145,647	141,244
Occupancy and equipment	**15,920**	15,221	14,405
Other operating expenses	**61,390**	57,844	55,566
Supervisory expense	**8,011**	7,340	7,654
Merger-implementation costs	**-**	1,248	2,752
Losses on other property owned, net	**354**	539	4,835
Insurance fund premium	**24,976**	8,025	7,516
Intra-System financial assistance expenses	**-**	3,378	7,215
Loss on close out of cash flow hedges	**8,528**	6,705	1,852
Loss on early extinguishment of debt	**-**	-	1,781
Total noninterest expense	**276,501**	245,947	244,820
Income before income taxes	**348,085**	333,602	470,176
(Benefit from)/Provision for income taxes	**(427)**	2,994	14,231
Net income	**$ 348,512**	$ 330,608	$ 455,945

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

COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. AgBank District

(Dollars in thousands)

	Protected Stock	Association Preferred Stock	Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2003	$ 1,966	$114,135	$ 116,986	$ 8,894	$ 2,924,532	$ (42,569)	$ 3,123,944
Comprehensive Income							
Net income					455,945		
Change in unrealized losses on investments available-for-sale, net						(10,691)	
Change in unrealized losses on derivatives						(14,487)	
Minimum pension liability adjustment						(7,750)	
Income tax benefit related to other comprehensive income						241	
Total comprehensive income							423,258
Stock and participation certificates issued		305,009	33,014				338,023
Stock and participation certificates retired	(374)	(284,084)	(57,553)				(342,011)
Cash patronage refunds				(997)	(49,211)		(50,208)
Preferred stock cash dividends					(4,094)		(4,094)
Stock dividends		186			(186)		-
Balance at December 31, 2004	1,592	135,246	92,447	7,897	3,326,986	(75,256)	3,488,912
Comprehensive Income							
Net income					330,608		
Change in unrealized losses on investments available-for-sale, net						(12,240)	
Change in unrealized losses on derivatives						12,204	
Minimum pension liability adjustment						(6,762)	
Income tax benefit related to other comprehensive income						95	
Total comprehensive income							323,905
Stock and participation certificates issued		250,999	24,034				275,033
Stock and participation certificates retired	(391)	(219,550)	(44,438)				(264,379)
Cash patronage refunds				(1,900)	(83,935)		(85,835)
Preferred stock cash dividends					(5,630)		(5,630)
Stock dividends		197			(197)		-
Balance at December 31, 2005	1,201	166,892	72,043	5,997	3,567,832	(81,959)	3,732,006
Comprehensive Income							
Net income					348,512		
Change in unrealized losses on investments available-for-sale, net						6,928	
Change in unrealized losses on derivatives						9,109	
Minimum pension liability adjustment						11,458	
Income tax benefit related to other comprehensive income						(821)	
Total comprehensive income							375,186
Stock and participation certificates issued		376,680	22,651				399,331
Stock and participation certificates retired	(329)	(390,729)	(29,400)				(420,458)
Cash patronage refunds				(2,989)	(92,821)		(95,810)
Preferred stock cash dividends					(8,408)		(8,408)
Stock dividends		282			(282)		-
Balance at December 31, 2006	**$ 872**	**$153,125**	**$ 65,294**	**$ 3,008**	**$ 3,814,833**	**$ (55,285)**	**$ 3,981,847**

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

COMBINED STATEMENT OF CASH FLOWS

U.S. AgBank District

(Dollars in thousands)

	For the Year Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 348,512**	$ 330,608	$ 455,945
Adjustments to reconcile net income to cash provided by/(used in) operating activities:			
Depreciation on premises and equipment	**8,248**	7,668	7,646
Provision for/(Reversals of) loan losses	**7,516**	(10,165)	(194,096)
Amortization of discount/(premium) on debt instruments	**256**	(2,743)	(3,216)
Amortization of (discount)/premium on investments	**(2,275)**	(1,389)	4,520
Gains from sale of investment securities, net	**-**	-	49
Losses on other property owned, net	**292**	595	5,622
Gains on the sale of premises and equipment	**(470)**	(1,131)	(1,114)
Derivative hedging activities	**21,722**	16,782	(2,215)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(63,933)**	(55,531)	6,821
(Increase)/Decrease in other assets	**(15,301)**	(9,270)	3,021
Increase/(Decrease) in accrued interest payable	**35,311**	33,345	(613)
Increase/(Decrease) in other liabilities	**61,257**	7,318	(12,107)
Total adjustments	**52,623**	(14,521)	(185,682)
Net cash provided by operating activities	**401,135**	316,087	270,263
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loan principal disbursed, net	**(1,540,708)**	(1,252,486)	(665,864)
Net decrease/(increase) in federal funds	**35,488**	79,901	(150,320)
Investments available-for-sale:			
Purchases	**(1,447,622)**	(2,653,527)	(1,643,776)
Proceeds from maturities and principal payments	**1,213,369**	1,696,435	1,227,566
Proceeds from sales	**-**	-	265,254
Investments held-to-maturity:			
Proceeds from maturities and principal payments	**23,639**	24,480	48,135
Expenditures for premises and equipment, net	**(16,544)**	(16,437)	(12,454)
Proceeds from sales of other property owned	**255**	3,334	716
Decrease in notes receivable	**3,679**	159	150
Net cash used in investing activities	**(1,728,444)**	(2,118,141)	(930,593)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Systemwide debt issued, net	**1,268,097**	1,653,726	672,169
Increase in other bonds and notes	**175,848**	222,275	19,508
Patronage distributions paid	**(80,933)**	(60,256)	(27,783)
Cash dividends paid	**(8,408)**	(5,639)	(4,094)
Protected stock retired	**(329)**	(391)	(374)
Other stock issued	**399,331**	275,081	338,030
Other stock retired	**(420,129)**	(263,988)	(341,637)
Net cash provided by financing activities	**1,333,477**	1,820,808	655,819
Net increase/(decrease) in cash	**6,168**	18,754	(4,511)
Cash at beginning of period	**108,464**	89,710	94,221
Cash at end of period	**$ 114,632**	$ 108,464	$ 89,710

(continued)

U.S. AgBank District

(Dollars in thousands)

	For the Year Ended December 31		
	2006	2005	2004
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Financed sales of other property owned	**$ -**	$ -	$ 4,325
Loan amounts transferred to other property owned	**5,009**	1,961	7,572
Loans exchanged for investment securities	**679,290**	-	-
Loan amounts charged off	**10,413**	7,116	18,315
Patronage refunds transferred to other liabilities from:			
Unallocated retained earnings	**104,229**	89,565	53,305
Allocated retained earnings	**2,989**	1,900	997
Stock dividends declared	**282**	197	186
Change in unrealized losses in other comprehensive income	**26,674**	(6,703)	(32,687)
Supplemental Information:			
Interest paid	**815,709**	523,284	355,999
Income taxes paid/(refunded)	**1,726**	908	(858)

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

U.S. AgBank District

(Dollars in thousands, except as noted)

NOTE 1 - ORGANIZATION AND OPERATIONS

A. Organization

The Farm Credit System (the System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The System was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987.

As required by the Farm Credit Act, the System specializes in providing financing and related services to qualified borrowers in the rural sector and to certain related entities. Through a nationwide network of locally owned cooperatives, the System makes credit available in all 50 states and the Commonwealth of Puerto Rico, which allows for both geographic and agricultural sector diversification.

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

The nation is currently served by four Farm Credit Banks (FCBs), each of which has specific lending authorities within its chartered territory, and one Agricultural Credit Bank (ACB) which has nationwide lending authorities. The ACB also has lending authorities of a FCB within a limited chartered territory. Each FCB and the ACB provides funding for Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs), which are collectively referred to as "Associations."

U.S. AgBank, FCB (AgBank) is one of the banks of the System. AgBank is chartered to provide credit and credit related services in the states of Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho, and the far western edge of Wyoming. AgBank, its related Associations, and AgVantis, Inc. are referred to as the "District." On December 31, 2006, our District has 3 FLCAs and 26 ACA parent associations. Each ACA has two wholly owned subsidiaries (a FLCA subsidiary and a Production Credit Association (PCA) subsidiary). The Associations and certain other financing institutions (OFIs) jointly own AgBank.

Although the System Banks (Banks) and Associations are not commonly owned or controlled, they are financially and operationally interdependent. The financial interdependence of the Banks is a result of the statutory joint and several liability of the Banks for all Systemwide debt. The interdependence between the Banks and Associations results, in part, from the Banks serving as the intermediary between the financial markets and the retail lending activities of their affiliated Associations. The Banks are the primary source of funding and have some oversight responsibilities related to certain activities of their affiliated Associations. Banks and Associations are not authorized to accept deposits and cannot borrow from other financial institutions without the approval of their affiliated Bank. As a result, loans made by the Associations to agricultural borrowers are substantially funded by the issuance of Systemwide Debt Securities by the Banks. The repayment of the Systemwide Debt Securities is therefore dependent upon the ability of System borrowers to repay their loans.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate System institutions. FCA examines the activities of System institutions and certain actions by these entities are subject to the FCA's prior approval.

B. Farm Credit System Insurance Corporation

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used prior to invoking the joint and several liability of the Banks (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums into the Insurance Fund based on District annual average loan principal outstanding until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. Financial responsibility for the AgBank Insurance Corporation premium assessments is allocated among AgBank and all District Associations based on retail loan volume.

C. Intra-District Restructurings

Effective January 1, 2005, AgCredit Financial, ACA headquartered in Stockton, California merged into American AgCredit, ACA headquartered in Santa Rosa, California.

The merger was accounted for on a historical cost basis with the associations combined at their respective book values. The accounting for the merger had no impact on the District's combined financial statements.

D. Operations

The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by AgBank and the affiliated Associations. AgBank and/or Associations are authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses. AgBank may also lend to financial institutions engaged in lending to eligible borrowers. The Associations also serve as intermediaries in offering term life insurance, disability income insurance and multi-peril crop insurance. In addition, certain Associations provide fee-based services to eligible borrowers in areas such as estate planning, financial management and fee appraisals.

ACAs borrow from AgBank to originate long-term real estate mortgage loans through the FLCA subsidiary and short- and intermediate-term loans through the PCA subsidiary. FLCAs borrow from AgBank to originate long-term real estate mortgage loans. OFIs borrow from AgBank to originate and service short- and intermediate-term loans.

AgBank, in conjunction with other System banks, jointly owns several service organizations which were created to provide a variety of services for the System. These investments may be accounted for using the cost or equity method. These service organizations are dependent on the Banks for financial support and include:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) - provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association - leases premises and other fixed assets to the FCA, as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company - provides insurance services to its member organizations as a reciprocal insurer.

In addition, the Farm Credit Council is a full-service federated trade association, which represents the System before Congress, the Executive Branch and others. It also provides support services to System institutions on a fee basis.

AgBank and/or certain of its affiliated Associations jointly own service organizations created to provide technology services.

- AgVantis is owned by and provides technology and other operational services to seventeen Associations. In addition, technical and systems support for AgBank has been outsourced to AgVantis. AgVantis financial information is included in the District data; however, activity occurring between AgVantis and AgBank or the Associations has been eliminated in combination.
- Financial Partners Inc. is a technology service provider jointly owned by five Associations in conjunction with other System entities that are not part of the District. This investment is accounted for using the cost method.

Note 2 - Summary of Significant Accounting Policies

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

The accompanying combined financial statements include the accounts of AgBank, the Associations and AgVantis and reflect the investments in, and allocated earnings of, the service organizations in which AgBank and the Associations have partial ownership interests. All significant transactions and balances among AgBank, Associations, and AgVantis have been eliminated in combination.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, Accounting for Uncertainty in Income Taxes. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The impact of applying this Interpretation is not expected to have material impact on the District's financial condition or results of operations.

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, Fair Value Option for Financial Assets and Financial Liabilities. The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure eligible items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected shall be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. District institutions are considering the impact of the adoption of the Standard.

A. Loans and Allowance for Loan Losses

Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income, unamortized premiums or discounts. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are generally capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected in full or otherwise discharged.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, prior charge-offs have been recovered in full, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified Doubtful or Loss under the UCS classification system.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty, imprecision and variability. The possibility exists that changes in the economy and environment and their impact on borrower repayment capacity will cause collateral appraisals and values and these estimates to change.

A specific allowance may be established for impaired loans under SFAS No. 114. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, by the loan's observable market price, or fair value of the collateral, if the loan is collateral dependent. See Note 3 for a discussion on the refinement of the allowance for loan losses methodologies.

B. Cash

Cash, as included in the financial statements, represents cash on hand and on deposit at financial institutions.

C. Investment Securities

AgBank and Associations, as permitted under FCA regulations, hold investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. Investments for which the District has the intent and ability to hold to maturity are classified as investments held-to-maturity and are carried at cost, adjusted for unamortized premiums and discounts. The majority of the District's investments are available for liquidity or for the management of short-term funds and have been classified as available-for-sale. These investments are reported at fair value and any unrealized gains and losses are reported as a separate component of shareholders' equity (accumulated other comprehensive income (loss)). Premiums and discounts on purchases are amortized or accreted using the effective interest method over the term of the respective security. Realized gains and losses are recognized in current operations using the specific identification method for determining the cost basis to be used. All or a portion of the unrealized gain or loss of an available-for-sale security that is designated as a fair value hedged item must be recognized in earnings during the period. AgBank and Associations may also hold additional investments in accordance with mission-related investment programs, approved by the FCA.

AgBank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the unrealized loss would be included in current earnings.

D. Other Property Owned

Other property owned, consisting of real and personal property acquired through collection actions, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains/(losses) on other property owned in the Statement of Income.

E. Premises and Equipment

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

F. Other Assets and Other Liabilities

Other assets are comprised primarily of accounts receivable, deferred tax assets, pension assets, and unamortized debt issuance costs. Significant components of other liabilities include pension and postretirement liabilities and accounts payable. The deferred tax assets and liabilities involve various management estimates and assumptions as to future taxable earnings. As of December 31, 2006, all differences net to an asset and are included in other assets.

G. Advanced Conditional Payments

AgBank and Associations are authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Unrestricted advanced conditional payments are included in other interest bearing liabilities. Restricted advanced conditional payments are primarily associated with mortgage loans, while nonrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advanced conditional payments are not insured. The Association generally pays interest on such accounts.

H. Employee Benefit Plans

The District currently has two defined benefit retirement plans and two defined contribution retirement plans. Most District employees are covered under at least one of these plans.

The former Wichita District employees may be eligible to participate in the Ninth District defined benefit retirement plan (Ninth Retirement Plan). The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes. Benefits are based on employee compensation and years of service. Additionally, AgBank, former Wichita Association and AgVantis employees are eligible to participate in a defined contribution plan (Ninth Thrift Plan), governed by Section 401(k) of the Internal Revenue Code. AgBank, AgVantis and former Wichita District Associations match a certain percentage of employee contributions. All Ninth Thrift Plan costs are expensed as funded.

Many former Western District employees participate in the Eleventh District defined benefit retirement plan (Eleventh Retirement Plan). The "Projected Unit Credit" actuarial method is used for financial reporting purposes and the "Entry Age Normal" actuarial method is used for funding purposes. Benefits are based on employee compensation and years of service. The Eleventh Retirement Plan was closed to employees hired after December 31, 1997. The Eleventh District's defined contribution plan (Eleventh Contribution Plan) has two components. First, eligible employees who do not participate in the defined benefit retirement plan may participate in the Money Purchase component. In this component of the plan, the former Western Associations provide a monthly contribution based on a defined percentage of the employee's salary. Second, all eligible former Western District Association employees may participate in a Salary Deferral component of the plan governed by Section 401(k) of the Internal Revenue Code. The former Western District Associations match a certain percentage of employee contributions. All Eleventh Contribution Plan costs are expensed as funded.

Additionally, AgBank, Associations and AgVantis provide certain postretirement benefits, such as health care and life insurance benefits to eligible retired employees. Current employees may become eligible for health care benefits if they reach retirement age while working for AgBank, Associations or AgVantis. The anticipated costs of these benefits are accrued during the period of the employees' active service.

I. Income Taxes

AgBank, FLCAs and FLCA subsidiaries of ACA parent companies are exempt from Federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for Federal and certain other income taxes and are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code.

Associations operating as cooperatives under Subchapter T of the Internal Revenue Code can exclude from taxable income amounts distributed as qualified patronage distributions in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Certain Associations' deferred taxes are provided on a proportionate share of the Association's temporary differences based upon the amount of non-patronage and retained patronage income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent it is more likely than not (over 50 percent probability), based on management's estimate, they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage programs which reduce taxable earnings.

Deferred income taxes have not been recorded by the taxable Associations on stock patronage distributions received from AgBank prior to January 1, 1993. Association managements' intent is to permanently invest these and other undistributed earnings in AgBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

Deferred income taxes have not been provided on the Bank's post-1992 earnings allocated to ACAs and their PCA subsidiaries to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. AgBank currently has no plans to distribute unallocated earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

J. Derivative Instruments and Hedging Activity

AgBank is party to derivative financial instruments which are used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded at fair value and included in the balance sheet as derivative assets and derivative liabilities.

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

AgBank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. AgBank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions have been highly effective in offsetting changes in interest rates or in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. AgBank uses regression analysis or other statistical analysis to assess the effectiveness of its hedges.

AgBank discontinues hedge accounting prospectively when it is determined that:

- a derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item;
- the derivative expires or is sold, terminated, or exercised;
- it is no longer probable that the forecasted transaction will occur;
- a hedged firm commitment no longer meets the definition of a firm commitment; or
- management determines that designating the derivative as a hedging instrument is no longer appropriate.

When AgBank discontinues hedge accounting for cash flow hedges, any remaining accumulated other comprehensive income (loss) is amortized into earnings over the remaining life of the original hedged item unless hedged item is gone. When AgBank discontinues hedge accounting for fair value hedges, changes in the fair value of the derivative are recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, AgBank carries the derivative at its fair value on the balance sheet, recognizing changes in fair value in current-period earnings.

AgBank occasionally purchases a financial instrument in which a derivative instrument is "embedded." Upon purchase of the financial instrument, AgBank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value and designated as either a fair value or cash flow hedge. However, if the entire contract is required to be measured at fair value, with changes in fair value reported in current earnings, or if AgBank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

K. Cash Flow Statement

AgBank in 2006 revised its cash flow statement reporting to correct for the presentation of cash flows associated with discount notes and derivatives. Prior years' cash flow statements were adjusted to conform to the current year presentation. For 2005, this change reduced cash provided by operations by $37,113, decreased cash flows used in investing activities by $7,254, and increased cash flows provided by financing activities by $29,859. For 2004, this change reduced cash provided by operations by $23,509, decreased cash flows used in investing activities by $11,421, and increased cash flows provided by financing activities by $12,088.

Note 3 - Refinement of the Allowance for Loan Losses

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

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

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

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

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

While the $186.1 million nonrecurring provision reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodologies did not have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodologies did not have a significant impact on the level of the risk bearing capacity of the District.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

	December 31		
	2006	2005	2004
Real estate mortgage	**$ 10,586,849**	$ 10,503,841	$ 9,945,742
Production and intermediate-term	**4,300,217**	4,031,297	3,586,464
Agribusiness:			
Loans to cooperatives	**353,274**	314,169	336,721
Processing and marketing	**1,368,390**	1,009,175	831,292
Farm related business	**539,171**	529,731	475,635
Communication	**123,100**	84,136	31,688
Energy	**133,697**	119,995	152,312
Water and waste disposal	**8,489**	-	-
Rural residential real estate	**51,064**	51,462	52,874
Lease receivables	**134,184**	94,786	71,878
OFIs	**27,301**	42,602	51,815
Total loans	**$ 17,625,736**	$ 16,781,194	$ 15,536,421

A significant source of liquidity for the District is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2006. Approximately 20 percent of these loans had maturities of one year or less.

	Due in 1 year or less	Due in 1 through 5 years	Due after 5 years	Total
Real estate mortgage	$ -	$ -	$ 10,586,849	$10,586,849
Production and intermediate-term	2,248,678	1,686,123	365,416	4,300,217
Agribusiness:				
Loans to cooperatives	264,877	58,075	30,322	353,274
Processing and marketing	616,227	283,326	468,837	1,368,390
Farm related business	67,659	144,919	326,593	539,171
Communication	112,371	5,527	5,202	123,100
Energy	85,906	23,831	23,960	133,697
Water and waste disposal	-	-	8,489	8,489
Rural residential real estate	-	-	51,064	51,064
Lease receivables	133,369	696	119	134,184
OFIs	27,301	-	-	27,301
Total	$ 3,556,388	$ 2,202,497	$ 11,866,851	$17,625,736

The District's concentration of credit risk in various agricultural commodities is presented in the following table.

	December 31					
	2006		2005		2004	
Commodity/Primary Business	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Dairy farms	**$ 2,995,831**	**17.00%**	$ 2,738,616	16.32%	$ 2,390,871	15.39%
Cattle	**2,718,742**	**15.42**	2,672,439	15.93	2,221,438	14.30
Grapes	**1,223,032**	**6.94**	1,261,013	7.51	1,099,485	7.08
Tree nuts	**1,131,762**	**6.42**	1,030,946	6.14	931,557	6.00
Field crops	**974,496**	**5.53**	973,931	5.80	864,521	5.56
Food products	**876,094**	**4.97**	681,010	4.06	470,228	3.03
Fruits	**777,286**	**4.41**	801,185	4.77	696,770	4.48
Vegetables	**656,918**	**3.73**	700,896	4.18	765,831	4.93
Other livestock	**656,795**	**3.73**	670,352	3.99	540,243	3.48
Farm related business services	**630,417**	**3.58**	522,771	3.12	302,219	1.95
Wheat	**613,451**	**3.48**	642,157	3.83	651,249	4.19
Corn	**564,897**	**3.20**	571,448	3.41	498,612	3.21
Horticulture specialties	**385,371**	**2.19**	408,212	2.43	350,956	2.26
General farm	**318,760**	**1.81**	309,433	1.84	185,986	1.20
Rural homes	**316,682**	**1.80**	315,634	1.88	328,675	2.12
Logging and wood products	**312,366**	**1.77**	131,590	0.78	93,185	0.60
Cotton	**306,928**	**1.74**	311,301	1.86	330,370	2.13
Rural utilities	**282,018**	**1.60**	227,388	1.36	107,435	0.69
Cash grains	**265,760**	**1.51**	243,738	1.45	302,241	1.95
Rice	**229,013**	**1.30**	232,796	1.39	255,819	1.65
Citrus fruits	**199,475**	**1.13**	221,178	1.32	213,818	1.38
Forestry	**192,361**	**1.09**	164,847	0.98	165,019	1.06
Sugarcane, sugar beets and Irish potatoes	**165,541**	**0.94**	159,062	0.95	141,948	0.91
Farm supplies	**157,822**	**0.90**	117,839	0.70	83,794	0.54
Soybeans	**105,815**	**0.60**	101,498	0.60	86,654	0.56
Finance/Credit	**72,361**	**0.41**	85,266	0.51	147,319	0.95
Other	**495,742**	**2.80**	484,648	2.89	1,310,178	8.40
Total	**$17,625,736**	**100.00%**	$16,781,194	100.00%	$15,536,421	100.00%

While the percentages shown in the previous table represent the relative amounts of the District's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the District's loans are collateralized. Accordingly, the District's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the current loss exposure is indicated in the financial statements in the allowance for loan losses.

Certain District Associations have obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with the Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $672.9 million, $947.5 million and $1.05 billion at December 31, 2006, 2005 and 2004, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Associations in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Associations pay Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $4.1 million for 2006, $4.8 million for 2005 and $5.0 million for 2004 are reflected in noninterest expense. Loans covered under these Agreements are considered non-adversely classified for purposes of reporting credit quality and receive favorable regulatory capital treatment.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2006.

The following table presents information relating to impaired loans.

	December 31		
	2006	2005	2004
Nonaccrual Loans:			
Current as to principal and interest	**$ 34,456**	$ 41,733	$ 68,255
Past due	**48,983**	34,349	33,159
Total nonaccrual loans	**83,439**	76,082	101,414
Impaired Accrual Loans:			
Restructured accrual loans	**4,337**	6,383	6,634
Accrual loans 90 days or more past due	**1,224**	622	4,167
Total impaired accrual loans	**5,561**	7,005	10,801
Total impaired loans	**$ 89,000**	$ 83,087	$112,215

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	2006	2005	2004
Interest income recognized on:			
Nonaccrual loans	**$ 6,772**	$ 10,340	$ 10,460
Impaired accrual loans	**3,515**	4,075	4,287
Interest income recognized on impaired loans	**$ 10,287**	$ 14,415	$ 14,747

The following table presents additional information concerning impaired loans (including accrued interest) as of December 31.

	2006	2005	2004
Impaired loans with related allowance	**$ 3,191**	$ 4,803	$ 21,164
Impaired loans with no related allowance	**85,809**	78,284	91,051
Total impaired loans	**$ 89,000**	$ 83,087	$ 112,215
Allowance on impaired loans	**$ 1,246**	$ 2,959	$ 5,288
Average impaired loans	**$ 97,978**	$ 109,913	$ 144,056

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31, 2006 were as follows:

Interest income which would have been recognized under the original loan terms	**$ 16,043**
Less: interest income recognized	**9,750**
Foregone interest income	**$ 6,293**

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

	2006	2005	2004
Balance at beginning of year	**$ 65,309**	$ 81,018	$ 291,503
Charge-offs:			
Real estate mortgage	**510**	30	372
Production and intermediate-term	**8,210**	3,013	5,727
Agribusiness	**1,693**	4,066	2,109
Communication	**-**	-	656
Energy	**-**	-	9,451
Rural residential real estate	**-**	1	-
Lease receivables	**-**	6	-
Total charge-offs	**10,413**	7,116	18,315
Recoveries:			
Real estate mortgage	**88**	123	188
Production and intermediate-term	**694**	1,056	1,648
Agribusiness	**1,424**	16	2
Communication	**-**	36	-
Energy	**-**	341	88
Rural residential real estate	**19**	-	-
Total recoveries	**2,225**	1,572	1,926
Net charge-offs	**8,188**	5,544	16,389
Provision for loan losses/(Loan loss reversals)	**7,516**	(10,165)	(7,986)
Nonrecurring loan loss reversals	**-**	-	(186,110)
Balance at end of year	**$ 64,637**	$ 65,309	$ 81,018
Ratio of net charge-offs during the period to average net loans outstanding during the period	**0.05%**	0.04%	0.11%

As previously discussed in Note 3, the nonrecurring loan loss reversals in 2004 resulted from the refinement of AgBank's and the Associations' allowance for loan losses methodologies. In addition, a breakdown of the amount of the allowance for loan losses by type of loan and the percent of total allowance as of December 31 for the last three fiscal years follows:

	2006		2005		2004	
	Amount	**Percent**	Amount	Percent	Amount	Percent
Real estate mortgage	**$ 21,552**	**33.35%**	$ 22,854	35.00%	$ 29,281	36.14%
Production and intermediate-term	**30,521**	**47.22**	29,868	45.73	34,966	43.16
Agribusiness	**9,937**	**15.37**	10,623	16.27	12,571	15.52
Communication	**804**	**1.24**	150	0.23	466	0.58
Energy	**325**	**0.50**	523	0.80	1,994	2.46
Water and waste disposal	**2**	**-**	-	-	-	-
Rural residential real estate	**119**	**0.19**	87	0.13	133	0.16
Lease receivables	**1,377**	**2.13**	1,204	1.84	283	0.35
OFIs	**-**	**-**	-	-	1,324	1.63
Total	**$ 64,637**	**100.00%**	$ 65,309	100.00%	$ 81,018	100.00%

Note 5 - Investment Securities

As discussed in Note 2, the investment portfolio consists of two components: the available-for-sale portfolio and the held-to-maturity portfolio. A summary of the amortized cost, fair value and weighted average yield of investment securities available-for-sale follows:

	December 31, 2006				
	Amortized	**Gross Unrealized**		**Fair**	**Weighted**
	Cost	**Gains**	**Losses**	**Value**	**Average Yield**
Mortgage-backed securities	**$ 4,021,868**	**$ 7,895**	**$ 34,520**	**$ 3,995,243**	**5.10%**
Asset-backed securities	**604,741**	**411**	**21**	**605,131**	**5.63%**
Total	**$ 4,626,609**	**$ 8,306**	**$ 34,541**	**$ 4,600,374**	**5.18%**

	December 31, 2005				
	Amortized	Gross Unrealized		Fair	Weighted
	Cost	Gains	Losses	Value	Average Yield
Mortgage-backed securities	$ 3,188,088	$ 2,145	$ 35,310	$ 3,154,923	4.56%
Asset-backed securities	651,878	304	37	652,145	4.65%
Total	$ 3,839,966	$ 2,449	$ 35,347	$ 3,807,068	4.57%

	December 31, 2004				
	Amortized	Gross Unrealized		Fair	Weighted
	Cost	Gains	Losses	Value	Average Yield
Commercial paper, bankers' acceptances, certificates of deposits & other securities	$ 104,687	$ 89	$ -	$ 104,776	2.51%
Mortgage-backed securities	2,576,332	2,337	22,312	2,556,357	3.28%
Asset-backed securities	200,465	76	211	200,330	2.72%
Total	$ 2,881,484	$ 2,502	$ 22,523	$ 2,861,463	3.22%

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of investments available-for-sale at December 31, 2006.

	Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-backed securities	$ 72,625	3.10%	$ 3,922,618	5.14%	$ 3,995,243	5.10%
Asset-backed securities	-		605,131	5.63%	605,131	5.63%
Total fair value	$ 72,625	3.10%	$ 4,527,749	5.20%	$ 4,600,374	5.18%
Total amortized cost	$ 74,025		$ 4,552,584		$ 4,626,609	

Substantially all mortgage-backed securities have contractual maturities in excess of ten years. However, expected maturities for mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without reinvestment fees. Asset-backed securities can also perform similarly to mortgage-backed securities.

Proceeds from sales and realized gross gains and gross losses on sales of investment securities available-for-sale are as follows:

	For the Year Ended December 31		
	2006	2005	2004
Proceeds from sales	$ -	$ -	$ 265,254
Realized gross gains	$ -	$ -	$ 465
Realized gross losses	$ -	$ -	$ 514

The following table shows the District's investments, fair value and gross unrealized losses, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at December 31, 2006. The continuous loss position is based on the date when the unrealized loss was first identified. The unrealized losses on these investments resulted from the volatility in the yield curve and are not credit related. AgBank has the intent and the ability to hold these investments until the value is recovered.

	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 1,532,272	$ 3,066	$1,188,561	$31,454
Asset-backed securities	11,382	17	3,625	4
Total	$ 1,543,654	$ 3,083	$1,192,186	$31,458

The ratings of all the investments meet all applicable regulatory standards and their current unrealized loss positions result solely from interest rate fluctuations and not from any deterioration in credit quality. AgBank and its related Associations have the ability and intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments, and thus the losses are not considered to be other-than-temporarily impaired at December 31, 2006.

A summary of the amortized cost, fair value, and yield of mortgage-backed securities held-to-maturity as of December 31 follows:

	Amortized Cost	Fair Value	Weighted Average Yield
2006	$ 313,474	$ 316,110	5.60%
2005	$ 207,938	$ 209,664	5.61%
2004	$ 232,418	$ 238,800	5.34%

These investment securities have a contractural maturity greater than 10 years.

In April 2004, AgBank purchased $251 million of the Farmer Mac security from an Association which is classified as held-to-maturity in AgBank's financial statements. The Association had securitized mortgage loans by exchanging such loans for a Farmer Mac security backed by agricultural mortgage loans. As a result of the sale, the Association re-characterized its remaining $393 million Farmer Mac security balance as available-for-sale. In January 2006, AgBank purchased the outstanding $290.2 million of Farmer Mac security from this Association, which is classified as available-for-sale in AgBank's financial statements. These transactions eliminate in combination.

During 2006, two Associations held mortgage backed securities created by exchanging agricultural mortgage loans for Farmer Mac securities backed by those mortgage loans. One Association held securitized loans totaling $550.1 million and classified the security as available-for-sale. Another Association securitized loans totaling $129.2 million and classified the securities as held-to-maturity, because of their intent to hold these securities.

The following table details the amortized cost and fair value of the Farmer Mac securities, available-for-sale (AFS) and held-to-maturity (HFM).

	2006		2005		2004	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AgBank - AFS	**$ 244,809**	**$ 244,321**	-	-	-	-
AgBank - HTM	**$ 184,299**	**$ 186,043**	$ 207,938	$ 209,664	$ 232,418	$ 238,800
Associations - AFS	**$ 523,613**	**$ 526,947**	$ 300,261	$ 299,659	$ 366,868	$ 366,807
Associations - HTM	**$ 129,175**	**$ 130,067**	-	-	-	-

AgBank investments with an estimated fair value of $12.3 million, $12.1 million and $13.4 million at December 31, 2006, 2005 and 2004, respectively, were pledged as collateral for funding of the Kansas Agricultural Production Loan Deposit Program utilized by Associations.

NOTE 6 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31		
	2006	2005	2004
Land	**$ 14,056**	$ 14,052	$ 14,100
Buildings and improvements	**83,560**	77,823	66,857
Furniture and equipment	**48,937**	45,403	41,696
Construction in progress	**6,391**	3,603	3,876
	152,944	140,881	126,529
Less: accumulated depreciation	**61,768**	58,471	54,018
Total premises and equipment	**$ 91,176**	$ 82,410	$ 72,511

AgBank and Associations own land and buildings throughout the District, in numerous Association headquarters and branch locations, with an aggregate net book value of $69.6 million. These properties are, for the most part, small and mid-sized office structures which are generally typical of property in the local area. The largest building owned in the District is AgBank's headquarters location in Wichita, Kansas, with a net book value of $7.1 million. This facility is occupied by management and staff of AgBank and AgVantis, with the majority of the space leased to various unrelated tenants. In addition, AgBank and Associations have certain office space leases.

NOTE 7 - OTHER ASSETS AND OTHER LIABILITIES

A summary of other assets and other liabilities follows:

	December 31		
	2006	2005	2004
Other assets:			
Deferred tax assets, net	**$ 2,037**	$ 1,185	$ 985
Investments in other System institutions	**22,822**	21,094	20,215
Prepaid pension costs	**19,688**	21,547	15,920
Equipment held for lease	**11,089**	14,017	10,793
Accounts receivable	**18,366**	10,415	13,795
Prepaid income taxes	**1,667**	1,042	2,637
Prepaid expenses	**5,230**	4,084	5,390
Trust assets - nonqualified pension plans	**15,944**	11,351	9,538
Unamortized debt issue costs	**8,079**	7,311	-
Other	**3,201**	1,597	2,066
Total	**$ 108,123**	$ 93,643	$ 81,339
Other liabilities:			
Accrued taxes payable	**$ 647**	$ 415	$ 804
Pension liabilities	**32,775**	39,673	29,282
Other postretirement benefits liability	**14,237**	13,818	13,224
FCSIC premiums	**24,962**	7,917	7,469
Accounts payable	**61,160**	27,976	30,166
Other	**42,293**	36,563	32,966
Total	**$ 176,074**	$126,362	$ 113,911

NOTE 8 - BONDS AND NOTES

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by System banks through the Funding Corporation. Systemwide bonds, medium-term notes, master notes, discount notes and global debt securities (Systemwide Debt Securities) are the joint and several obligations of the System banks.

Certain conditions must be met before AgBank can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgBank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the System banks. In 1994, the System banks and the Funding Corporation entered into the Market Access Agreement, which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide Debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2006, AgBank was and currently remains in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

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

The System may issue the following types of Systemwide Debt Securities:

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

For a discussion of the various risks, tax and other considerations, and terms and conditions related to each of these types of securities, see the discussions in the following offering circulars (available on the Funding Corporation's Website located at www.farmcredit-ffcb.com), as applicable:

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

Each of these offering circulars may be further amended or supplemented from time to time. In addition, the Banks may in the future offer new types of Systemwide Debt Securities; the offering of any such securities will be pursuant to additional offering circulars.

AgBank's participation in Systemwide Debt Securities as of December 31, 2006 follows:

	Bonds		Medium-term notes		Discount notes		Total	
Year of maturity	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate
2007	$ 3,967,546	5.03%	$ 20,406	3.52%	$ 2,019,253	5.23%	$ 6,007,205	5.09%
2008	3,858,282	4.88%	210,117	5.31%	-	-	4,068,399	4.90%
2009	1,816,809	5.01%	69,967	6.28%	-	-	1,886,776	5.06%
2010	1,560,750	4.86%	15,000	7.04%	-	-	1,575,750	4.88%
2011	840,980	5.07%	10,425	5.54%	-	-	851,405	5.08%
2012 and thereafter	3,751,121	5.25%	40,441	5.47%	-	-	3,791,562	5.26%
Total	$15,795,488	5.03%	$366,356	5.50%	$ 2,019,253	5.23%	$18,181,097	5.06%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

The average balance of Systemwide Debt Securities was $17.17 billion in 2006, $15.62 billion in 2005 and $14.54 billion in 2004.

Discount notes are issued with maturities ranging from 1 day to 365 days. The average remaining maturity of discount notes held at December 31, 2006 was 21 days.

Systemwide Debt includes callable debt consisting of the following:

Year of Maturity	Maturing Amount	Range of Call Dates
2007	$1,287,000	01/01/07 - 12/28/07
2008	975,000	01/01/07 - 11/28/08
2009	835,000	01/01/07 - 12/30/09
2010	645,000	01/01/07 - 11/02/10
2011 and thereafter	2,068,488	01/01/07 - 08/16/13
Total	$5,810,488	

Callable debt may be called on the first call date and, generally, on each business day thereafter.

AgBank was party to interest rate cap and swap agreements with a total notional value of $5.56 billion at December 31, 2006, $6.21 billion at December 31, 2005 and $6.73 billion at December 31, 2004. The interest rate caps were purchased to minimize the impact of rising interest rates on short-term liabilities and correspondingly prevent a reduction in interest rate spread relative to certain loans. The effect of the fair value of these instruments is reflected in the weighted average interest rates in the previous table.

Losses of $1.8 million were recognized by AgBank in 2004, resulting from a defeasance affected through inter-district transfers of debt with other System Banks. The impact of such transactions was intended to better match assets and liabilities and lower interest expense in the future.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide debt securities (insured debt) of System banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities on the financial statements are uninsured. At December 31, 2006, the assets of the Insurance Fund aggregated $2.31 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal of, or interest on, an insured debt obligation in the event of a default by any System bank having primary liability thereon.

Included in other bonds and notes, the District recorded a $300.0 million note payable to another System Bank for the sale by AgBank of wholesale loan volume. Funds held for borrowers of $232.0 million was also included in other bonds and notes.

The District had commercial bank lines of credit totaling $15.5 million at December 31, 2006. The outstanding balance under these lines at the end of 2006 was $9.0 million.

Note 9 - Shareholders' Equity

Descriptions of AgBank's and Associations' capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protected Stock

Protection of certain stock is provided under the Farm Credit Act which requires AgBank and Associations, when retiring protected stock, to retire such stock at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If a Bank or an Association is unable to retire protected stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

Stock, Participation Certificates and Retained Earnings

In accordance with the Farm Credit Act, each borrower is required to invest in their respective association as a condition of borrowing. The borrower normally acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. AgBank and Associations have a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

Certain Associations require stock for each borrower loan while other Associations require stock for each borrower. The initial investment requirement varies by Association and ranges from the statutory minimum of two percent of the loan amount or one thousand dollars, whichever is less, to three percent of the loan. Each Association's Board of Directors may modify the investment requirement, as permitted within its capitalization bylaws, to meet the Association's capital needs.

Description of Equities

Provided below is a description of each class of Association and AgBank stock:

Associations: The former Wichita District Association issue voting Class B Stock, nonvoting Class C Stock, and preferred Class H Stock in such amounts as may be necessary to conduct its business. Class F Stock and Class G Stock are protected classes of stock which are no longer issued. The former Wichita District Associations have the authority to issue other classes of stock, no shares of which are outstanding as of December 31, 2006. The following table includes further information related to the classes of stock outstanding for the former Wichita District Associations as of December 31, 2006.

	Par Value	Number of Shares	Aggregate Par Value ($ in thousands)
Class B	$5.00	4,722,644	$ 23,614
Class C	$5.00	148,112	$ 741
Class F	$5.00	144,627	$ 723
Class G	$5.00	29,868	$ 149
Class H	$0.01	996,758,218	$ 9,968

The former Western District Associations issue voting Class A and Class C Stock for mortgage and agricultural loans, non-voting Class F participation certificates for rural residence or farm-related business loans and preferred Class H Stock in such amounts as may be necessary to conduct business. The former Western District Associations have the authority to issue other classes of stock, no shares of which are outstanding as of December 31, 2006. The following table includes further information related to the classes of stock outstanding for the former Western District Associations.

	Par Value	Number of Shares	Aggregate Par Value ($ in thousands)
Class A	$5.00	1,058	$ 5
Class C	$5.00	7,871,796	$ 39,360
Class F	$5.00	314,754	$ 1,574
Class H	$1.00	143,157,045	$ 143,157

The bylaws of the Associations permit stock and participation certificates to be retired at the discretion of the board of directors in accordance with the Association's capitalization plan. Each holder of voting common stock is entitled to a single vote in matters impacting the Associations. The eligibility to exercise the right to vote is dependent upon factors such as the organizational structure of the borrower and interrelationships of borrowers with more than one loan.

As determined by the Associations' boards of directors, dividends may be declared in stock and/or cash; and patronage distributions may be made in the form of stock, cash, qualified and/or nonqualified notices of allocation. Net income distributions may be made only when the Association meets capital adequacy standards under FCA regulations and no class of stock is impaired.

Generally, in the event of liquidation or dissolution of an Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: first, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock and participation certificates; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former patrons on a patronage basis, to the extent practicable. Additional details and individual association differences may be found in the Association annual reports.

Losses which result in impairment of stock would first impair all classes of common stock and participation certificates, if any, on a pro rata basis until fully impaired, then all classes of preferred stock on a pro rata basis until fully impaired.

AgBank: Associations are required to invest in the capital stock of AgBank. In addition, AgBank has allocated, but not distributed, a portion of its retained earnings to the Associations. These inter-company balances and transactions are eliminated in combination.

AgBank is authorized to issue and have outstanding the following classes of capital stock, each with a par value of $5.00 per share:

Class A Common Stock	-	Voting stock issued solely to and held solely by, Associations;
Class B Common Stock	-	Non-voting stock issued solely to, and held solely by, OFIs in support of their borrowing relationship with AgBank;
Class C Common Stock	-	Non-voting stock issued to System institutions in connection with loans or loan participations in which AgBank stock issuance is required; and,
Class D Preferred Stock	-	Non-voting stock issued in exchange for the Class A Common Stock of an Association that reaffiliates to another Farm Credit Bank or terminates its System status, or to any person or legal entity who purchases such stock as an at-risk equity investment in AgBank.

AgBank makes loans to Associations, which are generally referred to as wholesale loan volume. Each Association is required to own and maintain an investment in AgBank equities equal to 6.25 percent of its wholesale loan volume (the “Required Investment”).

AgBank equities include stock, whether purchased or received in a patronage refund, and attributed surplus. Surplus may be attributed to Associations under provisions of the AgBank bylaws. Attributed surplus does not represent a class of stock or other ownership interest. The Required Investment is measured on the first day of each calendar quarter with reference to the Association’s average quarterly wholesale loan volume, and after taking into account the prior quarter’s patronage. On the first day of each calendar quarter, if, and to the extent an Association’s investment in AgBank equities falls below the Required Investment (a “Shortfall”), then the Association is required to purchase additional Class A Common Stock in an amount necessary to eliminate the Shortfall.

If an Association has a Shortfall due to an AgBank loss that is not, in whole or in part, attributable to the Association’s wholesale loan, then the Association’s investment may be increased by up to 1.00 percent of the Association’s average wholesale loan volume in any 12-month period. For purposes of clarification, references to wholesale loan volume means an Association’s average daily outstanding loan balance owed to AgBank for the specified period, minus any average daily excess investment for such period.

On the first day of each calendar quarter, the amount by which an Association’s investment in AgBank equities exceeds the Required Investment is referred to as an “Excess Investment.” Except in specific instances, any excess patronage-based stock investment in AgBank will be counted by Associations as permanent capital, as per the Permanent Capital Counting Agreements with Associations. For purposes of clarification, references to Association include an ACA and its subsidiaries on a combined basis, which together shall represent one Association, or an FLCA.

At December 31, 2006, AgBank had $547.3 million (109,450,808 shares) of Class A Stock and $2 thousand (400 shares) of Class B Stock and $1 thousand (200 shares) of Class C Stock outstanding. No other classes or types of stock were outstanding for AgBank at year-end. All AgBank stock has a par value of $5.00 per share.

AgBank’s patronage program continued during 2006. AgBank distributed a cash patronage of $57.7 million during 2006, $50.6 million during 2005 and $33.5 million during 2004, to all Associations. In addition, certain Associations received a stock patronage which totaled $19.1 million during 2006, $15.3 million during 2005 and $10.5 million during 2004. The patronage distributed to the Associations is eliminated in combination.

As discussed in Note 8, only System banks are statutorily liable for the payment of principal and interest on Systemwide bonds and notes. See Note 19 for Bank-only financial data.

Other Equity: Each customer of AgVantis is required to invest in stock of AgVantis. As of year-end 2006, AgVantis recorded $610 thousand in stock outstanding, $30 thousand in Class A Stock from each Association customer and $100 thousand in Class B Stock from AgBank. The AgBank and Association stock is eliminated in combination.

At the inception of each OFI loan, AgBank requires OFIs to make cash purchases of stock in AgBank. AgBank has a first lien on these equities for the repayment of any indebtedness to AgBank. At December 31, 2006, AgBank had $2 thousand (400 shares) of stock outstanding to OFIs at a par value of $5.00 per share.

During 2006, AgBank loaned funds to AgVantis and required AgVantis to purchase stock in AgBank. At December 31, 2006, AgBank had $1 thousand (200 shares) of stock outstanding to AgVantis at a par value of $5.00 per share. This is eliminated in combination.

An additional component of retained earnings is accumulated other comprehensive income/(loss), which is reported net of taxes as follows:

	2006	2005	2004
Unrealized losses on investments held available-for-sale	**$ (26,542)**	$(33,470)	$(21,229)
Unrealized losses on cash flow hedges	**(14,454)**	(23,563)	(35,767)
Minimum pension liability	**(14,483)**	(25,941)	(19,180)
Minimum pension liability - tax	**194**	1,015	920
Total other comprehensive income/(loss)	**$ (55,285)**	$(81,959)	$(75,256)

The following table details activity in other comprehensive income/(loss).

	For the Year Ended December 31		
	2006	2005	2004
Beginning Balance - OCI	**$ (81,959)**	$ (75,256)	$ (42,569)
Unrealized holding losses on AFS investments	**6,928**	(12,240)	(10,691)
Unrealized holding losses on cash flow derivatives	**(2,435)**	(1,351)	(27,650)
Reclassification to earnings related to cash flow hedges	**11,544**	13,555	13,163
Minimum pension liability	**11,458**	(6,762)	(7,750)
Minimum pension liability - tax	**(821)**	95	241
Ending Balance - OCI	**$ (55,285)**	$ (81,959)	$ (75,256)

For further information on the minimum pension liability included in the previous table, refer to Note 11 Employee Benefit Plans.

Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require AgBank and Associations to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on AgBank's or Associations' financial statements. AgBank and Associations are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent.

The following table presents capital ratios for AgBank and the range of ratios and weighted averages for the District Associations at December 31, 2006.

	Permanent Capital Ratio	Core Surplus Ratio	Total Surplus Ratio
AgBank	20.42%	11.56%	17.00%
Associations	11.18% - 31.40%	10.46% - 29.61%	11.00% - 30.61%
Association weighted average	17.32%	15.42%	15.94%

In addition, AgBank is required by regulation to achieve and maintain a net collateral ratio of 103.00 percent of total liabilities. At December 31, 2006, AgBank's net collateral ratio was 105.06 percent. Included in the previous table are 26 ACAs that organized through the creation of FLCA and PCA subsidiaries, and 3 FLCAs. These subsidiaries and the ACA operate under a common board of directors and joint management. As a result, these Associations are jointly obligated to AgBank under the general financing agreement (GFA) and are evaluated on a consolidated basis for capital adequacy and other regulatory purposes. All District institutions exceed the regulatory minimum standards for capital and collateral at December 31, 2006.

An existing regulation empowers FCA to direct a transfer of funds or equities from one or more System institution to another System institution under specified circumstances. This regulation has not been utilized to date. AgBank and Associations have not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

Note 10 - Income Taxes

The provision for/(benefit from) income taxes follows:

	For the Year Ended December 31		
	2006	2005	2004
Current:			
Federal	**$ 1,219**	$ 3,025	$ 940
State	**27**	73	283
Deferred:			
Federal	**(1,756)**	(65)	12,286
State	**83**	(39)	722
Total (benefit from)/provision for income taxes	**$ (427)**	$ 2,994	$ 14,231

The difference in the statutory tax rate and the effective tax rate is primarily due to the tax exemption of AgBank and FLCA earnings. The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income presented as follows:

	For the Year Ended December 31		
	2006	2005	2004
Federal tax at statutory rate	**$ 118,349**	$ 113,424	$ 159,860
State tax, net	**75**	16	739
Effect of nontaxable entities	**(103,895)**	(99,111)	(132,716)
Bank stock patronage income	**(4,089)**	(3,440)	(1,897)
Patronage distributions	**(10,412)**	(9,147)	(6,626)
Impact of future anticipated patronage allocations	**-**	320	(4,321)
Write-off of deferred tax assets	**-**	-	1,712
Other	**(455)**	932	(2,520)
(Benefit from)/Provision for income taxes	**$ (427)**	$ 2,994	$ 14,231

Deferred tax assets and liabilities are comprised of the following:

	December 31		
	2006	2005	2004
Deferred tax assets:			
Allowance for loan losses	**$ 12,496**	$ 11,401	$ 12,108
Nonaccrual loan interest	**2,288**	1,328	956
Annual leave	**37**	26	249
Depreciation	**624**	-	-
Loss carryforwards	**10,627**	9,063	7,274
Employee benefit plan obligations	**599**	2,053	1,574
Other	**1,855**	1,770	1,395
Gross deferred tax asset	**28,526**	25,641	23,556
Less: Valuation allowance	**(13,350)**	(9,875)	(8,841)
Deferred tax assets, net of valuation allowance	**15,176**	15,766	14,715
Deferred tax liability:			
Bank patronage to Associations	**(9,371)**	(7,033)	(5,971)
Depreciation	**-**	(739)	(3,490)
Other	**(3,768)**	(6,809)	(4,269)
Gross deferred tax liability	**(13,139)**	(14,581)	(13,730)
Net deferred tax asset	**$ 2,037**	$ 1,185	$ 985

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained for those Associations operating as Subchapter T cooperatives. The expected future tax rates are based upon enacted tax laws.

District Associations and AgVantis recorded valuation allowances totaling $13.5 million, $9.9 million and $8.8 million during 2006, 2005 and 2004, respectively. Management will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

Note 11 - Employee Benefit Plans

Ninth Retirement Plans

AgBank, AgVantis and the former Wichita District Associations participate in the Ninth District Defined Benefit Retirement Plan (Ninth Retirement Plan). The Ninth Retirement Plan is noncontributory and covers most employees of AgBank, AgVantis and the former Wichita District Associations. Benefits are based on compensation and years of service.

Account Balance Plan provisions were added to the Ninth Retirement plan effective July 1, 1998. Employees with 5 years or less service at that time are under the new account balance provisions. Existing employees can receive the better benefit of the two plan provisions.

AgBank, AgVantis and the former Wichita District Associations also offer certain health care and other postretirement benefit plans to eligible retired employees. These plans are contributory and noncontributory and all employees hired on or before December 31, 2005 and have 10 years of service by retirement may become eligible for healthcare and other postretirement benefits if employed when they reach normal retirement age.

During 2004, the measurement date for determining pension and postretirement obligations, assets and income statement effects of employee benefit plans changed from December 31 to September 30. The change was made as part of a Systemwide effort for all Farm Credit entities to use a common measurement date. There was no material impact to the financial statements as a result of this change.

The following table sets forth the obligations and funding status of the Ninth Retirement Plan which includes nonqualified pension plan data and postretirement benefit plans:

	Pension Benefits			Other Benefits		
	2006	2005	2004	**2006**	2005	2004
Change in benefit obligation						
Benefit obligation at the beginning of the period	**$ 144,890**	$123,418	$ 110,517	**$ 11,188**	$ 9,986	$ 9,618
Service cost	**5,332**	4,468	4,076	**273**	250	235
Interest cost	**7,489**	7,307	6,777	**575**	590	588
Plan amendments	**-**	-	4,036	**-**	-	-
Actuarial (gain)/loss	**(8,467)**	14,846	1,014	**(693)**	844	(200)
Benefits paid	**(5,377)**	(5,149)	(3,072)	**(564)**	(496)	(320)
Special termination benefits	**-**	-	70	**(290)**	14	65
Benefit obligation at the end of the period	**$ 143,867**	$144,890	$ 123,418	**$ 10,489**	$ 11,188	$ 9,986
Change in plan assets						
Fair value of plan assets at beginning of the period	**$ 114,896**	$ 96,339	$ 89,617	**$ -**	$ -	$ -
Actual return on plan assets	**8,167**	13,094	2,720	**-**	-	-
Employer contributions	**4,134**	10,612	7,074	**564**	496	320
Benefits and premiums paid	**(5,377)**	(5,149)	(3,072)	**(564)**	(496)	(320)
Fair value of plan assets at the end of the period	**$ 121,820**	$114,896	$ 96,339	**$ -**	$ -	$ -
Funded status	**$ (22,047)**	$ (29,994)	$ (27,079)	**$(10,489)**	$(11,188)	$ (9,986)
Unrecognized net actuarial loss	**34,020**	44,385	36,293	**800**	1,524	680
Unrecognized prior service cost	**2,646**	2,908	3,185	**110**	477	553
Net amount recognized - September 30	**$ 14,619**	$ 17,299	$ 12,399	**$ (9,579)**	$ (9,187)	$ (8,753)
Fourth quarter employer contributions	**-**	-	5	**135**	127	114
Net amount recognized - December 31	**$ 14,619**	$ 17,299	$ 12,404	**$ (9,444)**	$ (9,060)	$ (8,639)
Amounts recognized in the statement of condition consist of:						
Prepaid benefit costs	**$ 19,688**	$ 21,547	$ 15,920	**$ -**	$ -	$ -
Accrued benefit liability	**(5,069)**	(4,248)	(3,516)	**(9,444)**	(9,060)	(8,639)
Net amount recognized	**$ 14,619**	$ 17,299	$ 12,404	**$ (9,444)**	$ (9,060)	$ (8,639)

The accumulated benefit obligation for the Ninth Retirement Plan was $113.3 million at September 30, 2006, and $111.1 million at September 30, 2005 and $93.4 million at September 30, 2004.

The net periodic benefit costs for the Ninth Retirement Plan and postretirement benefit plans included in the Combined Statement of Income is comprised of the following:

	Pension Benefits			Other Benefits		
	2006	2005	2004	**2006**	2005	2004
Components of net periodic benefit cost/(income)						
Service cost	**$ 5,332**	$ 4,468	$ 4,076	**$ 273**	$ 251	$ 235
Interest cost	**7,489**	7,307	6,777	**575**	590	588
Expected return on plan assets	**(8,693)**	(7,828)	(7,261)	**-**	-	-
Net amortization and deferral	**2,686**	1,764	1,244	**108**	76	76
Net periodic cost	**$ 6,814**	$ 5,711	$ 4,836	**$ 956**	$ 917	$ 899
Special termination benefits	**-**	-	70	**-**	14	64
Total cost	**$ 6,814**	$ 5,711	$ 4,906	**$ 956**	$ 931	$ 963

Ninth Retirement Plan Additional Information

In calculating pension expense for the Ninth Retirement Plan and in determining the expected rate of return, we use the calculated value of assets, which phases in investment gains and losses over a five-year period. Certain individuals in the former Wichita District may participate in separate nonqualified retirement benefit programs in addition to the pension plan.

Assumptions for Ninth Retirement Plan

Weighted average assumptions used to determine Ninth Retirement Plan and postretirement benefit obligations:

	Pension Benefits			Other Benefits		
	2006	2005	2004	**2006**	2005	2004
Discount rate	**6.00%**	5.25%	6.00%	**6.00%**	5.25%	6.00%
Rate of compensation increase	**5.00%**	5.00%	5.00%	**5.00%**	5.00%	5.00%

Weighted average assumptions used to determine net periodic benefit cost:

	Pension Benefits			Other Benefits		
	2006	2005	2004	**2006**	2005	2004
Discount rate	**5.25%**	6.00%	6.25%	**5.25%**	6.00%	6.25%
Expected long-term return on plan assets	**8.00%**	8.00%	8.00%	**NA**	NA	NA
Rate of compensation increase	**5.00%**	5.00%	5.00%	**5.00%**	5.00%	5.00%

The discount rate for the pension plans was selected by reference to actuarial analysis, industry norms, and Moody's Aa Long-term Corporate Bond Yield.

The 8.00 percent expected long-term rate of return assumption for the Ninth Retirement Plan is determined independently. The funding objective of the plans is to achieve and maintain assets adequate to cover the accumulated benefit obligation. The Trust Committee, comprised of certain members of senior management of participating employers, supervises the investment assets of the plans on behalf of the employers. The Trust Committee adopts an asset allocation strategy for each plan that reflects return and risk objectives, plan liabilities and other factors. Generally, plan trustees use long-term historical return information to establish a best-estimate range of returns for each asset class in which the plan is invested. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are reviewed to check for reasonability and appropriateness. Plan trustees also take into consideration the duration of Plan benefit liabilities and investment policies.

For postretirement benefit obligations measurement purposes, annual rates of increase of 7.50 percent in the per capita cost of covered health benefits were assumed for next year. The rates were assumed to decrease to 5.50 percent through the year 2008, and remain at that level thereafter. Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	$ 73	$ (63)
Effect on postretirement benefit obligation	$ 596	$ (519)

Plan Assets

The weighted average asset allocations of the Ninth Retirement Plan Assets by asset category are as follows:

	Pension Benefits		
	September 30 2006	September 30 2005	December 31 2004
Asset Category			
Equity securities	**$ 84,683**	$ 80,213	$ 67,382
Debt securities	**36,998**	34,577	28,863
Other	**139**	106	94
Total	**$ 121,820**	$ 114,896	$ 96,339

	Pension Benefits Target Allocation for next year
Asset Category	
Equity securities	65% - 75%
Debt securities	25% - 35%

The primary objective of the Ninth Retirement Plan is to provide present and future retirement or survivor benefits for its members by achieving an attractive rate of return, without exposing the Ninth Retirement Plan to undue risk through the investment policies and strategies for the Plan.

The Trust Committee believes it is appropriate for the Ninth Retirement Plan to assume a moderate degree of investment risk with diversification of Ninth Retirement Plan assets among different classes or types of investments, as appropriate, as a means of mitigating this risk. Plan trustees develop asset allocation policies based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. Postretirement health care plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

AgBank, AgVantis and former Wichita District Associations expect to contribute $4.1million to the Ninth Retirement Plan and $0.5 million to the postretirement plan in 2007.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	**Other Benefits**
2007	$ 12,598	$ 646
2008	$ 8,837	$ 697
2009	$ 8,260	$ 728
2010	$ 13,647	$ 756
2011	$ 11,706	$ 809
2012- 2016	$ 69,303	$ 4,702

Eleventh Retirement Plans

AgBank and the former Western District Associations participate in the Eleventh District Defined Benefit Retirement Plan (Eleventh Retirement Plan). The Eleventh Retirement Plan is noncontributory and covers many employees of the former Western District Associations and some AgBank employees. Benefits are based on compensation and years of service.

The Eleventh Retirement Plan was closed to new employees during 1997. Qualified employees were given an option of remaining in the plan or entering the Defined Contribution Plan (D.C.). New employees after June 2, 1997 are in the D.C. plan.

AgBank and the former Western District Associations also offer certain health care and other postretirement benefit plans to eligible retired employees. These plans are contributory and noncontributory and substantially all employees may become eligible for healthcare and other postretirement benefits if they reach normal retirement age.

During 2004, the measurement date for determining pension and postretirement obligations, assets and income statement effects of employee benefit plans changed from December 31 to September 30. The change was made as part of a Systemwide effort for all Farm Credit entities to use a common measurement date. There was no material impact to the financial statements as a result of this change.

The following table sets forth the obligations and funding status of the Eleventh Retirement Plan which includes nonqualified pension plan data and postretirement benefit plans:

	Pension Benefits			**Other Benefits**		
	2006	2005	2004	**2006**	2005	2004
Change in benefit obligation						
Benefit obligation at the beginning of the period	**$ 175,500**	$153,833	$ 143,485	**$ 5,321**	$ 4,750	$ 3,692
Service cost	**3,233**	3,068	2,817	**147**	124	124
Interest cost	**8,784**	9,059	9,139	**273**	278	251
Plan amendments	**-**	(9,242)	(1,536)	**-**	-	-
Actuarial (gain)/loss	**(8,224)**	25,293	3,772	**(527)**	377	549
Benefits paid	**(10,915)**	(7,123)	(5,344)	**(303)**	(208)	(156)
Other	**-**	612	1,500	**-**	-	290
Benefit obligation at the end of the period	**$ 168,378**	$175,500	$ 153,833	**$ 4,911**	$ 5,321	$ 4,750
Change in plan assets						
Fair value of plan assets at beginning of the period	**$ 117,433**	$107,904	$ 110,913	**$ -**	$ -	$ -
Actual return on plan assets	**9,812**	14,184	2,302	**-**	-	-
Employer contributions	**3,542**	2,468	33	**303**	208	156
Benefits paid	**(10,915)**	(7,123)	(5,344)	**(303)**	(208)	(156)
Fair value of plan assets at the end of the period	**$ 119,872**	$117,433	$ 107,904	**$ -**	$ -	$ -
Funded status plan assets	**$ (48,506)**	$ (58,067)	$ (45,929)	**$ (4,911)**	$ (5,321)	$ (4,750)
Unrecognized net actuarial loss/(gain)	**42,115**	56,480	39,436	**386**	945	624
Unrecognized prior service cost	**(8,067)**	(8,818)	1,621	**(390)**	(488)	(585)
Unrecognized net transition (asset) or obligation	**(2,220)**	(2,536)	(2,852)	**38**	46	43
Net amount recognized - September 30	**$ (16,678)**	$ (12,941)	$ (7,724)	**$ (4,877)**	$ (4,818)	$ (4,668)
Fourth quarter employer contributions	**3,455**	3,457	2,370	**84**	52	52
Net amount recognized - December 31	**$ (13,223)**	$ (9,484)	$ (5,354)	**$ (4,793)**	$ (4,766)	$ (4,616)
Amounts recognized in the statement of condition consist of:						
Accrued benefit liability	**$ (27,706)**	$ (35,425)	$ (25,766)	**$ (4,793)**	$ (4,766)	$ (4,613)
Intangible asset	**-**	-	1,621	**-**	-	-
Deferred tax asset	**195**	1,015	920	**-**	-	-
Accumulated other comprehensive (income)/ loss, net of tax	**14,288**	24,926	18,260	**-**	-	-
Net amount recognized	**$ (13,223)**	$ (9,484)	$ (4,965)	**$ (4,793)**	$ (4,766)	$ (4,613)

Certain individuals in the former Western District may participate in separate additional nonqualified retirement benefit programs in addition to the pension plan.

The accumulated benefit obligation for the Eleventh Retirement Plan was $150.3 million at September 30, 2006 and $156.5 million at September 30, 2005 and $135.7 million at September 30, 2004.

The net periodic benefits costs for the Eleventh Retirement Plan and postretirement benefit plans included in the Combined Statement of Income is comprised of the following:

	Pension Benefits			**Other Benefits**		
	2006	2005	2004	**2006**	2005	2004
Components of net periodic benefit cost/(income)						
Service cost	**$ 3,233**	$ 3,068	$ 2,817	**$ 147**	$ 123	$ 124
Interest cost	**8,784**	9,059	9,139	**273**	278	251
Expected return on plan assets	**(9,229)**	(9,041)	(9,135)	**-**	-	-
Net amortization and deferral	**3,810**	4,544	3,139	**(58)**	(76)	(89)
Net periodic cost	**$ 6,598**	$ 7,630	$ 5,960	**$ 362**	$ 325	$ 286

Eleventh Retirement Plan Additional Information

At December 31, 2006, an Eleventh Retirement Plan minimum pension liability in the amount of $14.5 million was recognized. The offsetting impact was recorded to accumulated other comprehensive loss in the balance sheet. As a result, there was no income statement impact. As of December 31, 2005 and 2004, the minimum pension liability was $25.9 million and $20.8 million, respectively.

As of December 31, 2006, 2005 and 2004, the minimum pension liability before tax effect included as a reduction in accumulated other comprehensive income was $14.5 million, $25.9 million and $19.2 million, respectively.

In calculating pension expense for the Eleventh Retirement Plan, we use the calculated value of assets, including current year gains and losses.

Assumptions for Eleventh Retirement Plan

Weighted average assumptions used to determine Eleventh Retirement Plan and postretirement benefit obligations:

	Pension Benefits			**Other Benefits**		
	2006	2005	2004	**2006**	2005	2004
Discount rate	**6.00%**	5.25%	6.00%	**6.00%**	5.25%	6.00%
Rate of compensation increase	**4.50%**	4.50%	4.50%	**NA**	NA	NA

Weighted average assumptions used to determine net periodic benefit cost:

	Pension Benefits			**Other Benefits**		
	2006	2005	2004	**2006**	2005	2004
Discount rate	**5.25%**	6.00%	6.50%	**5.25%**	6.00%	6.50%
Expected long-term return on plan assets	**8.25%**	8.50%	8.50%	**NA**	NA	NA
Rate of compensation increase	**4.50%**	4.50%	5.00%	**NA**	NA	NA

The discount rate for the pension plans was selected by reference to actuarial analysis, industry norms, and Moody's Aa Long-term Corporate Bond Yield.

The funding objective of the plans is to achieve and maintain assets adequate to cover the accumulated benefit obligation. The 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. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are reviewed to check for reasonability and appropriateness. Plan trustees also take into consideration the duration of Plan benefit liabilities and Plan sponsor investment policies.

For postretirement benefit obligations measurement purposes, annual rates of increase of 6.00 percent in the per capita cost of covered health benefits were assumed for next year. The rates were assumed to remain at 6.00 percent through the year 2008, and continue at that level thereafter. Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	$ 39	$ (43)
Effect on postretirement benefit obligation	$ 408	$ (378)

Plan Assets

The weighted average asset allocations of the Eleventh Retirement Plan Assets by asset category are as follows:

	Pension Benefits		
	September 30 2006	September 30 2005	December 2004
Asset Category			
Equity securities	**$ 78,881**	$ 72,423	$ 66,541
Debt securities	**40,259**	44,365	39,562
Other	**732**	645	1,801
Total	**$ 119,872**	$117,433	$ 107,904

	Pension Benefits Target Allocation for next year
Asset Category	
Equity securities	60% - 70%
Debt securities	30% - 40%

The Trust Committee employs 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, and small 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. Postretirement health care plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

AgBank and the former Western District Associations expect to contribute $3.8 million to the Eleventh Retirement Plan and $0.3 million to the postretirement plan in 2007.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits
2007	$ 11,163	$ 228
2008	$ 11,699	$ 231
2009	$ 11,690	$ 235
2010	$ 14,165	$ 243
2011	$ 14,175	$ 254
2012 - 2016	$ 73,086	$ 1,487

Defined Contribution Plans

AgBank, AgVantis and Associations also participate in a Ninth or Eleventh District defined contribution retirement savings plan. The plans require the employer to match a percentage of employee contributions. AgBank's, AgVantis' and Associations' contributions to the Defined Contribution Plans were $7.6 million, $6.3 million, and $6.2 million for 2006, 2005 and 2004, respectively.

NOTE 12 - INTRA-SYSTEM FINANCIAL ASSISTANCE

The Farm Credit Act allowed for the Financial Assistance Corporation to provide capital assistance to System institutions that were experiencing severe financial stress. This was done through the issuance, prior to October 1, 1992, of U.S. Treasury-guaranteed 15-year bonds, of which $1.26 billion in principal amount was originally issued. The last remaining Financial Assistance Corporation bonds matured and were repaid on June 10, 2005.

Pursuant to the Farm Credit Act, the U.S. Treasury paid $440 million, on behalf of the System, in interest costs on $844 million of the Financial Assistance Corporation bonds issued for purposes other than funding Capital Preservation Agreement accruals. The Banks had irrevocably set aside funds, including interest earned, that totaled the $440 million needed to repay the interest advanced by the U.S. Treasury. On June 10, 2005, the Banks repaid the U.S. Treasury interest advanced. The FCA Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

NOTE 13 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, Associations enter into loan transactions with officers and directors of AgBank or Associations, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The following table details information on loans made to such persons.

	2006	2005	2004
Total loans with officers and directors	**$ 554,860**	$ 505,594	$ 531,027
New loans made	**$ 466,277**	$ 383,326	$ 481,530
Repayments	**$ 417,083**	$ 385,427	$ 458,936
Other (1)	**$ 72**	$ (23,332)	$ 20,016

(1) Other consists of the net of new directors' and resigned directors' loan balances.

In the opinion of management, none of the loans outstanding at December 31, 2006 involved more than the normal risk of collectibility.

AgBank and certain Associations purchase technical and systems support from AgVantis. The AgVantis Board of Directors is comprised of six elected directors, which are CEOs of the Associations, one director who is an officer of AgBank appointed by the AgBank CEO, and one Association director appointed by the other Board members.

Note 14 - Regulatory Enforcement Matters

No FCA regulatory enforcement actions currently exist within the District.

Note 15 - Commitments and Contingencies

AgBank and Associations have various contingent liabilities and commitments outstanding. While primarily liable for its portion of Systemwide Debt Securities, AgBank is jointly and severally liable for the Systemwide Debt Securities of the other System banks. The total Systemwide Debt Securities of the System at December 31, 2006 were $133.63 billion.

AgBank and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount 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 contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2006, $6.47 billion of commitments to extend credit were outstanding.

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

AgBank and Associations also participate in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2006, the District had $129.9 million of standby letters of credit.

Actions are pending against AgBank and certain Associations in which claims for monetary damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, would not be significant in relation to the combined financial position of AgBank, Associations, and AgVantis.

Note 16 - Derivative Financial Instruments and Hedging Activities

AgBank incurs and manages the primary sources of interest rate risk within the District. AgBank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to manage significant unplanned fluctuations in earnings that are caused by interest rate volatility. AgBank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain assets and liabilities so that movements in interest rates do not adversely affect market values or the net interest margin. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by AgBank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of assets and liabilities, respectively, will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by AgBank's income or expense from the derivative instruments that are linked to these hedged assets and liabilities. AgBank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents market values and earnings from being exposed to undue risk posed by changes in interest rates.

AgBank enters into derivatives, particularly interest rate swaps, interest rate caps, and interest rate floors, to lower funding costs, manage liquidity, diversify sources of funding, or manage interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps allow AgBank to convert fixed rate long-term debt to a floating rate instrument. The resulting cost of funds may be lower than it would have been if floating rate borrowings were made directly and also lowers AgBank's liquidity risk. Under interest rate swap arrangements, AgBank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount with at least one stream based on a specified floating rate index.

Given asset-liability mismatches, AgBank may use a variety of interest rate swaps to achieve a better match with the repricing characteristics of interest earning assets. The exchange of floating rate for fixed rate (receive fixed swaps); fixed rate for floating rate (pay fixed swaps); and floating rate for floating rate with payment obligations tied to specific indices may be used to reduce the impact of market fluctuations on AgBank's net interest income.

Options, such as interest rate caps and floors, are used to reduce the impact of changing interest rates These options meet all hedge criteria and thus, are designated cash flow hedges. Changes in fair value of cash flow hedges are deferred and reported in accumulated other comprehensive income.

By using derivative instruments, AgBank exposes itself to credit risk and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, AgBank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes AgBank, and creates a repayment risk for AgBank. When the fair value of the derivative contract is negative, AgBank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, AgBank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of and levels of exposure to individual counterparties, of which eight represent approximately 88 percent of the total notional amount of interest rate swaps. AgBank does not anticipate nonperformance by any of these counterparties. AgBank typically enters into master agreements that include netting provisions and the right of offset which allows AgBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. All derivative transactions are supported by collateral arrangements with counterparties. At December 31, 2006, AgBank has not posted or received collateral with respect to these arrangements.

Fair-Value Hedges

AgBank enters into interest rate swaps primarily to convert fixed rate long-term debt to floating rate debt.

Cash Flow Hedges

AgBank uses various types of interest rate caps and swaps to reduce the impact of rising interest rates on short-term debt and to offset the effect of periodic and lifetime caps on loans and investments. AgBank also uses interest rate floors to reduce the impact of falling interest rates on floating rate assets. The specific terms and notional amounts of the swaps are determined based on management's assessment of future interest rates and strategies initiatives.

For certain cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current period earnings are included in the line item in which the hedged item is recorded in the same period the forecasted transaction was to affect earnings. As of December 31, 2006, $4.6 million of the deferred net losses on closed derivative instruments in accumulated other comprehensive income are expected to be reclassified as earnings during the next twelve months. The maximum term over which AgBank is hedging its exposure to the variability of future cash flows (for all forecasted transactions, excluding interest payments on variable rate debt) is ten years.

For both fair value and cash flow hedges, the amount of hedge ineffectiveness is reflected in interest income or interest expense. Changes in the fair value of derivatives not meeting hedge criteria are included in noninterest expense. The two swaps not meeting hedge criteria at year-end 2004 were sold during 2005. The balance of accumulated other comprehensive income (loss) includes fair value adjustments relating to investments held as available-for-sale and accumulated gains or losses on cash flow derivatives, which are anticipated to be reclassified as income or expense in the future.

The following table details the activity in earnings related to derivatives:

	For the Year Ended December 31		
	2006	2005	2004
Recognition in income (expense):			
Fair value hedges			
Hedge ineffectiveness	**$ 1,386**	$ 211	$ 44
Components excluded from the effectiveness assessment	**-**	19	159
Cash flow hedges			
Ineffective component of cash flow hedges	**(570)**	(80)	(143)
Discontinuance of cash flow hedges	**(8,528)**	(6,705)	(1,852)
Derivatives not designated as hedges			
Change in fair value of derivatives not designated as hedges	**-**	20	27
Total impact to earnings	**$ (7,712)**	$ (6,535)	$ (1,765)

During 2006, AgBank closed out eight interest rate cap derivatives and recorded a loss of $8.5 million. These caps were either three-month LIBOR caps or six-month LIBOR caps originally purchased as hedges against rising interest rates on debt. These were replaced with interest rate caps indexed to 1-month LIBOR to better match the portfolio of liabilities being hedged. By discontinuing these caps the remaining unamortized premiums of $8.5 million were recognized and premium amortization included in interest expense in future periods will be reduced by a similar amount. In 2005, AgBank terminated five interest rate swaps that were cash flow hedges and recorded a $6.7 million loss. These were pay fixed swaps entered into at higher interest rates that were replaced with lower cost debt.

NOTE 17 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the District's financial instruments at December 31, 2006, 2005 and 2004. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly impact the estimates.

The estimated fair values of AgBank's and Associations' financial instruments are as follows:

	December 31					
	2006		2005		2004	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans and notes receivable, net	**$ 17,561,099**	**$ 17,513,199**	$16,715,885	$16,640,102	$15,455,403	$15,494,414
Cash and federal funds	**$ 217,465**	**$ 217,465**	$ 246,785	$ 246,785	$ 307,931	$ 307,931
Investment securities	**$ 4,913,848**	**$ 4,916,484**	$ 4,015,006	$ 4,016,731	$ 3,093,881	$ 3,100,278
Derivative assets	**$ 13,277**	**$ 13,277**	$ 18,707	$ 18,707	$ 18,597	$ 18,597
Financial liabilities:						
Systemwide debt securities	**$ 18,181,097**	**$ 18,107,609**	$16,887,255	$16,803,358	$15,281,029	$15,324,741
Other bonds and notes	**$ 569,514**	**$ 569,360**	$ 393,666	$ 391,612	$ 171,392	$ 171,389
Financial assistance related liabilities	**$ -**	**$ -**	$ -	$ -	$ (353)	$ (618)
Derivative liabilities	**$ 53,897**	**$ 53,897**	$ 81,495	$ 81,495	$ 40,513	$ 40,513
Unrecognized financial instruments:						
Commitments to extend credit	**$ -**	**$ 101**	$ -	$ (72)	$ -	$ 3

A description of the methods and assumptions used to estimate the fair value of each class of the District's financial instruments for which it is practicable to estimate the value follows.

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

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair value of loans in nonaccrual status is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows.

Cash and Federal Funds: The carrying value is a reasonable estimate of fair value.

Investment Securities: Fair value is primarily based upon quotes received from a nationally recognized pricing service.

Systemwide Debt Securities and Other Bonds and Notes: Bonds and notes at times may not be regularly traded; thus, quoted market prices may not be available. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury issues.

Financial Assistance Related Liabilities: As of December 31, 2004, AgBank and Associations were liable for certain obligations of the Financial Assistance Corporation, one of which was unrecorded. Fair values of these obligations were determined by discounting the cumulative expected future cash flows of all of the obligations using a current interest rate commensurate with bonds having a similar maturity.

Derivative Financial Instruments: The fair value of derivative financial instruments (asset and liability) is the estimated amount that AgBank would receive or pay to terminate the agreement at the reporting date, considering current interest rates and the current credit worthiness of the counterparties.

Commitments to extend credit: The fair value considers the difference between the current level of interest rates and the committed rates.

NOTE 18 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly combined results of operations for the years ended December 31, 2006, 2005 and 2004 follow:

			2006		
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 143,436**	**$ 144,693**	**$ 149,136**	**$ 154,766**	**$ 592,031**
Loan loss reversal/(Provision for loan losses)	**1,281**	**(121)**	**(1,162)**	**(7,514)**	**(7,516)**
Noninterest expenses, net	**(55,828)**	**(54,479)**	**(53,794)**	**(71,902)**	**(236,003)**
Net income	**$ 88,889**	**$ 90,093**	**$ 94,180**	**$ 75,350**	**$ 348,512**

			2005		
	First	Second	Third	Fourth	Total
Net interest income	$ 127,746	$ 130,665	$ 134,005	$ 137,448	$ 529,864
Loan loss reversal/(Provision for loan losses)	2,775	2,599	5,229	(438)	10,165
Noninterest expenses, net	(48,800)	(52,165)	(51,309)	(57,147)	(209,421)
Net income	$ 81,721	$ 81,099	$ 87,925	$ 79,863	$ 330,608

			2004		
	First	Second	Third	Fourth	Total
Net interest income	$ 115,556	$ 117,667	$ 122,215	$ 124,708	$ 480,146
Loan loss reversal/(Provision for loan losses)	(948)	29,346	5,188	160,510	194,096
Noninterest expenses, net	(46,889)	(57,677)	(48,088)	(65,643)	(218,297)
Net income	$ 67,719	$ 89,336	$ 79,315	$ 219,575	$ 455,945

Note 19 - Bank Only Financial Data

AgBank's condensed financial information follows:

Statement of Condition

	December 31		
	2006	2005	2004
Loans to Associations	**$ 14,126,632**	$ 13,374,650	$ 12,616,036
Loans to others	**760,151**	692,783	649,711
Less Allowance for loan losses	**927**	1,209	4,970
Net loans	**14,885,856**	14,066,224	13,260,777
Cash, federal funds and investment securities	**4,402,388**	3,873,525	2,985,339
Other assets	**292,284**	227,230	169,110
Total assets	**$ 19,580,528**	$ 18,166,979	$ 16,415,226
Systemwide debt securities	**$ 18,181,097**	$ 16,887,255	$ 15,281,029
Other liabilities	**323,926**	287,728	190,251
Total liabilities	**18,505,023**	17,174,983	15,471,280
Stock	**547,257**	494,761	462,337
Retained earnings	**576,599**	560,535	543,735
Accumulated other comprehensive income/(loss)	**(48,351)**	(63,300)	(62,126)
Total shareholders' equity	**1,075,505**	991,996	943,946
Total liabilities and shareholders' equity	**$ 19,580,528**	$ 18,166,979	$ 16,415,226

Statement of Income

	For the Year Ended December 31		
	2006	2005	2004
Interest income	**$ 949,692**	$ 660,062	$ 429,972
Interest expense	**840,773**	570,246	362,348
Net interest income	**108,919**	89,816	67,624
Loan loss reversal	**(142)**	(3,772)	(15,961)
Net interest income after loan loss reversal	**109,061**	93,588	83,585
Noninterest income	**20,777**	20,107	18,145
Noninterest expense			
Salaries and employee benefits	**14,368**	13,732	13,884
Occupancy and equipment expense	**2,277**	2,284	2,310
Insurance fund premium	**1,117**	328	339
Other operating expense	**10,661**	8,013	7,828
(Gains)/Losses on other property owned	**(7)**	(143)	16
Intra-System financial assistance expenses	**-**	87	204
Loss on discontinuance of cash flow hedge	**8,528**	6,705	1,852
Loss on early extinguishment of debt	**-**	-	1,781
Net income	**$ 92,894**	$ 82,689	$ 73,516

AgBank patronage distributions to Associations are reflected in the following table.

	For the Year Ended December 31		
	2006	2005	2004
Patronage in stock	**$ 19,137**	$ 15,321	$ 10,475
Patronage in cash	**57,693**	50,568	33,500
Total patronage	**$ 76,830**	$ 65,889	$ 43,975

Associations are required to own and maintain an investment in AgBank equities equal to 6.25 percent of its wholesale loan volume (the "Required Investment"). AgBank equities include stock, whether purchased or received in a patronage refund, and attributed surplus.

All inter-company balances and transactions are eliminated in combination.

NOTE 20 - ADDITIONAL DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS DISCLOSURES

The table below provides information about derivatives and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates. This table was prepared using the implied forward yield curve at December 31, 2006.

Maturities of 2006 Derivative Products and Other Financial Instruments

December 31, 2006 *(dollars in millions)*	2007	2008	2009	2010	2011	After 2011	Total	Fair Value
Systemwide Debt Securities:								
Fixed rate	$ 2,921	$ 1,589	$ 926	$ 763	$ 551	$3,591	$10,341	$10,272
Weighted average interest rate	4.89%	4.33%	4.86%	4.46%	4.97%	5.25%	4.90%	
Variable rate	$ 3,086	$ 2,480	$ 960	$ 813	$ 301	$ 200	$ 7,840	$ 7,836
Weighted average interest rate	5.28%	5.27%	5.25%	5.27%	5.28%	5.28%	5.27%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 1,252	$ 1,075	$ 978	$ 300	$ 300	$ 200	$ 4,105	$ (51)
Weighted average receive rate	3.12%	3.79%	4.25%	4.92%	5.34%	5.05%	3.95%	
Weighted average pay rate	5.15%	4.84%	4.88%	4.92%	5.03%	5.17%	4.98%	
Amortizing pay fixed								
Notional value	$ -	$ -	$ -	$ 9	$ -	$ -	$ 9	$ -
Weighted average receive rate				4.82%			4.82%	
Weighted average pay rate				7.00%			7.00%	
Forward starting								
Notional value	$ -	$ -	$ -	$ 25	$ -	$ -	$ 25	$ -
Weighted average receive rate				5.00%			5.00%	
Weighted average pay rate				5.24%			5.24%	
Interest rate caps								
Notional value	$ 345	$ 165	$ 260	$ 235	$ 150	$ 270	$ 1,425	$ 9
Other derivative products								
Notional value	$ 300	$ -	$ 100	$ -	$ -	$ -	$ 400	$ 1
Total notional value	$ 1,897	$ 1,240	$ 1,338	$ 569	$ 450	$ 470	$ 5,964	$ (41)
Total weighted average rates on swaps:								
Receive rate	3.12%	3.79%	4.25%	4.92%	5.34%	5.05%	3.96%	
Pay rate	5.15%	4.84%	4.88%	5.00%	5.03%	5.17%	4.99%	

COMPENSATION DISCUSSION AND ANALYSIS

The objectives of the U.S. AgBank Chief Executive Officer (CEO) compensation plans (Plans) are to:

- Provide market based compensation levels through base salary, and annual and long-term incentive components that will allow AgBank to attract, motivate and retain superior executive talent;
- Place a significant portion of total compensation for executives at risk and contingent upon meeting performance goals; and
- Ensure long-term financial stability of AgBank is emphasized over short-term results and decisions.

The Plans are designed to:

- Reward successful business year results through an Annual Incentive Plan;
- Foster AgBank long-term financial stability;
- Significantly contribute to the retention of executives through the Long-Term Incentive Plan; and
- Emphasize AgBank results as a significant part of the basis for incentive compensation.

Due to the cooperative business structure of AgBank, the Plans do not contain stock-based compensation alternatives.

The Annual Incentive Plan performance factors and the weightings used in 2006 were earnings (25%), credit quality (25%), operating efficiency (25%), service quality (10%), and a Board discretionary rating (15%). In the 2006 Annual Incentive Plan, the CEO award range was 0 percent to 30 percent of base pay. The actual percentage of base pay awarded is determined by the results achieved in relation to the minimum and maximum levels of performance for each performance factor as established by the AgBank Board of Directors and the Board's performance appraisal rating of the CEO.

As the CEO is responsible for the long-term success of AgBank, the long-term incentive opportunity is linked to long-term stability. The Contractual Interbank Performance Agreement (CIPA) score (80%) and a Board discretionary rating (20%) are used as the performance factors for the Long-Term Incentive Plan. The CEO award range for the 2006 Long-Term Incentive Plan was 0% to 33%. The actual percentage of base pay awarded is determined by the results achieved in relation to the minimum and maximum levels of performance for each performance factor as established by the AgBank Board and the Board's performance appraisal rating of the CEO.

Additionally, AgBank provides a comprehensive and market-based package of employee benefits for health and welfare, and for retirement purposes. The employee benefits provided to the CEO are through the same benefit plans as are offered to similarly situated other employees. In addition, some retirement benefits are restored for the CEO and other AgBank executives through one or more nonqualified retirement plans.

SUMMARY COMPENSATION TABLE

	Year	Base Salary	Annual Incentive Compensation	Long-term Incentive Compensation	All Other Compensation	Total
Darryl W. Rhodes, CEO-elect (1)	2006	$ 35,417			$ 1,784	$ 37,201
Jerold L. Harris	2006	$ 387,370	$ 100,000	$ 125,000	$ 44,560 (3)	$ 656,930
	2005	$ 367,444	$ 84,600	$ 113,000	$ 30,682	$ 595,726
	2004	$ 352,647	$ 60,000	$ 100,000	$ 30,848	$ 543,495
6 other Senior Officers (2)	2006	$1,269,693	$ 188,000	$ 238,400	$ 87,190	$1,783,283
5 other Senior Officers	2005	$1,071,804	$ 165,500	$ 212,550	$ 75,569	$1,525,423
5 other Senior Officers	2004	$1,037,753	$ 152,000	$ 198,840	$ 69,415	$1,458,008

(1) One month compensation as CEO-elect recognized in 2006.

(2) Includes Darryl W. Rhodes as Executive Vice President-Finance for 11 months in 2006.

(3) Other compensation includes company contributions for 401(k), nonqualified deferred compensation, life and disability insurance, retirement gifts, spousal travel, and other miscellaneous expenses.

Summary Compensation Narrative Disclosure

The Base Salary, Annual Incentive and Long-Term Incentive Compensation columns include all amounts paid during the year regardless of whether a portion of such compensation has been deferred at the CEO's or officers' election. During 2006, the CEO voluntarily deferred $200,904 of compensation, and the six other senior officers voluntarily deferred $170,201 of compensation under the 401(k) Plan and the Nonqualified Deferred Compensation Plan. Individual compensation for any senior officer included here in the aggregate is available to shareholders upon request.

Other Compensation is primarily comprised of company contributions to benefit plans, taxable group term life insurance premiums, and long-term disability premiums. In 2006, AgBank's contribution to the CEO's 401(k) was $13,000 and AgBank contributed $11,410 to the Nonqualified Deferred Compensation Plan.

In addition to base salary, employees and executives can earn additional bonus compensation under an annual incentive plan which is tied to the overall business performance and the individual's performance appraisal rating. The incentive plan is based on a fiscal year and is designed to motivate employees to exceed performance targets established by the Board of Directors. The incentive compensation payout is based on the level by which performance exceeds the minimum targets and based on the performance appraisal rating of the employee. In 2006, performance targets were established for the following factors: Earnings, Operating Efficiency, Asset Quality and Service Quality. In addition, the plan includes provisions for AgBank's Board of Directors to evaluate AgBank's performance in other important but subjective areas of operations.

While all employees are covered by the incentive plan, the percentage of salary that can be earned increases at manager levels and at senior officer and executive levels. Also, the percentage of salary that can be earned is higher if the individual's performance rating is higher. Incentive compensation amounts are shown in the year paid. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on AgBank business. A copy of the travel policy is available to shareholders upon written request.

Similar to the CEO, an executive long-term incentive plan is also in place for the Executive Vice President, and two Senior Vice Presidents. Since 1996, and in each subsequent year thereafter, the Board of Directors has approved a new three-year plan. Each of these plans runs for three fiscal years and utilizes CIPA score targets for three years in the future and a Board of Directors discretionary rating. Performance in these areas will determine the long-term plan payout, if any, subsequent to the end of each three-year period. Since 1998, substantially all other employees are eligible for the long-term retention bonus plan, which has been approved by the board annually. Under this program individual bonus awards are established but not paid out for approximately 30 months. Employees that terminate forfeit these awards. Factors utilized by management to determine these awards include the critical nature of the position, market pressures, career stage of the employee, employee performance, typical bonus levels for the position, and current salary.

The plans were also approved for 2007.

Jerold L. Harris, retired from the CEO position effective January 19, 2007 and the Employment Agreement ("Agreement") between Mr. Harris and AgBank expired on that date. The pertinent elements of this Agreement included a final incentive payment (annual and long-term) of $320,000 and a Supplemental Executive Retirement Plan ("SERP") which provides a pension benefit based on the high 36-month average compensation instead of the high 60-month average utilized in the Qualified Pension Plan.

The AgBank Board of Directors performed an executive search during 2006 and selected Darryl W. Rhodes as the new CEO effective January 20, 2007. Mr. Rhodes began serving as the CEO-elect as of December 1, 2006. Mr. Rhodes has served as AgBank's Executive Vice President-Finance since 1991 and has been in various other credit and management positions during his 34 years in the District.

Pension Benefits Table

The following table presents a summary of the total annual benefits that would be provided from all pension plans applicable to the CEO:

Average	Years of Service						
Remuneration	15	20	25	30	35	40	45
$ 400,000	$103,100	$ 137,400	$ 171,800	$ 206,200	$240,500	$ 274,900	$ 309,200
$ 450,000	$116,200	$ 154,900	$ 193,700	$ 232,400	$271,100	$ 309,900	$ 348,600
$ 500,000	$129,300	$ 172,400	$ 215,500	$ 258,700	$301,800	$ 344,900	$ 388,000
$ 600,000	$155,600	$ 207,400	$ 259,300	$ 311,200	$363,000	$ 414,900	$ 466,700
$ 750,000	$195,000	$ 259,900	$ 324,900	$ 389,900	$454,900	$ 519,900	$ 584,900

The annual annuity benefits shown above are computed as total annual 50% joint-and-survivor annuities for a retirement in 2006 and are for illustrative purposes only as the Non-qualified Plan and Supplemental Executive Retirement Plan (SERP) do not have an annuity option.

Pension Benefits Narrative Disclosure

The CEO participates in two defined benefit pension plans: The Ninth Farm Credit District Pension Plan (Pension Plan), a tax-qualified pension plan; and the U.S. AgBank District Pension Restoration Plan (Pension Restoration Plan), a nonqualified plan. The Pension Restoration Plan provides the portion of the employee's benefit that cannot be paid from the Pension Plan due to the pay and benefit limitations set by the Internal Revenue Code. In addition, benefits in the Pension Restoration Plan are based on total compensation including any deferred compensation. The CEO is also eligible for a SERP as defined in the Agreement.

Qualified Pension Plan - The Qualified Pension Plan provides participants with a 50% joint-and-survivor annuity benefit at normal retirement equal to 1.50% of high 60-month average earnings multiplied by years of benefit service; plus 0.25% of high 60-month average earnings in excess of Covered Compensation multiplied by years of benefit service. The Pension Plan includes earnings (base salary, short-term incentive and long-term incentive) up to the current limit imposed by the Internal Revenue Code of $325,000. Covered Compensation is a 35 year average of the Social Security Taxable Wage Bases up to retirement age. The CEO's 2006 actual compensation for pension purposes is $610,258. As of his retirement date, the CEO had 45.4 years of service and will receive an unreduced retirement benefit under the Pension Plan.

Pension Restoration Plan - With the following exceptions, the provisions of the Pension Restoration Plan are the same as those of the Qualified Pension Plan:

- The Qualified Pension Plan does not include amounts deferred under the Deferred Compensation Plan in its calculation of a participant's high average earnings. The Pension Restoration Plan includes these amounts.
- No Internal Revenue Code pay or benefit limits are applied in the calculation of the Pension Restoration Plan benefits.
- An annuity option is not available. The only available benefit payment options are a lump sum or an annual payment from 2 to 10 years.

Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Qualified Pension Plan. The balance not paid out is credited an annual earnings rate of 8.0%.

SERP Benefit - The Agreement provides a SERP benefit. The provisions of the SERP benefit are the same as those of the Pension Plan and Pension Restoration Plan except the final average earnings are the average of the 36 highest-paid consecutive calendar months of compensation (instead of the high 60 months). The benefit payable under the SERP is offset by the benefits payable from the Qualified Pension and Pension Restoration Plans. An annuity option is not available under this plan. The balance not paid out is credited an annual earnings rate of 8.0%.

Compensation of Directors

Each month, AgBank's directors are paid 1/12th of the amount established by the AgBank Board of Directors as the annual compensation to each director for services rendered. During 2006, each of the directors was compensated $3,333 monthly for normal responsibilities and for service on the AgBank District Farm Credit Council Board of Directors. In addition to cash compensation, directors are reimbursed for direct travel expenses incurred. Aggregated reimbursements to directors for travel, subsistence and other related expenses were $302,431, $233,943 and $208,050 for the years December 31, 2006, 2005 and 2004, respectively. Increased 2006 expenses were primarily due to meetings associated with the CEO search. De minimis amounts or gifts to directors, if any, are not included in compensation. A copy of the expense reimbursement policy is available to shareholders upon written request.

Additional information for each director is as follows:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities (1)	Compensation (4)
Glen A. Rector	23	60	$ 40,000
Marvin Lohse	22	53	40,000
Wayne Allen	23	67	40,000
Wesley D. Brantley	23	58	40,000
John J. Breen	23	59	40,000
Oghi DeGiusti	23	62	40,000
John Eisenhut	23	49	40,000
Lyle H. Gray	23	46	40,000
J. Less Guthrie	22	70	40,000
George Jenik	23	45	40,000
David S. Phippen (2)	6	10	10,000
Sheldon Richins	23	52	40,000
Edward L. Schenk	23	57	40,000
Kenneth Shaw	22	44	40,000
Donnell Spencer	23	53	40,000
Robert J. Wietharn	23	59	40,000
Earl J. Dolcini (3)	19	41	30,000
			$ 640,000

(1) Includes travel
(2) Became Board Member October 1, 2006
(3) Left the Board September 30, 2006
(4) The regulatory limit for 2006 was $47,290.

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

U.S. AgBank District

(Amounts in whole dollars)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, "Organization and Operations" included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or disposition of material assets, material changes in the manner of conducting the business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The activities and description of property required to be disclosed in this section are incorporated herein by reference from Note 6 to the financial statements "Premises and Equipment," included in this annual report to shareholders.

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, "Intra-System Financial Assistance," and Note 15 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders. There were no regulatory enforcement matters for the years presented.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 9 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 8 to the financial statements, "Bonds and Notes," included in this annual report to shareholders.

The description of intra-system financial assistance and contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 12 and 15 to the financial statements in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2006 required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," included in this annual report to shareholders is required to be disclosed in this section, and is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors of AgBank:

Glen A. ("Andy") Rector, Chairman, 65, Agate, Colorado, is a farmer and rancher with a cow/calf/yearling and wheat operation and is in partnership with his two sons. He is a member of Farm Credit of Southern Colorado, ACA. He has a Bachelor of Science Degree in Vocational Education from Colorado State University. Mr. Rector became a director in 2002, and his current term expires on September 30, 2007.

Marvin W. Lohse, Vice Chairman, 68, Glenn, California, is a farmer and a partner in Lohse Brothers Partnership, a diversified farming operation that produces almonds, walnuts, plums, alfalfa, and row crops. He is a member of Northern California Farm Credit, ACA, Blue Diamond Almond Growers, and the Glenn County Farm Bureau. Mr. Lohse serves on the U.S. AgBank, FCB, Audit Committee. He became a director in 2001, and his current term expires on September 30, 2007.

Wayne Allen, 65, Nevada City, California, is a rice producer. He is a member and former chairman of the board of directors of Sacramento Valley Farm Credit, ACA. He is a member of Cal West Seeds, a seed marketing cooperative, and formerly served as its board chairman. Mr. Allen served 24 years on the board of directors of Cal West Seeds. He serves as Chairman of the U.S. AgBank, FCB, Compensation Committee. He has an Associates of Arts Degree from Sacramento City College. Mr. Allen became a director in 2003, and his current term expires on September 30, 2009.

Wesley D. Brantley, 66, Ada, Oklahoma is a CPA and was an audit partner with Horne and Company, CPAs, in Ada, Oklahoma from 1967 to 1998. His areas of practice included banks, savings and loans, farm cooperatives, insurance companies, colleges, and state and local governments. In 1998, Mr. Brantley accepted a position as Chief Financial Administrator of the Chickasaw Nation, a federally recognized Indian tribe. In this capacity, he was responsible for the tribe's financial statements, budget and grant writing departments, internal audit department, governmental and grant finance department, purchasing and supply department and oversight of the housing and tribal business finance department. Mr. Brantley has retired from this position and now serves in a consulting capacity. Mr. Brantley serves on the U.S. AgBank, FCB, Audit Committee and has been designated as a financial expert for the Board. He has a Bachelors of Science Degree in General Business from East Central University in Ada, Oklahoma. Mr. Brantley was appointed to the Board of Directors in October 2005, and his current term expires on September 30, 2008.

John J. "Jack" Breen, 64, Middletown, New Jersey, was the managing Director-Administration of the Federal Farm Credit Banks Funding Corporation prior to his retirement in 2004. Mr. Breen joined the Funding Corporation management team in 1991 with responsibility for Farm Credit System financing programs and Selling Group Management. In 1996, he assumed responsibility for a newly created Administration Group encompassing all Funding Corporation operating activities, including Information Systems, Securities Operations, Corporate Accounting, Business Continuity Planning, and Selling Group Surveillance and Credit Activities. Prior to joining the Funding Corporation, Mr. Breen spent 15 years in various executive positions with the Irving Trust Company, a New York money center banking company, and served as a member of the bank's Risk Management and Foreign Exchange Management Committees. He serves on the U.S. AgBank, FCB, Audit Committee and has been designated as a financial expert for the Board. Mr. Breen has a Bachelor of Science Degree in Economics from Fordham University and an MBA from the University of Buffalo. He was appointed to the Board of Directors in July 2004, and his current term expires on September 30, 2007.

Oghi A. "Tony" DeGiusti, 54, Tuttle, Oklahoma is a farmer who produces alfalfa and grass hay and wheat. He also owns and operates a cow/calf stocker operation and a custom bailing operation. Mr. DeGiusti is a member and former chairman of the board of Chisholm Trail Farm Credit, ACA. He serves as a director of the Grady County Alfalfa Hay Growers Association and is a member of the Oklahoma Farm Bureau and the Oklahoma Farmers Union. Mr. DeGiusti serves on the U.S. AgBank, FCB, Compensation Committee. He became a director in 2005, and his current term expires on September 30, 2008.

John Eisenhut, 61, Turlock, California is an almond grower and Manager of Grower Relations for Hilltop Ranch, an almond processor. He is a member and former chairman of the board of American AgCredit, ACA. He is a member and former officer of the Stanislaus County Farm Bureau. Mr. Eisenhut serves as Vice Chairman of the AgBank Audit Committee. He has a Bachelor of Science Degree in Economics and a Masters Degree in Economics from the University of California-Santa Barbara and a MBA from California State University-Stanislaus. He became a director in 2005, and his current term expires on September 30, 2009.

Lyle H. Gray, 72, Leon, Kansas, is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit Services of Central Kansas, ACA. Mr. Gray serves on the executive board of the Kansas Beef Council. He has formerly served as treasurer, vice chairman and chairman of the Cattlemen's Beef Promotion and Research Board, as a director of the National Cattlemen's Beef Association board, and as the president of the Kansas Livestock Association. Mr. Gray serves on the U.S. AgBank, FCB, Compensation Committee. He is a graduate of Butler County Community College in El Dorado, Kansas. Mr. Gray became a director in 1990, and his current term expires on September 30, 2009.

J. Less Guthrie, 62, Porterville, California, owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation. Mr. Guthrie is a member of Farm Credit West, ACA. He serves on the board of directors of Guthrie Investment

Co., Inc. and F&T Financial Services. He also serves as vice chairman of the board of directors of the Federal Farm Credit Banks Funding Corporation and on the board of directors of the California Cattlemen's Association. Mr. Guthrie serves on the U.S. AgBank, FCB, Compensation Committee. He has a Bachelor of Science Degree in Agricultural Economics from the University of California-Davis. Mr. Guthrie became a director in 1997, and his current term expires on September 30, 2007.

George D. Jenik, 72, Sedgwick, Colorado, who is semi-retired, feeds cattle in a custom feedlot. He is a member of Premier Farm Credit, ACA. Mr. Jenik serves as a director of the Northern Water Conservancy District, a water distribution company, and is a member of the National Cattlemen's Association. He serves on the U.S. AgBank, FCB, Audit Committee. Mr. Jenik became a director in 1997, and his current term expires on September 30, 2008.

David S. Phippen, 56, Ripon, California, is an almond grower and a co-owner in an almond processing company. He is a member of American AgCredit, ACA. He served as a director and chairman of the board of directors of AgCredit Financial, ACA, but retired in 2004 when that association merged into American AgCredit, ACA. Mr. Phippen is chairman of the board of directors of the Almond Board of California and a director of the San Joaquin County Farm Bureau. He serves on the U.S. AgBank, FCB, Compensation Committee. Mr. Phippen has an Associates Degree from Modesto Junior College, Modesto, California. He became a director in 2006, and his current term expires on September 30, 2009.

Sheldon D. Richins, 70, Henefer, Utah is a rancher and stockman with a cow/calf operation and is in partnership with his two sons. Mr. Richins is a member and former chairman of the board of directors of Western AgCredit, ACA. In January 2007, Mr. Richins will begin a three-year term on the board of directors of the Farm Credit Council. He is a member of the National Cattlemen's Association. He also served as chairman of the Summit County Commission and as president of the Utah Association of Counties. Mr. Richins serves on the U.S. AgBank, FCB, Compensation Committee. He has a Bachelor of Education Degree from Weber State University and a Graduate Degree in Administration from Utah State University. Mr. Richins became a director in 2005, and his current term expires on September 30, 2008.

Edward L. Schenk, 68, Chickasha, Oklahoma, is a farmer and rancher, producing primarily alfalfa, wheat and livestock. He also practices veterinary medicine on a part-time basis. Mr. Schenk is a member of Chisholm Trail Farm Credit, ACA, and Farm Credit of Central Oklahoma, ACA. Mr. Schenk is past chairman of the board of directors of the Farm Credit Council and continues to serve as a director on that board. He serves on the U.S. AgBank, FCB, Audit Committee. Mr. Schenk has a Bachelor of Science Degree and a Doctor of Veterinary Medicine Degree from Oklahoma State University. Mr. Schenk became a director in 1995, and his current term expires on September 30, 2009.

Kenneth W. Shaw, 56, Mountainair, New Mexico, is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit of New Mexico, ACA. Mr. Shaw serves as Vice Chairman of the U.S. AgBank, FCB, Compensation Committee. He has a Bachelor of Science Degree in Agricultural Business from Eastern New Mexico University. Mr. Shaw became a director in 1999, and his current term expires on September 30, 2007.

Donnell Spencer, 72, Richfield, Utah, is a farmer and rancher raising alfalfa and livestock. He is president of Diversified Spencer, Inc., a family farming corporation. Mr. Spencer is a member and former chairman of the board of directors of Western AgCredit, ACA. He serves as Chairman of the U.S. AgBank, FCB, Audit Committee. He has a Bachelor of Science Degree in Engineering from Utah State University. Mr. Spencer became a director in 2000, and his current term expires on September 30, 2008.

Robert J. Wietharn, 45, Clay Center, Kansas, is a farmer and pork producer. He manages and is a stockholder of two family-owned corporations whose operations include marketing farrow-to-finish hogs and raising corn and soybeans. He is a member of Frontier Farm Credit, ACA. Mr. Wietharn is a stockholder and chairman of the board of directors of Valley Farmers, Inc., a grain elevator, and is involved in the manufacturing and sale of irrigation equipment. Mr. Wietharn serves as Chairman of the U.S. AgBank, FCB, Credit Committee. He also serves on the U.S. AgBank, FCB, Audit Committee. Mr. Wietharn became a director in 2002, and his current term expires on September 30, 2007.

Earl J. Dolcini, 77, Petaluma, California, is a rancher and dairyman. He is a member of American AgCredit, ACA. Mr. Dolcini served as a director and chairman of the board of the Farm Credit Council. He serves as a director of Marin Ag Land Trust Advisory Board. Mr. Dolcini has a Bachelor of Arts Degree in Liberal Arts and a Bachelor of Science Degree in Economics from St. Mary's College in Moraga, California. He became a director in 1989, and his term expired on September 30, 2006. He did not seek re-election.

Information related to AgBank's senior officers is as follows:

Jerold L. Harris, 65, President and Chief Executive Officer. Mr. Harris became President and Chief Executive Officer of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as President and Chief Executive Officer of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Harris was named President and Chief Executive Officer of the Farm Credit Bank of Wichita in March 1991. He has over 40 years of experience with various Farm Credit System entities, beginning his career in 1963 as a loan officer trainee with the Federal Land Bank of Wichita. Mr. Harris retired January 19, 2007.

Until his retirement, Mr. Harris was a member of the Farm Credit System Presidents Planning Committee and the Farm Credit System Regulatory, Legislative and Public Relations Committee. He also served on the board of directors of the National Council of Farmer Cooperatives and was a member of its Executive Council. Mr. Harris served on the board of directors of the Federal Farm Credit Banks Funding Corporation for eleven years and was chairman of the board for three years.

Mr. Harris was raised on a cash grain and livestock farm near Denby, South Dakota. He received a Bachelor's Degree in Agricultural Business from Colorado State University.

Darryl W. Rhodes, 56, President and Chief Executive Officer - elect. Mr. Rhodes was named President and CEO of U.S. AgBank, FCB, on December 1, 2006. He previously served as Executive Vice President-Finance of U.S. AgBank, FCB, a position he held since October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Executive Vice President-Finance of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Rhodes was named Executive Vice President-Finance of the Farm Credit Bank of Wichita in May 1991. He began his career in 1972 as a loan officer trainee with the Federal Land Bank of Wichita and has over 34 years of experience with Associations and Banks in the Farm Credit System.

Mr. Rhodes serves as Chairman of the U.S. AgBank, FCB, Executive Committee. He is a member of the Farm Credit System Presidents Planning Committee, and a member of the Farm Credit System Risk Management Committee. He was a member of the board of directors of the Federal Agricultural Mortgage Corporation (Farmer Mac) from 1995 to 1999. He also served on the board of directors of the Farm Credit System Captive Insurance Company from 1997 to 2003.

Mr. Rhodes was raised on a cash grain and livestock operation near Deer Trail, Colorado. He received a Bachelor's Degree in Agricultural Business from Colorado State University.

James L. Grauerholz, 57, Senior Vice President-Administration. Mr. Grauerholz was named Senior Vice President-Administration of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Senior Vice President-Administration of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Grauerholz was named Senior Vice President-Administration of the Farm Credit Bank of Wichita in 1994, and had previously served as Senior Vice President-Lending since 1991. He began his career in 1973 as a loan officer trainee with the Federal Intermediate Credit Bank of Wichita and has over 34 years of experience with Associations and Banks in the Farm Credit System.

Mr. Grauerholz is a member of the U.S. AgBank, FCB, Executive Committee and Asset/Liability Management Committee. He also serves as Chairman of the Subscribers Advisory Committee of the Farm Credit System Captive Insurance Company.

Mr. Grauerholz was raised on a cash grain and livestock operation near Athol, Kansas. He received a Bachelor's Degree in Agricultural Economics and a Masters Degree in Adult and Occupational Education from Kansas State University.

Dennis E. Grizzell, 58, Senior Vice President-Credit. Mr. Grizzell was named Senior Vice President-Credit of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Senior Vice President-Credit of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Grizzell was named Senior Vice President-Credit of the Farm Credit Bank of Wichita in 1994. He began his career as a loan officer trainee with the Federal Intermediate Credit Bank of Wichita in 1972 and has over 34 years of experience with Associations and Banks in the Farm Credit System.

Mr. Grizzell is a member of the U.S. AgBank, FCB, Executive Committee and Asset/Liability Management Committee. He serves as Chairman of the U.S. AgBank, FCB, Loan Committee.

Mr. Grizzell was raised on a cash grain and livestock operation near Macksville, Kansas. He received a Bachelor's Degree in Business and Agriculture from Fort Hays State University.

Gregory J. Buehne, 54, Senior Vice President-Legal and Legislative Services. Mr. Buehne was named Senior Vice President-Legal and Legislative Services effective March 5, 2007. He began his Farm Credit career in 1985 as Associate General Counsel at the Farm Credit Banks of Spokane, and served as the Senior Vice President and General Counsel for the Farm Credit Bank of Spokane, and also for AgAmerica, FCB and the Western Farm Credit Bank in Sacramento. He left the Western Bank prior to the formation of AgBank in 2003. He has over 17 years of experience in the Farm Credit System.

Mr. Buehne is a member of AgBank's Executive Committee, the Asset/Liability Management Committee and is the Executive Director for the District Farm Credit Countil. Effective May 1, 2007, Mr. Buehne will also assume the responsibility of General Counsel.

Mr. Buehne is a native Kansan and received a Bachelor of Arts Degree and Juris Doctor from the University of Kansas in Lawrence, Kansas.

David D. Janish, 48, Senior Vice President-Finance. Mr. Janish was named Senior Vice President-Finance of U.S. AgBank, FCB, effective March 12, 2007. He previously served as President and CEO of AgVantis, Inc., a technology and business services organization serving Farm Credit Associations and Banks since January 2002. Mr. Janish was named Vice President-Information Services for the Farm Credit Bank of Wichita in June 1992. He began his career in 1980 with the Federal Intermediate Credit Bank of Omaha and has over 26 years of experience in corporate management, business and consulting services, and information technology with various Farm Credit System entities including the Farm Credit Bank of Omaha, Farm Credit Corporation of America, Farm Credit Council Services, the Farm Credit Bank of Wichita, and AgVantis, Inc.

Mr. Janish is a member of the U.S. AgBank, FCB, Executive Committee and is Chairman of the Asset/Liability Management Committee.

Mr. Janish was raised on a diversified livestock, row crop, and grain operation near Kimball, South Dakota. He received Bachelor Degrees in Mathematics and Computer Science from the University of South Dakota, and an MBA in Finance from Regis University in Denver, Colorado.

Max E. Eberhart, 66, Vice President-General Counsel. Mr. Eberhart was named Vice President-General Counsel of U.S. AgBank, FCB, on October 1, 2003, following the merger of the Farm Credit Bank of Wichita and the Western Farm Credit Bank. He served as Vice President-General Counsel of the two Banks under a Joint Management Agreement from January 1, 2002, until September 30, 2003. Mr. Eberhart began serving as General Counsel of the Farm Credit Bank of Wichita in 1990 while in private practice. He joined the Farm Credit Bank of Wichita as its full-time General Counsel in March 1999.

Mr. Eberhart is a non-voting member of the U.S. AgBank, FCB, Executive Committee and Asset/Liability Management Committee.

Mr. Eberhart is a graduate of the University of Kansas with a degree in Business Administration and a Juris Doctor degree. He began his private law practice in 1966 with an emphasis in banking, business, and real estate law, and was the co-founder and managing partner of one the largest law firms in Kansas.

Transactions with Senior Officers and Directors

AgBank's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 13 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings.

Borrower Privacy Statement

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. AgBank does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting AgBank.

Relationship with Independent Auditors

There were no changes in independent auditors since the prior annual report to shareholders, and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Annual marketing goals are established by each Association related to financing YBS farmers and ranchers. Association Boards of Directors regularly review the number, volume and credit quality of the YBS customers that are financed. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

The following table summarizes information regarding loans outstanding to young and beginning farmers and ranchers at year-end:

	December 31, 2006	
(dollars in millions)	Number of loans	Volume
Total loans and commitments	72,045	$ 24,179.6
Loans to young farmers and ranchers	11,658	2,599.9
Percent of loans to young farmers and ranchers	16.2%	10.8%
Loans to beginning farmers and ranchers	15,665	3,734.0
Percent of loans to beginning farmers and ranchers	21.7%	15.4%

The following table summarizes information regarding new loans made to young and beginning farmers and ranchers during 2006:

	For the Year Ended December 31, 2006	
(dollars in millions)	Number of loans	Volume
Total new loans and commitments	16,271	$ 8,206.9
New loans to young farmers and ranchers	2,901	908.2
Percent of new loans to young farmers and ranchers	17.8%	11.1%
New loans to beginning farmers and ranchers	3,683	1,162.0
Percent of new loans to beginning farmers and ranchers	22.6%	14.2%

The following table summarizes information regarding loans outstanding to small farmers and ranchers at year-end:

	December 31, 2006 Annual Gross Sales				
(dollar in millions)	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
Total number of loans and commitments	28,609	13,259	14,543	15,634	72,045
Number of loans to small farmers and ranchers	17,578	8,385	7,133	2,819	35,915
Percent of loans to small farmers and ranchers	61.4%	63.2%	49.0%	18.0%	49.9%
Total loan and commitment volume	$ 654.5	$ 1,002.9	$ 2,423.9	$20,098.2	$ 24,179.5
Loans to small farmers and ranchers volume	417.4	621.6	1,120.6	1,669.5	3,829.1
Percent of loan volume to small farmers and ranchers	63.8%	62.0%	46.2%	8.3%	15.8%

The following table summarizes information regarding new loans made to small farmers and ranchers during 2006:

(dollars in millions)	For the Year Ended December 31, 2006 Annual Gross Sales $50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
Total number of new loans and commitments	4,866	2,886	3,459	5,060	16,271
Number of new loans to small farmers and ranchers	3,249	1,785	1,540	735	7,309
Percent of new loans to small farmers and ranchers	66.8%	61.9%	44.5%	14.5%	44.9%
Total new loan and commitment volume	$ 174.1	$ 222.0	$ 583.9	$ 7,226.9	$ 8,206.9
Total new loans to small farmers and ranchers volume	89.1	135.6	245.0	476.6	946.3
Percent of new loan volume to small farmers and ranchers	51.2%	61.1%	42.0%	6.6%	11.5%

Each Association management establishes annual marketing goals to increase market share of loans to YBS farmers and ranchers. A summary of goals in the District are as follows.

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other system institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

Reports are provided regularly to Association Boards of Directors detailing the number, volume and credit quality of their YBS customers. They have developed quantitative targets to monitor our progress. Such targets may include:

- Loan volume and loan number goals for YBS farmers and ranchers in the territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in the territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in the territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in the territory.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, the Associations typically utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, Association management and staff are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers. Specific qualitative and quantitative information for each District Association can be found in its annual report.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 5, 2007, and the Report of Management, appearing as part of this annual report to shareholders, is incorporated herein by reference.

The annual report and recent quarterly reports are available on the AgBank website, www.usagbank.com or copies are available free of charge, upon request to:

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245 N. Waco, P.O. Box 2940
Wichita, KS 67201-2940
(800) 322-9880

District Associations

California

Farm Credit Services of Colusa-Glenn, ACA
www.californiafarmcredit.com
Colusa • Willows

Farm Credit West, ACA
www.farmcreditwest.com
Visalia • Arroyo Grande • Bakersfield
Carpinteria • Dinuba • Hanford • Paso Robles
Santa Maria • Tulare

Federal Land Bank Association of Kingsburg, FLCA
www.kingsburglandbank.com
Kingsburg • Hanford

Fresno-Madera Farm Credit, ACA
www.fmfarmcredit.com
Fresno • Madera

Northern California Farm Credit, ACA
www.norcalfc.com
Chico • Red Bluff •Willows

Sacramento Valley Farm Credit, ACA
www.sacagloan.com
Woodland • Yuba City

Yosemite Farm Credit, ACA
www.yosemitefarmcredit.com
Turlock • Los Banos • Merced
Modesto • Oakdale • Patterson

California and Arizona

Farm Credit Services Southwest, ACA
www.fcssw.com
Tempe • El Centro
Safford • Yuma

California and Nevada

American AgCredit, ACA
www.agloan.com
Santa Rosa • Alturas • Elko • Escondido
Eureka • Fallon • Indio • Los Banos
Merced • Oakdale • Ontario • Petaluma
Reno • Riverside • Salinas • St. Helena
Stockton • Tulelake • Turlock
Ukiah • Yreka

Colorado

Farm Credit of Southern Colorado, ACA
www.aglending.com
Colorado Springs • Burlington • LaJunta
Lamar • Limon • Monte Vista

Farm Credit Services of the Mountain Plains, ACA
www.ifeedtheworld.com
Greeley • Durango
Grand Junction • Montrose

Premier Farm Credit, ACA
www.premieraca.com
Sterling • Fort Morgan • Yuma

Hawaii

Farm Credit Services of Hawaii, ACA
www.hawaiifarmcredit.com
Honolulu • Hilo

Idaho

Idaho Agricultural Credit Association
www.idahoagcredit.com
Blackfoot • American Falls • Rexburg

District Associations

Kansas

Farm Credit of Ness City, FLCA
www.farmcreditnesscity.com
Ness City

Farm Credit of Southwest Kansas, ACA
www.farmcreditconnect.com
Garden City • Dodge City
Liberal • Scott City

Farm Credit of Western Kansas, ACA
www.farmcreditkansas.com
Colby

Farm Credit Services of Central Kansas, ACA
www.fcskansas.com
Wichita • Concordia • Hutchinson
Kingman • Larned • Pratt • Salina

Frontier Farm Credit, ACA
www.frontierfarmcredit.com
Manhattan • Baldwin City • Chanute
Emporia • Eureka • Hiawatha • Marysville

High Plains Farm Credit, ACA
www.highplainsfarmcredit.com
Larned • Dodge City • Hays
Phillipsburg • Pratt

New Mexico

Farm Credit of New Mexico, ACA
www.farmcreditnm.com
Albuquerque • Clovis • Las Cruces
Roswell • Tucumcari

Oklahoma

AgPreference, ACA
www.agpreference.com
Altus

Chisholm Trail Farm Credit, ACA
www.chisholmtrailfc.com
Enid • Chickasha • Duncan
Shawnee • Watonga

Farm Credit of Central Oklahoma, ACA
www.farmcreditloans.com
Anadarko

Farm Credit of East Central Oklahoma, ACA
www.farmcreditecok.com
Broken Arrow • Durant • Kingfisher
McAlester • Muskogee • Pauls Valley
Stillwater • Vinita

Farm Credit of Enid, ACA
www.fcenid.com
Enid

Farm Credit of Western Oklahoma
www.fcwestok.com
Woodward • Clinton • Guyman

FLBA of Ponca City, FLCA
Ponca City

Utah and Wyoming

Western AgCredit, ACA
www.westernagcredit.com
South Jordan • Cedar City • Delta
Evanston • Logan • Richfield • Roosevelt
Spanish Fork • Tremonton

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