ANNUAL INFORMATION STATEMENT — 2007

Farm Credit System

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

February 28, 2008

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

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

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

- Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated June 18, 1999, as amended by supplements dated August 20, 2001, November 26, 2003 and March 8, 2007, and
- Federal Farm Credit Banks Consolidated Systemwide Master Notes Offering Circular dated December 21, 1999, as amended by the supplement dated August 20, 2001.

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

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

Certification

The undersigned certify that (1) we have reviewed this annual information statement, (2) this annual information statement has been prepared in accordance with all applicable statutory or regulatory requirements, and (3) the information contained in this annual information statement is true, accurate, and complete to the best of the signatories' knowledge and belief.

F.A. Lowrey	Jamie B. Stewart, Jr.	H. John Marsh, Jr.
Chairman of the Board	President and CEO	Managing Director — Financial Management Division

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

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

In addition, copies of quarterly and annual reports of each Bank and, as applicable, each Bank combined with its affiliated Associations (collectively referred to as a District) may be obtained from the individual Bank. Bank addresses and telephone numbers where copies of these documents may be obtained are listed on page S-27 of this annual information statement. These documents and further information on each Bank and/or District and links to a Bank's affiliated Associations' websites are also available on each Bank's website as follows:

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

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

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

The following selected combined financial data for each of the five years in the period ended December 31, 2007 has been derived from the combined financial statements of the Farm Credit System that were audited by PricewaterhouseCoopers LLP, independent auditors. The selected combined financial data and combined financial statements of the Farm Credit System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Farm Credit System Financial Assistance Corporation, the Federal Farm Credit Banks Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. Because System entities are financially and operationally interdependent, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations). While this annual information statement reports on the combined financial position and results of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for payments on Systemwide Debt Securities. As an important component of the System combined financial statements, Note 21 to the accompanying combined financial statements provides combining Bank-only financial condition and results of operations information. Copies of quarterly and annual reports of each Bank are available on its website; see page 2 for a listing of the websites.

The combined statement of condition at December 31, 2007 and 2006 and the related combined statements of income, of changes in capital, and of cash flows for each of the three years in the period ended December 31, 2007 and related notes appear elsewhere in this annual information statement.

	2007	2006	2005	2004	2003
			(in millions)		
Combined Statement of Condition Data					
Loans	$142,906	$123,436	$106,272	$ 96,367	$ 92,790
Allowance for loan losses	(781)	(734)	(755)	(792)	(2,075)
Net loans	142,125	122,702	105,517	95,575	90,715
Cash, Federal funds sold and investments	36,460	33,117	28,427	24,164	21,287
Accrued interest receivable	2,013	1,839	1,405	1,116	1,025
Other property owned	32	21	16	24	41
Total assets	186,451	162,864	139,886	124,850	116,894
Systemwide bonds, medium-term notes and master notes	134,783	115,862	100,868	88,839	83,603
Systemwide discount notes	19,660	17,768	11,851	10,268	10,639
Subordinated debt	500				
Other bonds	852	836	857	898	743
Financial Assistance Corporation bonds				325	325
Mandatorily redeemable preferred stock	225	225	225	225	225
Protected borrower stock	11	13	17	23	28
Total liabilities	160,032	138,434	117,112	103,461	97,971
Capital	26,419	24,430	22,774	21,389	18,923
Combined Statement of Income Data					
Net interest income	$ 4,060	$ 3,584	$ 3,246	$ 2,994	$ 2,919
(Provision for loan losses) loan loss reversal	(81)	(35)	1	1,208	(99)
Net noninterest expense	(1,135)	(1,087)	(1,056)	(1,014)	(864)
Income before income taxes	2,844	2,462	2,191	3,188	1,956
Provision for income taxes	(141)	(83)	(95)	(195)	(131)
Net income	$ 2,703*	$ 2,379	$ 2,096	$ 2,993**	$ 1,825

* Subsequent to the System's press release on February 14, 2008, additional credit information became available that indicated a $5 million other-than-temporary impairment of an investment security. The press release reported net income of $2.708 billion.

** Included in net income for 2004 were reversals of the allowance for loan losses of $1.167 billion, net of the related $95 million deferred tax expense.

Combined Key Financial Ratios

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

	2007	2006	2005	2004	2003
Return on average assets	1.56%	1.59%	1.61%	2.48%*	1.61%
Return on average capital	10.44	10.03	9.43	15.10*	10.20
Net interest income as a percentage of average earning assets	2.43	2.48	2.58	2.56	2.65
Operating expense as a percentage of net interest income and noninterest income	35.3	37.6	39.2	39.9	37.2
Net loan charge-offs as a percentage of average loans	0.03	0.04	0.04	0.08	0.14
Allowance for loan losses as a percentage of loans outstanding at year end	0.55	0.59	0.71	0.82	2.24
Capital as a percentage of total assets at year end	14.2	15.0	16.3	17.1	16.2
Risks funds (capital plus allowance for loan losses) as a percentage of loans outstanding at year end	19.0	20.4	22.1	23.0	22.6
Debt to capital at year end	6.06:1	5.67:1	5.14:1	4.84:1	5.18:1

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

Overview of the Farm Credit System

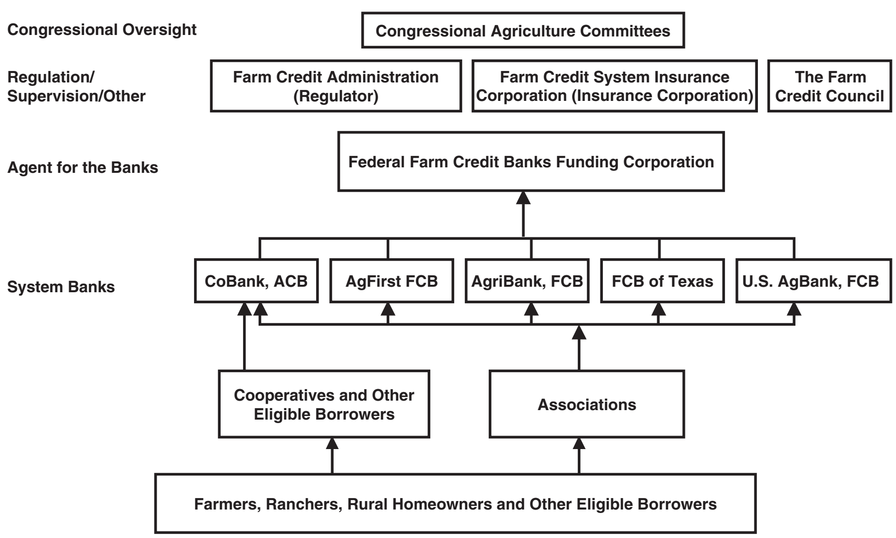
The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperative's products, supplies or services. The U.S.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

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

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

Structure/Ownership of the Farm Credit System

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



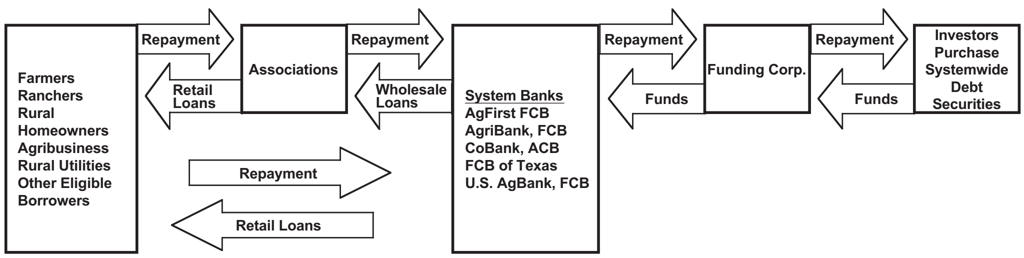
The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank, Texas and U.S. AgBank) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible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

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

Our Business Model

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

The chart below illustrates the flow of funds from investors in Systemwide Debt Securities to the System's borrowers and the ultimate repayment of the investors resulting from borrower loan repayments.



Overview of Our Business

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

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

Government-Sponsored Enterprise Status

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

Agricultural Industry Overview

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

System Lending Institutions

The two types of entities through which we conduct our lending business are the Banks and the Associations.

Banks

At December 31, 2007, the System had five Banks (four Farm Credit Banks and one Agricultural Credit Bank). The Banks and their affiliated Associations are referred to as Districts. The Banks' lending operations include wholesale loans to their affiliated Associations and loan participations in eligible loans purchased from Associations, other Banks and non-System lenders. In addition, CoBank, as the Agricultural Credit Bank, has additional nationwide authority to make retail loans directly to cooperatives and other eligible entities.

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

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

Associations

As of January 1, 2008, the System had 94 Associations throughout the nation. There were 85 Agricultural Credit Associations with Production Credit Association subsidiaries and Federal Land Credit Association subsidiaries, and nine Federal Land Credit Associations. The Federal Land Credit Associations make real estate mortgage loans, including rural residential real estate loans. Agricultural Credit Associations may, directly or through their subsidiaries, make real estate mortgage loans, and production and intermediate-term loans, agribusiness loans (processing and marketing loans, and farm-related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. Associations may also purchase loan participations from other System entities and other lending institutions.

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

Districts

The following table lists the five Districts and provides information about the asset size and the loan portfolio size of each District as of December 31, 2007.

District	Assets	Loans
	(in millions)	
AgFirst	$29,261	$20,728
AgriBank	59,236	48,894
Texas	18,001	15,114
U.S. AgBank	26,729	19,756
CoBank	53,701	41,854

There is substantial variation among the Districts with respect to size, number and mix of Associations. The 10 largest Associations accounted for 31.2% of the System's assets at December 31, 2007. A summary of the 10 largest Associations by asset size can be found in the Supplemental Financial Information on page F-51.

Products And Services

Loans by Banks

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

CoBank also may make the following types of loans:

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

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

Loans by Associations

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

- Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans have maturities ranging from five to 40 years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85% of the appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage.
- Production and intermediate-term loans — for operating funds, equipment and other purposes. Eligible financing includes operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans are most often made for a period of time that matches the borrower's normal production and marketing cycle, on a short-term basis, typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.
- Agribusiness loans made by Associations include the following:
  - Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
  - Farm-related business loans — loans to eligible borrowers that furnish farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt.

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

Loan Interest Rate and Prepayment Features

Depending on the purpose of the loan, its repayment terms and the creditworthiness of the borrower, several interest rate (fixed or floating) and prepayment features may be available for a loan. Indexed floating-rate loans are tied solely to an external index such as the London InterBank Offered Rate (LIBOR) or the prime rates charged by certain commercial banks (Prime). The interest rate on an adjustable-rate loan may be fixed for a period of time and adjusted periodically by predetermined amounts and may have an adjustment rate cap for each period as well as for the life of the loan. The interest rate on an administered-rate loan may be adjusted periodically on a basis internally determined by the lending institution. The interest rate on a fixed-rate loan will not change for the term of the loan.

A range of prepayment options exists on fixed- and floating-rate loans. These options range from the loans being fully prepayable with the option cost being reflected in the interest rate paid by the borrower, to loans with "make-whole" prepayment provisions, i.e., the borrower's may pay additional amounts when the loan is prepaid to cover the loss from the residual higher-cost funding that can occur as a result of the prepayment.

Investments in Rural America

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

Financially Related Services

System institutions also provide a variety of products and services to their borrowers designed to enhance their business. Products and services provided by certain System institutions include:

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

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

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

Customers

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

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio at the System level is diversified by commodity and geographic location. On a combined basis, loans to borrowers raising livestock, which does not include poultry and dairy, represented 11% of the System's total assets at both December 31, 2007 and 2006. No other commodity exceeded 10% of total assets. However, due to the geographic territories served by individual Banks and Associations, most System institutions have higher concentrations of certain types of loans or commodities than does the System as a whole.

As part of our mission, we have established policies and programs for furnishing sound and constructive credit and related services to young, beginning, and small farmers and ranchers. A summary of these activities can be found in the Supplemental Financial Information on pages F-52 and F-53.

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

Loan Underwriting Standards

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

Underwriting by Associations

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

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

Underwriting by Banks

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

In the case of wholesale loans to Associations, the assets of the Association secure the Bank's loan to the Association and the lending terms are specified in a general financing agreement between each Association and its affiliated Bank. These financing agreements typically include:

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

Competition

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

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

Federal Farm Credit Banks Funding Corporation

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

At December 31, 2007, the Funding Corporation utilized a selling group of 32 investment banks and dealer banks to sell Systemwide Debt Securities. The Funding Corporation selling group distributes Systemwide Debt Securities on a worldwide basis to investors, including commercial banks, states, municipalities, pension and money-market funds, insurance companies, investment companies, corporations and foreign banks and governments. In addition, the Funding Corporation assists the Banks with respect to a variety of asset/liability management and certain specialized funding activities.

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

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

Farm Credit System Financial Assistance Corporation

The Financial Assistance Corporation was created in 1988 by Congress, as an institution of the System and a federally chartered instrumentality of the United States, to carry out a temporary program of financial assistance to System institutions that were experiencing financial difficulty. The last outstanding bonds issued by the Financial Assistance Corporation matured and were repaid on June 10, 2005 and additional bonds cannot be issued. The Farm Credit Administration Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac, which is statutorily defined as an institution of the System and is examined and regulated by the Farm Credit Administration, provides secondary marketing arrangements, certifies marketing facilities in order to promote a secondary market for agricultural and rural home mortgage loans that meet certain underwriting standards, and is authorized to be a direct pooler of farm mortgage loans. Farmer Mac is owned by both System and non-System entities and its board of directors has both System and non-System representation. Other than the contractual obligations arising from business transactions between Farmer Mac and certain System institutions, Farmer Mac is not liable for any debt or obligation of any other System institution and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac. Further, the assets of the Farm Credit Insurance Fund do not support any debt issuances or obligations of Farmer Mac nor do the System's independent credit ratings apply to Farmer Mac. Accordingly, the financial information of Farmer Mac is not included in the combined financial statements of the System.

Some System institutions have entered into agreements with Farmer Mac that are intended to reduce their credit risk and/or manage their capital positions. These agreements are commonly referred to as long-term standby commitment to purchase agreements. System institutions may also securitize mortgage loans by exchanging the loans for Farmer Mac mortgage-backed securities.

The Farm Credit Council

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

Governance

Boards of Directors

Each Bank and Association has its own board of directors that oversees the management of the Bank or the Association, which is primarily comprised of directors elected by the stockholders. Farm Credit Administration regulations require each Bank and Association to have a nominating committee that is responsible for identifying, evaluating and nominating candidates for director positions. Each committee should nominate at least two candidates for each director position. Stockholder-elected directors must constitute at least 60 percent of the members of the board. Therefore, each board may include additional directors appointed by the stockholder-elected directors. In addition, each Bank and each Association with assets exceeding $500 million is required to have at least two outside directors. All other Associations must have at least one outside director. Each Bank and Association board must have a member who is a financial expert, except for those Associations with assets of $500 million or less, who may retain a financial advisor. The boards of directors represent the interests of the stockholders of their particular institution. Each board of directors performs the following functions, among others:

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

Each Bank and Association has an audit committee and a compensation committee but may also have additional committees as determined by the board of the Bank or Association. The audit committee members must be members of the board and the board members designated as financial experts must serve on the audit committee. The audit committee is responsible for the oversight of the financial reporting process and the internal controls related to the preparation of the financial reports, and the appointment, compensation and retention of the external auditors. The compensation committee is responsible for reviewing compensation policies and plans for senior officers and employees, and must approve the overall compensation program for senior officers. In addition, the Funding Corporation has a board of directors, an audit committee and a compensation committee that performs the same functions for the Funding Corporation as discussed above.

Presidents' Planning Committee

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

The Presidents' Planning Committee has certain broad responsibilities including:

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

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

System Audit Committee

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

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

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

Internal Control Over Financial Reporting

To enhance our governance and internal controls, the System voluntarily implemented policies and procedures to assess the System's internal control over financial reporting. This assessment will be required by regulation beginning in 2008. The System's management is responsible for establishing and maintaining internal control over financial reporting and the Funding Corporation's management has assessed the effectiveness of the System's internal control over financial reporting as of December 31, 2007. The Funding Corporation's management has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* to assess the effectiveness of internal control over financial reporting and has included this report on the assessment on page F-2 of this annual information statement.

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

Code of Ethics

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

A copy of the Funding Corporation's code of ethics related to the preparation of the System's quarterly and annual information statements can be accessed on the Funding Corporation's website at www.farmcredit-ffcb.com. The Funding Corporation will disclose material amendments to or any waivers from a required provision of the codes of ethics for any individual covered by the Banks' or the Funding Corporation's codes of ethics by including that information in future information statements. No such amendments or waivers were made in 2007. Each Bank's code of ethics includes similar content and can be accessed through its website listed on page 2.

Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

Each Bank and the Funding Corporation have adopted employee complaint procedures for accounting, financial reporting, internal accounting controls, or auditing matters. These procedures allow employees to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action. No concerns or inquiries were submitted for 2007.

Employees

The number of personnel employed by the System on a full-time equivalent basis was 11,173 at December 31, 2007, up from 10,883 at December 31, 2006, and 10,795 at December 31, 2005.

Properties

As of December 31, 2007, AgFirst owned its corporate office in Columbia, South Carolina and U.S. AgBank owned its corporate office in Wichita, Kansas. The other three Banks each leased their respective corporate offices. In addition, AgFirst owned additional buildings in Columbia, South Carolina. Certain Banks leased other offices throughout the country and, in the case of CoBank, internationally. The Associations owned or leased various offices in locations throughout the United States and Puerto Rico. The Funding Corporation leased office space in Jersey City, New Jersey.

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

FEDERAL REGULATION AND SUPERVISION OF THE FARM CREDIT SYSTEM

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

Farm Credit Administration

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

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

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

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

The Farm Credit Administration did not take any enforcement actions against any of the Banks or Associations during 2007 and no enforcement actions were outstanding at December 31, 2007.

Farm Credit Administration Regulations

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

Issuances of Systemwide Debt Securities

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

Lending Objective

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

Borrower Protections

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

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

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

Bank Collateral Requirements

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

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

Capital Adequacy

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

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

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

Accounting Requirements

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

Internal Controls

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

Disclosure Obligations

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

- Each Bank and Association must prepare and publish a copy of its annual report on its website and submit to the Farm Credit Administration within 75 days of the end of its fiscal year. In addition, each Bank and Association must prepare and provide to its shareholders an annual report within 90 days of the end of its fiscal year. The annual report must include, among other things, a description of the System institution's business, properties, capital structure, risk exposures, loan portfolio and financial performance. Each Bank and Association must prepare a quarterly report within 40 days after the end of each fiscal quarter. The quarterly reports update and supplement the last annual report, as necessary.

- The Funding Corporation must prepare and disseminate a System annual information statement for holders of Systemwide Debt Securities within 75 days of the end of each fiscal year. The annual information statement must include, among other things, a description of the System's business, properties, capital structure, risk exposures, loan portfolio and financial performance. The Funding Corporation must also prepare a quarterly information statement within 45 days after the end of each fiscal quarter. The quarterly information statements update and supplement the System's latest annual information statement, as necessary.

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

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

Withdrawal from the System

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

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

- if a Bank, adequate provision for the repayment of its Systemwide Debt Securities and related interest,

- approval of the Farm Credit Administration Board,

- approval by the institution's stockholders, and

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

Appointment of Conservator or Receiver

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

Farm Credit System Insurance Corporation

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

Uses of the Farm Credit Insurance Fund

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

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

- ensure the retirement of protected borrower stock at par value ($11 million as of December 31, 2007).

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

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

Funding for the Farm Credit Insurance Fund

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

- the annual premiums paid by the Banks, and
- earnings on assets in the Insurance Fund.

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

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

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

For additional information with respect to the Insurance Fund, see "Description of Systemwide Debt Securities — Repayment Protections" and Note 7 to the accompanying combined financial statements.

DESCRIPTION OF SYSTEMWIDE DEBT SECURITIES

General

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

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

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

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

Use of Proceeds

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

Repayment Protections

General

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

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

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

Net Collateral Ratio

Farm Credit Administration regulations require each Bank to maintain a net collateral ratio minimum of not less than 103%, although the Banks manage their operations to achieve a higher net collateral ratio percentage, as required under the Amended and Restated Market Access Agreement discussed below. The net collateral ratio is net collateral (primarily loans and investments) divided by total liabilities less subordinated debt, subject to certain limits. Also see "Federal Regulation and Supervision of the Farm Credit System — Farm Credit Administration Regulations — Bank Collateral Requirements" above.

Capital Adequacy

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

Agreements Among Certain System Institutions

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

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

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

Farm Credit Insurance Fund

The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other purposes. In the event a Bank is unable to timely pay principal or interest on any insured debt obligation for which that Bank is primarily liable, the Insurance

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

Joint and Several Liability

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

Status in Liquidation

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

Contingency Funding Program

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

RISK FACTORS

The following discussion summarizes some of the more important risk factors that the System faces. This discussion is not exhaustive and there may be other risk factors that the System faces that are not described below. The risk factors described below, if realized, could negatively or positively affect the System's business, financial condition, and future results of operations, and, among other things, could result in the Banks' inability to pay principal and interest on a timely basis on Systemwide Debt Securities.

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

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

- weather-related, disease, and other adverse climatic or biological conditions that impact the agricultural productivity and income of System borrowers,
- changes in production expenses, particularly fuel and fertilizer,
- changes in land values,
- irrigation water availability and cost, and environmental standards,
- changes in the level of government expenditures on agricultural programs that may affect the level of income of some System borrowers,
- major international events, such as changes in foreign economies, that can affect such things as the price of commodities or products used or sold by System borrowers, including changes in the relative value of the U.S. dollar,
- changes in the general economy that can affect the availability of off-farm sources of income and prices of real estate, and
- the development of alternative uses and markets for agricultural commodities, including ethanol and other biofuel production and the resulting impact on the prices of commodities sold or used by System borrowers.

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

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

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

The Banks and Associations are subject to credit risk.

The Banks and Associations are subject to credit risk in the course of their lending, investing and hedging activities. Credit risk is the risk that arises from the inability of borrowers, debt issuers or counterparties, including bond insurers such as MBIA Inc. and Ambac Financial Group Inc., to meet their repayment obligations. The Banks and Associations have underwriting standards and lending policies to manage credit risk.

The Banks and Associations are subject to liquidity risk with respect to their investments.

The Banks and Associations are subject to liquidity risk in the course of their investing activities, particularly with respect to their investments in mortgage-backed securities and asset-backed securities. In recent months, the mortgage-backed securities and asset-backed securities markets have experienced reduced liquidity. Although this reduced liquidity has resulted primarily from investor concerns arising from increased delinquencies and foreclosures on subprime mortgage loans and the failure of several subprime and Alt-A mortgage lenders, it has not been limited solely to securities backed by those types of mortgage loans. Accordingly, if the markets for the Banks and Associations' investments become less liquid, it may make it difficult for them to sell such investments if the need arises. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Banks and Associations' investments may differ significantly from the values that would have been used had a ready market existed for the investments.

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

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

The agricultural financial services industry is highly competitive.

The System operates in a competitive marketplace in which there is competition from traditional and non-traditional lenders. The competitive market has resulted in, and may further result in, reduced interest rate spreads and, in some cases, less favorable loan structures and terms for the System. In order to remain a viable competitor in the U.S. farm debt market, System institutions must provide effective loan products, undertake significant marketing efforts, use competitive pricing programs and maintain operating efficiency. Further, System institutions also must maintain a viable business model in order to deliver value to their borrowers/stockholders.

The Banks and Associations are subject to interest rate risk.

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

Each Bank relies on derivative financial instruments to hedge against interest rate and liquidity risks and to lower overall cost of funds.

Each Bank uses derivative financial instruments and must determine the nature and quantity of hedging transactions. The effectiveness of the hedging transactions depends upon management's ability to determine the appropriate hedging position, taking into consideration the Bank's assets, liabilities and prevailing and anticipated market conditions. In addition, the usefulness of the Bank's hedging strategy depends on the ability to enter into hedging transactions with high quality counterparties. If a Bank is unable to manage its hedging position properly or is unable to deal with high quality counterparties, the Bank may be unable to manage interest rate and liquidity risks and thus negatively impact the Bank's financial condition and results of operations.

Prepayment risks in mortgage assets could affect the System's earnings.

The System funds real estate mortgage loans and purchases mortgage-backed securities that are impacted by interest rates. Changes in interest rates can significantly impact the prepayment patterns of these assets and thus affect the System's earnings. The System strives to manage or reduce this risk by "match-funding" the assets to the Systemwide Debt Securities issued to fund these loans and investments and entering into interest-rate derivative transactions, and through the rebalancing of cash-flow mismatches of assets and liabilities.

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

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

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

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

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

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

The System's funding depends on its ability to access the capital markets.

The System's primary source of liquidity is the ability to issue Systemwide Debt Securities in the capital markets. This access has provided the System with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the agricultural and rural sectors. The System's ability to continue to issue Systemwide Debt Securities depends, in part, on the conditions in the capital markets at that time, which is out of the System's control. As a result, the System can not make any assurances that it will be able to issue competitively priced debt or issue any debt at all. Thus, if the System does not have access to the capital markets, the System's ability to provide funding to the agricultural and rural sectors would be negatively impacted and would have a negative effect on the System's financial condition and results of operations.

A change in perception of government-sponsored enterprises may increase the System's debt costs and/or lower our credit ratings.

As a government-sponsored enterprise, the System has been able to raise funds at competitive rates and terms, in varying economic conditions. The rating agencies' triple-A credit ratings on the long-term debt and the highest debt rating for the System's short-term debt are based on many factors, including the System's status as a government-sponsored enterprise. If the perception of government-sponsored enterprises changes, the System's debt costs could increase and the credit ratings could decrease. A change in the credit ratings could negatively affect the System's financial condition and results of operations.

OTHER BUSINESS MATTERS

Related Party Transactions

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the System institutions' management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Total loans outstanding to such persons were $1.9 billion at December 31, 2007 and $1.7 billion at December 31, 2006. During 2007 and 2006, $4.9 billion and $3.7 billion of new loans were made to such persons and repayments totaled $4.7 billion and $3.5 billion. In the opinions of Bank and Association managements, substantially all such loans outstanding at December 31, 2007 and 2006 did not involve more than a normal risk of collectibility.

Legal Proceedings

At December 31, 2007, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

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

During the fiscal year ended December 31, 2007 and through the date of this annual information statement, there have been no changes in or disagreements with the independent auditors of the combined financial statements of the System.

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

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

- Basis of Presentation
- Forward-Looking Information
- Critical Accounting Policies
- 2007 Overview
- Agricultural Outlook
- System Organizational and Structural Matters
- Results of Operations
- Risk Management
- Regulatory Matters
- Proposed Federal Legislation
- Recently Adopted or Issued Accounting Pronouncements

Basis of Presentation

The System is a federally chartered network of interdependent, borrower-owned lending institutions (Banks and Associations) and affiliated service organizations. Through our four Farm Credit Banks, one Agricultural Credit Bank and 94 Associations, we provide credit and related services nationwide to farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. We also make loans to finance the processing and marketing activities of these borrowers and to foreign purchasers of American agricultural products. In addition, we make loans to rural homeowners, rural utilities and other eligible borrowers.

The combined financial statements and related financial information contained in this annual information statement present the combined assets, liabilities, capital, income and expenses of the Banks, the Associations, the Farm Credit System Financial Assistance Corporation, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Insurance Fund and reflect the investments in and allocated earnings of the service organizations owned by the Banks and/or Associations. All significant intra-System transactions and balances have been eliminated in combination. (See Note 1 to the accompanying combined financial statements for additional information on organization, operations and principles of combination and the Supplemental Combining Information on pages F-41 through F-48.) This annual information statement has been prepared under the oversight of the System Audit Committee.

Our financial statements are presented on a combined basis due to the financial and operational interdependence of the System entities as discussed in the "Business" section of this annual information statement.

While this annual information statement reports on the combined financial position and results of operations of the Banks, Associations and other System entities specified above, only the Banks are jointly and severally liable for the payments on Systemwide Debt Securities. Each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Notes 13 and 21 to the accompanying combined financial statements for information about the capital of the Banks and the Supplemental Combining Information on pages F-41 through F-43 for information related to the financial condition of the combined Banks.) Because the Associations are not directly liable for the payment of principal and interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See Note 7 to the accompanying combined financial statements.)

Forward-Looking Information

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

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

Critical Accounting Policies

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

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

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

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

- Valuation methodologies — Managements of the Banks and Associations use market prices when estimating fair values for certain assets and liabilities for which an observable liquid market exists. However, they apply various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Examples of these items include impaired loans and investments, pension and other postretirement benefit obligations, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the System's results of operations.
- Pensions — The Banks and substantially all Associations sponsor defined benefit retirement plans, although most plans are closed to new participants. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Banks and

Associations sponsor defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rates of return on plan assets and discount rates. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Hewitt Yield Curve, actuarial analyses and industry norms.

2007 Overview

Overall, the agricultural economic conditions were favorable throughout 2007. The agricultural economic conditions experienced in 2007 and the outlook for 2008, according to the United States Department of Agriculture's February 2008 Outlook for U.S. Agricultural Trade, is largely supported by continued strong demand for agricultural commodities, sharply higher prices for certain commodities and a weaker U.S. dollar. These factors contributed significantly to the financial success of the System during 2007 by facilitating the growth in the System's loan portfolio and the resultant increase in net interest income.

The System's loan portfolio grew 15.8% in 2007 and 16.2% in 2006. As discussed in the "Agricultural Outlook" section below, exceptional conditions impacting U.S. agriculture and other rural borrowers continued to drive significantly higher loan demand from System borrowers. Loan growth has been the principal reason for the System's increased profitability over the past few years. Net interest income has increased and operating efficiency ratios have improved, and credit quality indicators, to date, have remained strong. However, this growth has and may continue to place pressure on System institutions' capital ratios, particularly, if this growth is sustained in the future, requiring System institutions to continue to evaluate capital management strategies and to seek additional sources of capital. While the System's capital grew $1.989 billion to $26.419 billion and remained at a relatively high level, the System's capital-to-asset ratio declined from 15.0% at December 31, 2006 to 14.2% at December 31, 2007.

The System's combined net income was $2.703 billion for 2007, $2.379 billion for 2006 and $2.096 billion for 2005. System earnings improved year-over-year primarily due to increases in net interest income. Net interest income was $4.060 billion for 2007, $3.584 billion for 2006 and $3.246 billion for 2005. The increase in net interest income in each of these periods resulted from higher levels of average earning assets due to the continued growth in the System's loan portfolio and, to a lesser extent, the growth in the investment portfolio. Partially offsetting the impact of the increase in average earning assets was the decrease in net interest spreads, which decreased three basis points during 2007 and 25 basis points in 2006, due primarily to a compression of spreads resulting from competitive conditions. Operating expenses increased 6.1% to $1.597 billion for the year ended December 31, 2007, as compared with $1.505 billion and $1.411 billion for the years ended December 31, 2006 and 2005. In addition, the System recorded provisions for loan losses of $81 million in 2007 and $35 million in 2006, and loan loss reversals of $1 million in 2005. Net interest income in excess of operating expenses was $2.463 billion, $2.079 billion and $1.835 billion for 2007, 2006 and 2005.

The System's total amount of nonperforming loans remained at a historically low level of $621 million at December 31, 2007, as compared with $615 million at December 31, 2006, representing 0.43% and 0.50% of total loans outstanding for the corresponding periods. The low level of nonperforming loans in 2007 reflected the continuing strong credit quality of the System's loans and allowed System institutions to maintain favorable earnings and capital levels.

Agricultural Outlook

The February 2008 United States Department of Agriculture (USDA) forecast estimates that 2008 farmers' net cash income (a measure of the cash income after payment of business expenses) will increase to $96.6 billion, up $9.0 billion from 2007 and up $28.6 billion from its 10-year average. Contributing to this sizeable increase in farmers' net cash income are increases in cash receipts for crops of $30.7 billion, an increase in direct government payments of $1.4 billion and an increase in farm-related income of $600 million, offset in part by an increase in cash expenses of $20.8 billion.

Corn prices have risen substantially as a result of a combination of continued food and feed demand and expanding ethanol demand. In addition, the U.S. dollar has depreciated significantly against major foreign currencies in recent years, which has resulted in greater demand for U.S. agricultural exports. Other crop prices, in general, have been positively impacted by the increased use of acreage to plant corn, decreasing the amount of existing acreage available for other crops. The following table, which is based on information published by the USDA, sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2004 to December 31, 2007:

Commodity	12/31/07	12/31/06	12/31/05	12/31/04
Corn	$ 3.76	$ 3.01	$ 1.92	$ 2.04
Soybeans	$10.00	$ 6.18	$ 5.77	$ 5.45
Wheat	$ 7.74	$ 4.52	$ 3.54	$ 3.39
Beef Cattle	$88.90	$83.10	$93.30	$86.80

The rising commodity prices will likely have both positive and negative impacts on the System, as a lender to the agricultural and rural sectors. Sharply higher commodity prices and increased prices and demand for farm supplies has resulted in increased demand for agribusiness loans. Higher commodity prices may positively impact grain farmers. However, these higher commodity prices result in higher risk profiles for certain System borrowers. Higher feed costs may negatively impact the profitability of livestock producers, as well as those who use corn or other grains in their products. In addition to higher feed costs, most other production cash expenses, such as fertilizer, seed, energy and labor costs, are forecasted to rise in 2008.

The USDA's February 2008 income outlook varies depending on farm size and commodity specialties. We utilized the following USDA analysis to provide a general understanding of the U.S. agricultural economic outlook; however, this outlook does not take into account all aspects of our business.

The USDA classifies all farms into three primary categories: commercial farms, intermediate farms and rural residential farms. Commercial farms represent about 11% of U.S. farms by number and represent 75% of total U.S. farm production. Intermediate farms (where the primary occupation is farming and gross sales are below $250,000) represent 26% of U.S. farms by number and account for 16% of total production. The remaining 63% of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than $250,000 in products and only account for 9% of total production.

In addition to farmers' net cash income, off-farm income is an important source of income for the repayment of farm debt obligations and is less subject to cycles in agriculture. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. Nearly 100% of farm household income for operators of rural residential farms and more than 80% of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 30% of farm household income for commercial farms is generated from off-farm income. The USDA forecasts 2008 farm household income to increase 9% for commercial farms, 7% for intermediate farms and 5% for rural residential farms.

According to the latest USDA forecast, farm business balance sheets continued to strengthen in the last few years, as measured by debt relative to assets and equity levels. Farmers' equity (farm business assets less farm business debt) is expected to continue to rise in 2008 as the increase in farm asset values exceeds the rise in farm debt. One measure of the financial health of the agricultural sector used by the USDA is farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk; however, these estimates do not take into account off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 35.8% in 1973 to 104.1% in 1981, and has remained relatively stable since 1987, averaging about 50%. USDA predictions suggest a decrease in the use of repayment capacity from 48% in 2007 to 43% in 2008.

As estimated by the USDA in September 2007, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) has grown to 34.6% at December 31, 2006, as compared with 28.3% at December 31, 2000. Farm business debt is forecasted to grow 6.1% and 3.7% in 2007 and 2008. The USDA further indicated the recent rise in debt can be at least partially attributed to farmers' positive view of the sector's future.

In general, agriculture has experienced a long period of favorable economic conditions due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the System's financial results and credit quality have been positively impacted by these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. Economic conditions in agriculture may not be as favorable in the future. In an environment of adverse economic conditions in agriculture and without sufficient government support programs, the System's financial performance and credit quality measures would likely be negatively impacted. However, any negative impact should be lessened by geographic and commodity diversification and the substantial influence of off-farm income sources supporting agricultural-related debt.

System Organizational and Structural Matters

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

	Banks	Associations	Total
Entities at January 1, 2003	6	99	105
Net changes through January 1, 2007	(1)	(4)	(5)
Entities at January 1, 2007	5	95	100
Net changes through January 1, 2008	—	(1)	(1)
Entities at January 1, 2008	5	94	99

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

During the latter half of 2007, AgriBank, FCB and CoBank, ACB were engaged in preliminary discussions to evaluate the benefits and feasibility of combining the business operations of the two institutions. After further review and evaluation, the Banks discontinued the merger discussions.

Results of Operations

Earnings Analysis

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

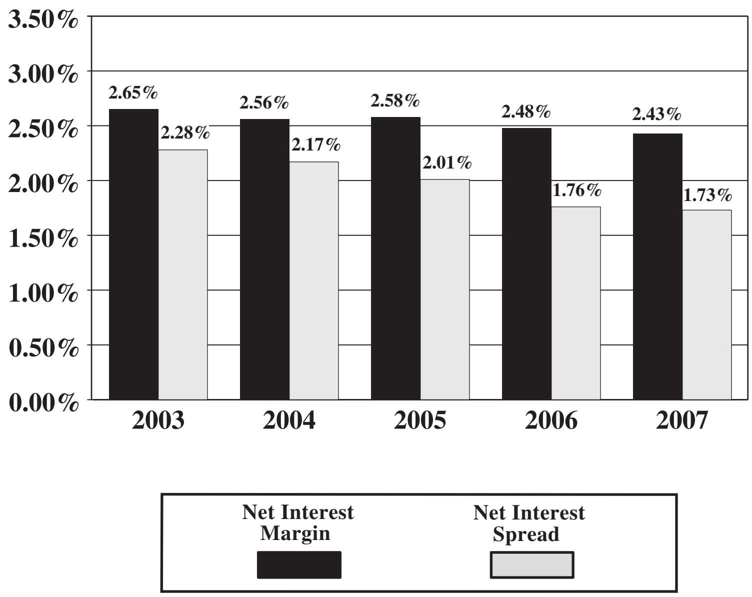
	2007 vs. 2006	2006 vs. 2005
	(in millions)	
Increase (decrease) in net income due to:		
Interest income	$ 1,812	$ 2,499
Interest expense	(1,336)	(2,161)
Net interest income	476	338
Provision for loan losses	(46)	(36)
Noninterest income	45	64
Noninterest expense	(93)	(95)
Provision for income taxes	(58)	12
Net change in net income	$ 324	$ 283

Net Interest Income

Net interest income was $4.060 billion in 2007, $3.584 billion in 2006 and $3.246 billion in 2005. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the System and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	2007 vs. 2006 Increase due to			2006 vs. 2005 Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in millions)					
Interest income						
Loans	$1,311	$179	$1,490	$ 817	$1,043	$1,860
Investments	227	95	322	269	370	639
Total interest income	1,538	274	1,812	1,086	1,413	2,499
Interest expense	1,063	273	1,336	704	1,457	2,161
Changes in net interest income	$ 475	$ 1	$ 476	$ 382	$ (44)	$ 338

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



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

	2007			2006			2005		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
				($ in millions)					
Assets									
Real estate mortgage loans	$ 59,802	$ 4,312	7.21%	$ 53,530	$3,771	7.04%	$ 50,097	$3,079	6.15%
Production and intermediate-term loans	29,686	2,260	7.61	25,893	1,932	7.46	21,661	1,430	6.60
Agribusiness loans	23,565	1,730	7.34	17,085	1,243	7.28	13,521	809	5.98
Rural home loans	3,643	233	6.40	3,141	196	6.24	2,680	159	5.93
Energy, water and waste disposal loans	6,654	437	6.57	5,834	379	6.50	5,221	293	5.61
Communication loans	3,106	233	7.50	2,922	218	7.46	2,434	154	6.33
International loans	2,077	120	5.78	2,207	118	5.35	2,613	92	3.52
Lease receivables	1,548	103	6.65	1,364	92	6.74	1,200	78	6.50
Loans to other financial institutions	445	25	5.62	421	23	5.46	379	16	4.22
Nonaccrual loans	483	58	12.01	500	49	9.80	633	51	8.06
Total loans	131,009	9,511	7.26	112,897	8,021	7.10	100,439	6,161	6.13
Federal funds sold, investments and other	35,858	1,911	5.33	31,539	1,589	5.04	25,277	950	3.76
Total earning assets	166,867	11,422	6.84	144,436	9,610	6.65	125,716	7,111	5.66
Allowance for loan losses	(753)			(748)			(779)		
Other noninterest-earning assets	6,951			6,168			5,549		
Total assets	$173,065			$149,856			$130,486		
Liabilities and Capital									
Systemwide bonds, medium-term notes and master notes	$124,590	$ 6,370	5.11%	$108,341	$5,291	4.88%	$ 94,643	$3,493	3.69%
Systemwide discount notes	17,830	895	5.02	13,526	666	4.92	9,827	309	3.14
Financial Assistance Corporation bonds							143	17	11.89
Other interest-bearing liabilities	1,690	97	5.74	1,252	69	5.51	1,164	46	3.95
Total interest-bearing liabilities	144,110	7,362	5.11	123,119	6,026	4.89	105,777	3,865	3.65
Noninterest-bearing liabilities	3,054			3,027			2,493		
Capital	25,901			23,710			22,216		
Total liabilities and capital	$173,065			$149,856			$130,486		
Net interest spread(1)			1.73			1.76			2.01
Impact of noninterest-bearing sources			0.70			0.72			0.57
Net interest income and margin(2)		$ 4,060	2.43%		$3,584	2.48%		$3,246	2.58%

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

(2) Net interest margin is net interest income divided by average earning assets.

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

As illustrated in the preceding tables, net interest income increased in 2007, as compared to 2006. This increase resulted from higher levels of average earning assets due to the continued growth in the System's loan and investment portfolios, which grew $22.431 billion or 15.5% to $166.867 billion. Partially offsetting the impact of the increase in average earning assets was the decrease in the net interest spread of three basis points for 2007 to 1.73%, as compared with 1.76% for the prior year. The net interest spread for most of the portfolio was pressured by continued competition for loans. However, the net interest spread was positively impacted by the favorable change in the asset mix, which resulted from an increase in higher spread loan products, particularly as a result of the growth in the agribusiness loan portfolio. The net interest margin decreased five basis points to 2.43% for 2007, as compared with 2006, due to the decrease in net interest spread and a lower percentage of average capital as a percentage of average earning assets.

Interest income recognized on cash-basis nonaccrual loans was $58 million for 2007, $49 million for 2006 and $51 million for 2005. Interest income is recognized on cash-basis nonaccrual loans only as interest payments are received and certain other conditions are met. Nonaccrual loans are returned to accrual status after a period of sustained payment performance provided they are current as to principal and interest and the collectibility of the remaining amounts of principal and interest is no longer in doubt.

Net interest income increased in 2006, as compared to 2005. This increase resulted from higher levels of average earning assets due to the continued growth in the System's loan and investment portfolios, which grew $18.720 billion or 14.9% to $144.436 billion. Partially offsetting the impact of the increase in average earning assets was the decrease in the net interest spread of 25 basis points for 2006 to 1.76%, as compared with 2.01% for the prior year. The decrease in net interest spread was primarily due to competitive conditions resulting from a high level of liquidity in bank and debt capital markets that generally moderated the increase in loan rates arising from the higher interest rate environment. Also contributing to the decline in spread was the change in asset mix with average investments representing a larger proportion of average earning assets. While generating a lower net interest spread, investments generally have a lower risk profile. Net interest margin decreased 10 basis points to 2.48% for 2006, as compared with 2005, as the decrease in net interest spread was partially offset by an increase in income earned from higher yields on average earning assets funded by capital.

Provision for Loan Losses

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

The System recognized a provision for loan losses of $81 million in 2007, as compared with a provision for loan losses of $35 million in 2006 and a loan loss reversal of $1 million in 2005. The 2007 provision for loan losses consisted of $100 million of provisions for loan losses recorded by certain System institutions, partially offset by $19 million of loan loss reversals recorded by other System institutions. The 2007 provisions for loan losses were primarily due to credit deterioration in a limited number of loans.

The 2006 provision for loan losses consisted of $64 million of provisions for loan losses recorded by certain System institutions, partially offset by $29 million of loan loss reversals recorded by other System institutions. The 2006 provisions for loan losses were due to the credit deterioration in a limited number of agribusiness loans and lease receivables and to increases in the credit risk at certain System institutions during the year, while the loan loss reversals reflected the continued improvement in credit quality at other System institutions.

The 2005 loan loss reversal consisted of $45 million of loan loss reversals by certain System institutions, offset by $44 million of provisions for loan losses at other System institutions. The 2005 loan loss reversals reflected the further strengthening in overall credit quality at certain System institutions. The provisions for loan losses were due, in part, to additional credit risk in the agribusiness and energy sectors.

Noninterest Income

Noninterest income for each of the three years in the period ended December 31, 2007 is summarized in the following table:

	For the year ended December 31,		
	2007	2006	2005
	(in millions)		
Fees for financially related services	$180	$120	$104
Loan-related fee income	115	110	108
Income earned on Insurance Fund assets	98	89	81
Operating lease income	42	42	42
Mineral income	23	25	21
Gains (losses) on other transactions	(8)	16	7
Gains on sales of investments, net and other assets	1	3	1
Gains (losses) on derivatives not designated as hedges	7	11	(6)
Gains, net on fair value hedges	2	5	
Losses on discontinuance of cash flow hedges	(5)	(13)	(11)
Losses on extinguishment of debt	(21)	(16)	(17)
Other noninterest income	28	25	23
Total noninterest income	$462	$417	$353

Noninterest income increased $45 million or 10.8% in 2007 to $462 million, as compared with 2006. The increase was primarily due to an increase in earnings from financially related services of

$60 million, a $9 million increase in income earned on Insurance Fund assets and a $5 million increase in loan-related fee income offset, in part, by losses on other transactions of $8 million, as compared with a gain of $16 million in 2006. The increase in fees for financially related services primarily resulted from an increase in the sale of multi-peril crop insurance due to a combination of additional emphasis on marketing and sales of related services, higher commodity prices and additional loan volume.

Noninterest income increased $64 million or 18.1% in 2006 to $417 million, as compared with 2005. The increase was due, in part, to an increase in earnings from financially related services of $16 million, an $8 million increase in income earned on Insurance Fund assets, and net gains on certain derivative transactions of $3 million, as compared with net losses on certain derivative transactions of $17 million during the prior year. Included in gains (losses) on other transactions was an $11 million gain on the sale of certain property development rights associated with the Farm Credit System Building Association.

Noninterest Expense

Noninterest expense for each of the three years in the period ended December 31, 2007 is summarized below:

	For the year ended December 31,		
	2007	2006	2005
	(in millions)		
Salaries and employee benefits	$1,009	$ 956	$ 895
Other operating expense	344	325	301
Occupancy and equipment expense	139	132	128
Purchased services	105	92	87
Total operating expense	1,597	1,505	1,411
Gains on other property owned	(1)	(2)	(6)
Other noninterest expense	1	1	4
Total noninterest expense	$1,597	$1,504	$1,409

Noninterest expense increased $93 million to $1.597 billion for 2007, primarily due to increases in salaries and employee benefits, other operating expense and purchased services. Salaries and employee benefits increased $53 million or 5.5% in 2007, as compared with 2006, as a result of annual merit and performance-based incentive compensation increases and, to a lesser extent, higher staffing levels at certain System institutions. The System employed 11,173 full-time equivalents at December 31, 2007, a 2.7% increase over the prior year end. A decrease in pensions and other post-retirement benefits partially offset the increases in salaries. Other operating expense increased due, in part, to an increase in information technology costs.

Noninterest expense increased $95 million to $1.504 billion for 2006, primarily due to an increase in salaries and employee benefits and to an increase in other operating expense. Salaries and employee benefits increased $61 million or 6.8% in 2006, as compared with 2005, primarily as a result of merit and incentive compensation necessary to attract and retain employees with market-based salaries. Other operating expense increased $24 million in 2006 due to moderate increases in advertising, communication, publication and travel expenses.

Operating expense (salaries and employee benefits, occupancy and equipment expense, purchased services and other operating expense) statistics for each of the three years in the period ended December 31, 2007 are set forth below:

	2007	2006	2005
	($ in millions)		
Excess of net interest income over operating expense	$2,463	$2,079	$1,835
Operating expense as a percentage of net interest income	39.3%	42.0%	43.5%
Operating expense as a percentage of net interest income and noninterest income	35.3	37.6	39.2
Operating expense as a percentage of average loans	1.22	1.33	1.40
Operating expense as a percentage of average earning assets	0.96	1.04	1.12

The growth in net interest income in excess of operating expense during 2007 of 18.5% and during 2006 of 13.3% resulted from the increase in net interest income due to the System's growth in loans and investments that exceeded the 6.1% and 6.7% growth in operating expense.

Provision for Income Taxes

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

The System recorded provisions for income taxes of $141 million in 2007, $83 million in 2006 and $95 million in 2005. The effective tax rate increased from 3.4% for 2006 to 5.0% for 2007 primarily due to increased earnings at taxable System institutions and the favorable impact in 2006 of an $11 million resolution of certain tax contingencies.

The effective tax rate decreased to 3.4% for 2006, as compared with 4.3% for the prior year. The decrease in the effective tax rate between the years was due to an $11 million reversal of certain tax contingencies and increased patronage distributions by taxable System institutions.

Risk Management

Overview

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

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

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

Structural Risk Management

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

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

Periodically, the ratios in the CIPA model are reviewed, with the assistance of an independent party, to take into consideration current performance standards in the financial services industry. The CIPA also establishes economic incentives whereby monetary penalties are applied if the performance standard is not met. These penalties will occur at the same point at which a Bank would be required to provide additional monitoring information under the MAA.

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

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

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

The categories are progressively more restrictive: a "Category I" Bank is subject to additional monitoring and reporting requirements; a "Category II" Bank's ability to participate in issuances of System-wide Debt Securities may be limited to refinancing maturing debt obligations; and a "Category III" Bank may not be permitted to participate in issuances of Systemwide Debt Securities. (See Note 21 for each Bank's net collateral and permanent capital ratios.)

During the three years ended and as of December 31, 2007, all Banks met the agreed-upon standard of financial condition and performance required by the CIPA and none of the Banks was placed in any of the three categories designated for Banks failing to meet the MAA's specified financial criteria.

Credit Risk Management

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

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

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

This credit risk ratings process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. This 14-point scale provides for nine acceptable categories, one other assets especially mentioned category, two substandard categories, one doubtful category and one loss category. These categories are defined as follows:

- acceptable — assets are expected to be fully collectible and represent the highest quality,
- other assets especially mentioned — assets are currently collectible but exhibit some potential weakness,
- substandard — assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts,

conditions and values that make collection in full highly questionable, and

- loss — assets are considered uncollectible.

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

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

- typical commercial lending provisions, including advance rates based on quality of pledged assets and financial performance covenants,

- a pledge of substantially all Association assets as collateral for the loan,

- a risk-based score that is based on the Association's profitability, credit quality, risk coverage, capital adequacy and quality of credit administration,

- a requirement that retail loans originated by the Association over an established dollar amount be approved by the Bank and all loans to Association board members receive prior approval by the Bank, and

- a requirement that the Association adopt underwriting standards consistent with the Bank's underwriting guidelines and maintain an internal audit function, which reviews its lending operations.

By selling loans or interests in loans to other institutions within the System or outside the System, a Bank or Association can manage its growth and capital, and limit its exposure to either a borrower or commodity concentration. By buying loans or interests in loans from another System institution or from outside the System, a Bank or Association can improve diversification.

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

Loan Portfolio

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

	December 31,				
	2007	2006	2005	2004	2003
			(in millions)		
Real estate mortgage loans	$ 63,458	$ 56,489	$ 51,690	$47,695	$46,480
Production and intermediate-term loans	32,267	28,731	24,935	22,789	21,058
Agribusiness loans*					12,094
Loans to cooperatives	15,855	12,222	8,778	7,627	
Processing and marketing loans	9,772	6,781	4,083	2,678	
Farm-related business loans	2,464	2,138	1,812	1,748	
Energy and water/waste disposal loans	7,496	6,279	5,458	4,811	3,892
Rural residential real estate loans	3,965	3,408	2,950	2,482	2,278
Communication loans	3,350	3,290	2,605	2,389	2,559
International loans	2,135	2,183	2,277	2,624	2,795
Lease receivables	1,708	1,489	1,290	1,168	1,323
Loans to other financing institutions	436	426	394	356	311
Total loans	$142,906	$123,436	$106,272	$96,367	$92,790

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

	December 31,				
	2007	2006	2005	2004	2003
Real estate mortgage loans	44.4%	45.8%	48.6%	49.5%	50.1%
Production and intermediate-term loans	22.6	23.3	23.5	23.6	22.7
Agribusiness loans*					13.1
Loans to cooperatives	11.1	9.9	8.3	7.9	
Processing and marketing loans	6.8	5.5	3.8	2.8	
Farm-related business loans	1.7	1.7	1.7	1.8	
Energy and water/waste disposal loans	5.3	5.1	5.1	5.0	4.2
Rural residential real estate loans	2.8	2.8	2.8	2.6	2.4
Communication loans	2.3	2.6	2.5	2.5	2.8
International loans	1.5	1.8	2.1	2.7	3.0
Lease receivables	1.2	1.2	1.2	1.2	1.4
Loans to other financing institutions	0.3	0.3	0.4	0.4	0.3
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

* Beginning with year-end 2004, loan type categories were expanded to provide additional information on the types of loans made. Expanded information was not available for 2003.

The year-to-year increase in loan volume was 15.8% in 2007, 16.2% in 2006, 10.3% in 2005 and 3.9% in 2004 and represents an increase in our aggregate market share of farm debt (principally defined as real estate mortgage loans and production and intermediate-term loans). These increases are largely attributable to higher commodity prices, which contributed to the increased cost of land, inputs and customer inventories that needed to be financed, competitively priced credit to borrowers, particularly in the lower lending rate environment we have experienced over the past few years, as well as increased patronage levels. We continue to implement a number of measures, including new products and competitive loan programs, designed to retain creditworthy borrowers and to attract new loan volume.

At December 31, 2007, real estate mortgage loans increased $6.969 billion or 12.3% from the December 31, 2006 level. In addition, production and intermediate-term loans increased $3.536 billion or 12.3%, as compared with December 31, 2006. Both types of loans increased due to continued strong marketing efforts by System institutions, competitive rates and products, and continued loan participations purchased from non-System lenders.

Loans to cooperatives increased $3.633 billion or 29.7% from the year-end 2006 level due to an increase in loan demand from cooperative customers, which was primarily the result of higher prices for grain commodities, including corn, soybeans and wheat. These higher commodity prices contributed to the increased cost of customer inventories and, as a result, created greater loan demand. Processing and marketing loans increased $2.991 billion or 44.1% during 2007 primarily due to increased loan participations and increased marketing efforts.

At December 31, 2007, loans made in connection with international transactions decreased $48 million, as compared with December 31, 2006, primarily due to continued lower utilization of the government guarantee programs. The international portfolio continued to reflect a major concentration in federal government-sponsored trade financing programs. Overall, 61% and 66% of the loans made in connection with international transactions at December 31, 2007 and 2006 were guaranteed through the USDA's Commodity Credit Corporation.

The following table presents the contractual maturity distribution of loans, excluding real estate mortgage and rural residential real estate loans, at December 31, 2007:

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
		(in millions)		
Production and intermediate-term loans	$13,013	$14,039	$ 5,215	$32,267
Loans to cooperatives	8,830	4,146	2,879	15,855
Processing and marketing loans	4,225	2,613	2,934	9,772
Farm-related business loans	886	749	829	2,464
Energy and water/waste disposal loans	1,587	1,220	4,689	7,496
Communication loans	653	922	1,775	3,350
International loans	1,023	1,111	1	2,135
Lease receivables	180	821	707	1,708
Loans to other financing institutions	145	253	38	436
Total	$30,542	$25,874	$19,067	$75,483

Loan Portfolio Diversification

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

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

	December 31, 2007		December 31, 2006	
	Amount	Percentage	Amount	Percentage
	($ in millions)			
Cash grains (includes corn, wheat and soybeans)	$ 16,496	11.54%	$ 14,871	12.05%
Cattle	14,318	10.02	12,402	10.05
Dairy farms	10,116	7.08	9,591	7.77
Farm supplies and marketing	10,058	7.04	6,988	5.66
Forestry	9,722	6.80	7,850	6.36
Tree fruits, nuts and grapes	9,068	6.35	8,220	6.66
Rural home loans, farm landlords and part-time farms	9,046	6.33	7,820	6.34
Food products (includes meat, dairy and bakery products)	8,455	5.92	6,741	5.46
Field crops (includes sugar beets, potatoes and vegetables)	8,200	5.74	7,307	5.92
Energy and water/waste disposal	7,496	5.25	6,279	5.09
General farms, primarily crop	6,870	4.81	5,821	4.72
Poultry and eggs	4,871	3.41	4,466	3.62
Agricultural services and fishing	4,560	3.19	3,712	3.01
Hogs	3,743	2.62	3,101	2.51
General farms, primarily livestock	3,667	2.57	2,777	2.25
Communications	3,350	2.34	3,290	2.66
Biofuels (primarily ethanol)	2,277	1.59	1,165	0.94
International loans	2,135	1.49	2,183	1.77
Cotton	1,928	1.35	1,878	1.52
Other livestock	1,782	1.25	2,017	1.63
Other	4,748	3.31	4,957	4.01
	$142,906	100.00%	$123,436	100.00%

The System's outstanding loans to biofuel products (primarily ethanol) increased $1.112 billion during 2007 to $2.277 billion. In addition, at December 31, 2007 and 2006, the System also had $2.165 billion and $1.749 billion of commitments to extend credit to finance biofuel products.

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

State	2007	2006	2005
California	9.23%	8.81%	9.34%
Texas	8.45	8.11	7.79
Iowa	5.89	5.57	5.00
Minnesota	4.49	4.47	4.95
Nebraska	4.37	3.93	3.60
Illinois	4.18	3.89	3.82
Ohio	3.53	3.40	3.53
Florida	3.29	3.46	3.28
Wisconsin	2.91	2.85	2.86
Indiana	2.88	2.88	2.93
Kansas	2.87	2.66	2.55
Missouri	2.54	2.68	2.65
North Carolina	2.54	2.59	2.58
Georgia	2.49	2.62	2.35
Michigan	2.42	2.42	2.45
Tennessee	2.39	2.35	2.37
Oregon	2.31	1.99	1.87
New York	2.25	2.37	2.25
Colorado	2.04	2.09	1.98
South Dakota	2.04	1.97	1.84
Arkansas	1.89	1.83	1.83
Virginia	1.83	2.07	1.97
Washington	1.83	2.05	1.95
Kentucky	1.75	1.79	1.93
Pennsylvania	1.72	1.83	1.89
Idaho	1.63	1.63	1.64
North Dakota	1.59	1.72	1.98
Alabama	1.36	1.45	1.34
Oklahoma	1.24	1.20	1.34
Mississippi	1.13	1.17	1.18
Maryland	1.03	1.08	1.14
South Carolina	0.98	1.14	1.26
All other states	8.91	9.93	10.56
	100.00%	100.00%	100.00%

The table below sets forth the loans by dollar size:

Range ($ in thousands)	December 31, 2007 Amount Outstanding	December 31, 2007 Number of Loans	December 31, 2006 Amount Outstanding	December 31, 2006 Number of Loans
	($ in millions)			
$1 – $250	$ 40,826	710,858	$ 37,563	686,288
$251 – $500	16,440	48,432	14,839	43,937
$501 – $1,000	14,793	21,850	12,693	19,553
$1,001 – $5,000	32,548	16,415	28,652	14,799
$5,001 – $25,000	21,363	2,543	18,816	2,347
$25,001 – $100,000	6,262	167	4,998	160
$100,001 – $250,000	6,352	43	3,863	25
Over $250,000	4,322	13	2,012	6
Total	$142,906	800,321	$123,436	767,115

Note: Loans greater than $100 million are aggregated by borrower.

Small loans (less than $250 thousand) accounted for 89% of System customers and 29% of System volume at December 31, 2007, as compared with 89% and 30% at December 31, 2006. Credit risk on small loans, in many instances, is reduced by non-farm income sources. Generally, loans up to $250 thousand are evaluated using validated automated credit scorecards (which are mathematical models that provide a quantitative measurement of a borrower's creditworthiness). Credit scorecards are widely used by the System for smaller loans, including production and intermediate-term, real estate mortgage and rural residential real estate loans.

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

	December 31, 2007	December 31, 2006
	($ in millions)	
Number of credit scored loans	382,241	356,585
Amount of credit scored loans	$ 18,864	$ 15,956
Delinquent (30 days or more past due) credit scored loans as a % of credit scored loans	0.78%	0.61%
Delinquent loans for overall portfolio as a % of accruing loans	0.41%	0.38%

The largest 10 borrowers accounted for $3.547 billion or 2.48% of the System's total outstanding loans at December 31, 2007. The concentration of large loans to relatively few borrowers continued to be a significant factor in assessing the credit risk associated with loans. Although not a formal limit, we have established a quarterly process to identify and monitor System large loan exposures (outstanding loan amounts plus any unfunded loan commitments) to existing individual customers that may reach $750 million. Since it is possible that one or more System institutions may simultaneously make credit available to a customer that may, in the aggregate, exceed $750 million, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks and Associations of the largest ten loan exposures, including all loan exposures to a borrower greater than 75% of the $750 million level or $563 million. At December 31, 2007, seven exposures (including unfunded commitments) exceeded $563 million but were below the $750 million level. However, in early January 2008, a short-term commitment was put in place that resulted in one loan exposure being in excess of $750 million. The short-term commitment expires in March 2008.

Credit risk on loans made in connection with international transactions remained relatively low, because approximately 61% and 66% of these loans were guaranteed under federal government programs as of December 31, 2007 and 2006. Additionally, we have reduced the credit risk of some real estate mortgage loans by entering into agreements that provide long-term standby commitments to purchase System loans and other credit guarantees, including credit default swaps. The amount of loans under credit guarantees was $4.3 billion at December 31, 2007 and $3.2 billion at December 31, 2006. Fees paid for credit guarantees totaled $14 million in 2007, $15 million in 2006 and $16 million in 2005, and are included in other operating expenses.

Credit Commitments

The following table summarizes the maturity distribution of unfunded credit commitments at December 31, 2007:

	Less than 1 year	1-3 years	3-5 years	Over 5 years	Total
			(in millions)		
Commitments to extend credit	$19,208	$14,728	$10,686	$5,792	$50,414
Standby letters of credit	1,363	785	363	181	2,692
Commercial and other letters of credit	224	4	2		230
Total commitments	$20,795	$15,517	$11,051	$5,973	$53,336

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. These credit-related financial instruments, other than standby letters of credit, have off-balance-sheet credit risk because their contractual amounts are not reflected on the balance sheet until funded or drawn upon. However, standby letters of credit are reflected on the balance sheet at the fair value of the liability of $11 million. The fair value of these letters of credit is estimated based on the cost to terminate the agreement or fees currently charged for similar agreements. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security are of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

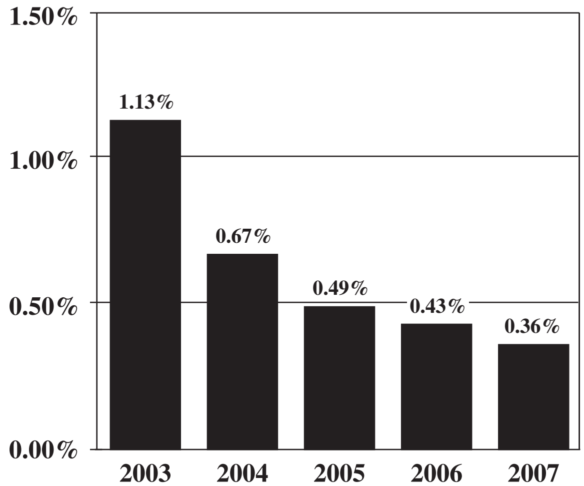
Nonperforming Assets

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

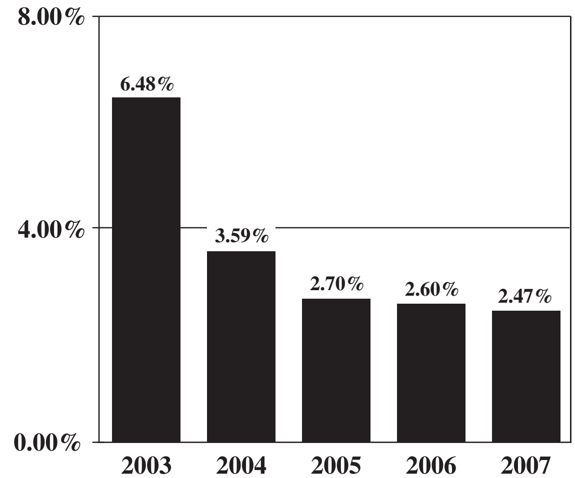
	December 31,				
	2007	2006	2005	2004	2003
			(in millions)		
Nonaccrual loans:					
Real estate mortgage	$245	$210	$228	$254	$ 469
Production and intermediate-term	156	137	123	141	215
Domestic loans to cooperatives*					
Agribusiness	78	96	132	109	
Energy		67	7	57	
Communication			17	60	
Domestic loans to cooperatives	78	163	156	226	360
Rural residential real estate	23	17	14	12	
Lease receivables	10	6	3	5	
International				8	5
Total nonaccrual loans	512	533	524	646	1,049
Accruing restructured loans:					
Real estate mortgage	41	50	54	58	59
Production and intermediate-term	11	6	5	16	32
Agribusiness/domestic loans to cooperative and other	1	1	2	2	3
Total accruing restructured loans	53	57	61	76	94
Accruing loans 90 days or more past due:					
Real estate mortgage	31	12	9	9	12
Production and intermediate-term	19	8	5	5	9
Domestic loans to cooperatives*					
Agribusiness	3	3		5	
Energy				2	
Domestic loans to cooperatives	3	3		7	19
Rural residential real estate	3	1	1		
Lease receivables		1			
International					3
Total accruing loans 90 days or more past due	56	25	15	21	43
Total nonperforming loans	621	615	600	743	1,186
Other property owned	32	21	16	24	41
Total nonperforming assets	$653	$636	$616	$767	$1,227

* Beginning with year-end 2004, loan type categories were expanded to provide additional information on the types of loans made. Expanded information was not available for 2003.

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



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



As of December 31, 2007, the credit quality of the System's loan portfolio remained strong, reflecting the current robust agricultural economy and the continued application by the System of prudent underwriting standards in providing traditional loan products to creditworthy borrowers. To date, the increased volatility in the financial markets over the past several months stemming from increasing defaults in non-traditional loan products, such as subprime mortgage loans, has not negatively affected the System's loan credit quality or the overall agricultural sector. However, the uncertainties of the future performance of the overall economy may cause downward pressure on the credit quality of the System's loan portfolio.

When evaluating the concentration of large nonaccrual loans, we consider nonaccrual loans greater than $5 million. At December 31, 2007, there were only six nonaccrual loans that exceeded $5 million, aggregating $89.9 million, while at December 31, 2006 the ten largest nonaccrual loans totaled $172 million. Nonaccrual loans as a percentage of total loans outstanding decreased from 0.43% at December 31, 2006 to 0.36% at December 31, 2007. Nonaccrual loans that were current as to principal and interest as a percentage of total nonaccrual loans were 52.1% at December 31, 2007, as compared with 60.8% at December 31, 2006. Nonaccrual loans contractually past due with respect to either principal or interest were $245 million and $209 million at December 31, 2007 and 2006.

Accruing restructured loans, including related accrued interest, were $53 million and $57 million at December 31, 2007 and 2006. The restructured loans include only the year-end balances of loans (and related accrued interest) on which monetary concessions have been granted to borrowers and that are in accrual status. Restructured loans do not include loans on which extensions or other nonmonetary concessions have been granted, or restructured loans on which monetary concessions have been granted but which remain in nonaccrual status. Upon restructuring, our accounting policies generally require a period of loan performance during which the borrower complies with the restructured terms before a loan is transferred to accruing restructured status.

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

	2007	2006	2005
		(in millions)	
Balance at beginning of period	$ 533	$ 524	$ 646
Additions:			
Gross amounts transferred into nonaccrual	442	423	417
Recoveries	24	30	33
Advances	471	544	472
Other, net	4		
Reductions:			
Charge-offs	(52)	(78)	(70)
Transfers to other property owned	(29)	(14)	(18)
Returned to accrual status	(52)	(56)	(71)
Repayments	(829)	(840)	(882)
Other, net			(3)
Balance at end of period	$ 512	$ 533	$ 524

During 2007, overall credit quality remained strong. Loans classified (under the Farm Credit Administration's Uniform Loan Classification System) as acceptable or other assets especially mentioned (OAEM) as a percentage of total loans and accrued interest receivable were 98.5% at December 31, 2007 and 98.3% at December 31, 2006. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans remained at a low level of 0.41% at December 31, 2007, as compared with 0.38% at December 31, 2006. The following table shows loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2007	2006	2005
Real estate mortgage			
Acceptable	97.4%	97.1%	96.7%
OAEM	1.5	1.6	1.7
Substandard/doubtful	1.1	1.3	1.6
	100.0	100.0	100.0
Production and intermediate-term			
Acceptable	95.5	95.5	95.1
OAEM	2.5	2.6	3.0
Substandard/doubtful	2.0	1.9	1.9
	100.0	100.0	100.0
Agribusiness			
Acceptable	94.5	94.3	93.1
OAEM	3.0	2.7	2.6
Substandard/doubtful	2.5	3.0	4.3
	100.0	100.0	100.0
Energy and water/waste disposal			
Acceptable	99.7	97.8	94.8
OAEM	0.3	1.0	2.5
Substandard/doubtful	0.0	1.2	2.7
	100.0	100.0	100.0
Communication			
Acceptable	96.7	94.2	96.1
OAEM	1.9	3.4	2.6
Substandard/doubtful	1.4	2.4	1.3
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	98.1	98.1	97.9
OAEM	0.9	0.9	1.0
Substandard/doubtful	1.0	1.0	1.1
	100.0	100.0	100.0
International			
Acceptable	100.0	100.0	100.0
OAEM	0.0	0.0	0.0
Substandard/doubtful	0.0	0.0	0.0
	100.0	100.0	100.0
Lease receivables			
Acceptable	96.1	96.4	97.1
OAEM	2.1	1.4	1.6
Substandard/doubtful	1.8	2.2	1.3
	100.0	100.0	100.0
Loans to other financing institutions			
Acceptable	100.0	100.0	100.0
OAEM	0.0	0.0	0.0
Substandard/doubtful	0.0	0.0	0.0
	100.0	100.0	100.0
Total Loans			
Acceptable	96.6	96.3	95.9
OAEM	1.9	2.0	2.1
Substandard/doubtful	1.5	1.7	2.0
	100.0	100.0	100.0

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by the managements of System institutions to be adequate to absorb probable losses existing in and inherent to their loan portfolios. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each System entity is particular to that institution and is not available to absorb losses realized by other System entities. Managements' evaluations consider factors that include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions and economic conditions. The allowance for loan losses was $781 million, $734 million and $755 million at December 31, 2007, 2006 and 2005.

Net loan charge-offs of $34 million, $50 million and $36 million were recorded in 2007, 2006 and 2005. Net loan charge-offs as a percentage of average loans remained at low levels of 0.03%, 0.04% and 0.04% for 2007, 2006 and 2005.

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

	For the Year Ended December 31,				
	2007	2006	2005	2004	2003
	($ in millions)				
Balance at beginning of year	$ 734	$ 755	$ 792	$ 2,075	$2,101
Charge-offs:					
Real estate mortgage	(35)	(12)	(3)	(21)	(21)
Production and intermediate-term	(18)	(19)	(18)	(21)	(50)
Domestic loans to cooperatives*					
Agribusiness	(5)	(36)	(16)	(22)	
Communication			(5)	(18)	
Energy		(1)	(23)	(53)	
Domestic loans to cooperatives	(5)	(37)	(44)	(93)	(79)
Rural residential real estate	(1)	(1)		(1)	
International			(4)	(4)	
Lease receivables	(3)	(12)	(1)	(2)	
Total charge-offs	(62)	(81)	(70)	(142)	(150)
Recoveries:					
Real estate mortgage	6	1	4	15	6
Production and intermediate-term	7	6	9	11	9
Domestic loans to cooperatives*					
Agribusiness	6	8	8	13	
Communication	8	2	6	10	
Energy		11	5	13	
Domestic loans to cooperatives	14	21	19	36	10
International	1	1	1		
Lease receivables		2	1	5	
Total recoveries	28	31	34	67	25
Net loan charge-offs	(34)	(50)	(36)	(75)	(125)
Provision for loan losses (loan loss reversal)	81	35	(1)	(1,208)	99
Other		(6)			
Balance at end of year	$ 781	$ 734	$ 755	$ 792	$2,075
Ratio of net loan charge-offs during the period to average loans outstanding during the period	0.03%	0.04%	0.04%	0.08%	0.14%

* Beginning with year-end 2004, loan type categories were expanded to provide additional information on the types of loans made. Expanded information was not available for 2003.

The allowance for loan losses by loan type for the most recent five years is as follows:

	December 31,									
	2007	%	2006	%	2005	%	2004	%	2003	%
	($ in millions)									
Real estate mortgage	$131	16.8%	$110	15.0%	$138	18.3%	$158	19.9%	$1,112	53.6%
Production and intermediate-term	140	17.9	133	18.1	127	16.8	145	18.3	525	25.3
Domestic loans to cooperatives*										
Agribusiness	323	41.4	289	39.4	291	38.6	261	33.0		
Communication	72	9.2	64	8.7	65	8.6	82	10.3		
Energy and water/waste disposal	75	9.6	97	13.2	92	12.2	95	12.0		
Domestic loans to cooperatives	470	60.2	450	61.3	448	59.4	438	55.3	415	20.0
Rural residential real estate	4	0.5	4	0.6	4	0.5	6	0.7		
International	21	2.7	20	2.7	18	2.4	21	2.7	23	1.1
Lease receivables	15	1.9	17	2.3	20	2.6	22	2.8		
Loans to other financing institutions							2	0.3		
Total	$781	100.0%	$734	100.0%	$755	100.0%	$792	100.0%	$2,075	100.0%

* Beginning with year-end 2004, loan type categories were expanded to provide additional information on the types of loans made. Expanded information was not available for 2003.

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

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

	December 31,				
	2007	2006	2005	2004	2003
Total loans	0.55%	0.59%	0.71%	0.82%	2.24%
Nonperforming loans	126	119	126	107	175
Nonaccrual loans	153	138	144	123	198

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

Interest Rate Risk Management

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

- Yield curve risk — results from changes in the level, shape, and implied volatility of the yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.
- Repricing risk — caused by the timing differences (mismatches) between financial assets and related funding that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk — results from "embedded options" that are present in many financial 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, a fixed-rate loan product may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan settles. If interest rates increase while the rate guarantee is in effect and if we do not take measures to hedge the rate guarantee, we might realize a lower spread than expected when the loan is funded.

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

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

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

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

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

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

Approximately two-thirds of our fixed-rate loans provide the borrowers with the option to prepay their loan at any time, and the remainder of the System's fixed-rate loans contain provisions requiring prepayment fees to partially or fully compensate the Banks for the cost of retiring the debt, some of which may be non-callable, that is funding fixed-rate loans.

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

Interest Rate Risk Measurements

The Banks measure interest rate risk using:

- 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 and the shape of the yield curve on net interest income for the next year, and
- market value of equity sensitivity analysis — estimates the market value of assets, liabilities and equity given various rate scenarios.

These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary. The Banks use sophisticated simulation models to develop interest rate sensitivity estimates and periodically back test those models to ensure reasonable performance.

Interest Rate Risk Management Results

Interest Rate Gap Analysis

The interest rate gap analysis shown below presents a comparison of interest-sensitive assets and liabilities in defined time segments as of December 31, 2007. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, rate and spread changes and may not necessarily indicate the sensitivity of net interest margin in a changing rate environment. Within the gap analysis, gaps are also created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of assets will exceed the quantity of interest-bearing liabilities in any repricing interval where capital is assumed to provide part of the funding. The gap table below includes anticipated cash flows on assets and liabilities given the current level of interest rates:

	Repricing Intervals				
	0-6 Months	6 Months to 1 Year	1-5 Years	Over 5 Years	Total
			($ in millions)		
Floating-rate loans:					
Indexed/adjustable loans	$ 31,166	$ 1,152	$ 1,679	$ 980	$ 34,977
Administered-rate loans	28,910	51			28,961
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees	5,626	1,744	8,421	8,449	24,240
Fixed-rate without prepayment or conversion fees	15,392	7,646	18,985	12,193	54,216
Nonaccrual loans			131	381	512
Total gross loans	81,094	10,593	29,216	22,003	142,906
Federal funds sold, investments and other	22,907	2,673	7,823	3,146	36,549
Total earning assets	104,001	13,266	37,039	25,149	179,455
Interest-bearing liabilities:					
Callable bonds	7,987	6,941	14,383	11,209	40,520
Noncallable bonds and notes	57,836	9,257	31,981	14,849	113,923
Subordinated debt	500				500
Other interest-bearing liabilities	1,355	1	1	277	1,634
Total interest-bearing liabilities	67,678	16,199	46,365	26,335	156,577
Effect of interest rate swaps and other derivatives	24,826	(5,409)	(16,006)	(3,411)	
Total interest-bearing liabilities adjusted for swaps and other derivatives	92,504	10,790	30,359	22,924	156,577
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)	$ 11,497	$ 2,476	$ 6,680	$ 2,225	$ 22,878
Cumulative gap	$ 11,497	$13,973	$ 20,653	$22,878	
Cumulative gap as a percentage of total earning assets	6.41%	7.79%	11.51%	12.75%	

Consistent with the positive gap between the System's earning assets and interest-bearing liabilities as reflected in the table above, the System's interest rate sensitivity position at December 31, 2007 for repricing intervals in the first six months of 2008 may generally be characterized as "asset sensitive," i.e., interest rates earned by the System on earning assets may change or be changed more quickly than interest rates on the interest-bearing liabilities used to fund these assets.

Typically, the net interest margin of an institution that is "asset sensitive" will be unfavorably impacted in a declining interest-rate environment and favorably impacted in a rising short- and long-term interest-rate environment. The System's capital is invested in loans and investment securities that reprice to lower yields when interest rates are falling and to higher yields when interest rates increase. However, the net interest spread, a component of net interest margin, may react in a different manner due to competitive conditions at the time of repricing. Further, a significant portion of the System's floating-rate loans are management administered-rate loans that, unlike indexed loans, require definitive action at the discretion of the lending Bank or Association to change the interest rates charged and may reflect managements' assessments of whether rate changes are warranted or feasible in view of competitive market conditions. The actual interest rates charged on the administered-rate loans may not mirror the movement of some market interest rates, thereby moderating the overall net interest income impact of market fluctuations that would otherwise exist for asset-sensitive institutions.

Additionally, the Banks issue callable debt to accelerate the repricing of debt in a declining interest rate environment and thereby moderate the impact of falling interest rates on net interest income of institutions in an asset-sensitive position. During 2007, $15.2 billion of debt was called and at December 31, 2007, $40.5 billion of callable debt obligations were outstanding. With interest rates declining in early 2008, the System has called $17.2 billion of debt during the first 45 days of 2008. The System's cumulative gap position in the 0-6 months repricing interval decreased from 7.17% at December 31, 2006 to 6.41% at December 31, 2007.

Duration Gap Analysis

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

A positive duration gap means there is a greater exposure to rising interest rates because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap means that there is a greater exposure to declining interest rates because the duration of our assets is less than the duration of our liabilities. At December 31, 2007, the System's aggregate duration gap was a positive 1.4 months, as compared with a positive 1.0 month at December 31, 2006. A duration gap within the range of a positive three months to a negative three months generally indicates a small exposure to changes in interest rates.

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

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

Sensitivity Analysis

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

The upward and downward shocks for 2007 and 2006 are based on movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. However, in the current, relatively low interest rate environment, the downward shock is based on one-half of the three-month Treasury bill rate, which was 169 basis points at December 31, 2007. Under these simulations, the System's sensitivity to interest rate changes was:

	December 31, 2007				December 31, 2006			
	−169	−100	+100	+200	−200	−100	+100	+200
Change in net interest income	−1.13%	−1.02%	2.28%	3.69%	−2.66%	−1.71%	2.92%	5.32%
Change in market value of equity	2.96%	1.69%	−2.13%	−4.93%	2.00%	1.44%	−2.11%	−4.47%

Each Bank's interest rate risk management policy establishes limits for changes in net interest income sensitivity and market value of equity sensitivity. These limits are measured monthly and reported to each Bank's board of directors at least quarterly. The limits set by the Banks' boards of directors for net interest income and market value of equity sensitivity ranged up to a negative 20% for a 200 basis point shock. During 2007 and 2006, no Bank exceeded its policy limits.

Further, each Bank has established a District limit of a 15% negative movement for changes in net interest income sensitivity and market value of equity sensitivity as measured using the combined results of each Bank and its affiliated Associations. This limit is measured and reported on a quarterly basis. None of the Banks exceeded the District limit during 2007 and 2006. District measurements are presented in Supplemental Financial Information on page F-50.

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

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

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

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

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

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

Derivative Products

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

The primary types of derivative products used and hedging strategies employed are summarized in the following table. For additional information, see Note 17 to the accompanying combined financial statements.

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

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, increased $2.336 billion to $41.732 billion at December 31, 2007, as compared with $39.396 billion at December 31, 2006. The aggregate notional amount of these instruments, which is not included in the Combined Statement of Condition, is indicative of the System's activities in derivative financial instruments, but is not an indicator of the level of credit risk associated with these instruments. The exposure to credit risk is a small fraction of the aggregate notional amount as more fully discussed on page 54. The majority of the swaps used by the Banks were receive-fixed swaps, which are used to improve liquidity and/or lower their cost of debt by issuing fixed-rate debt and swapping the debt to floating to create synthetic floating-rate debt.

The following table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates for the System's derivative financial instruments. The fair values of these derivatives were recognized in the Combined Statement of Condition. The table was prepared using the implied forward yield curve at December 31, 2007.

Maturities of 2007 Derivative Products

	2008	2009	2010	2011	2012	2013 and thereafter	Total	Fair Value at December 31, 2007
	($ in millions)							
Receive-fixed swaps								
Notional value	$7,859	$ 8,172	$7,516	$3,062	$2,126	$4,250	$32,985	$508
Weighted average receive rate	3.80%	4.44%	4.80%	5.27%	4.86%	5.17%	4.57%	
Weighted average pay rate	3.51%	3.01%	3.82%	4.16%	4.45%	5.07%	3.78%	
Pay-fixed and amortizing-pay fixed swaps								
Notional value	$ 339	$ 876	$ 168	$ 170	$ 117	$ 613	$ 2,283	$ (32)
Weighted average receive rate	4.10%	3.34%	3.63%	4.23%	4.44%	4.99%	4.04%	
Weighted average pay rate	4.08%	4.28%	4.79%	5.06%	4.65%	5.01%	4.56%	
Floating-for-floating and amortizing floating-for-floating swaps								
Notional value	$ 500	$ 700	$ 250	$ 100	$ 400		$ 1,950	$ 4
Weighted average receive rate	3.49%	3.70%	4.42%	4.50%	4.81%		4.01%	
Weighted average pay rate	3.57%	3.63%	4.43%	4.60%	4.95%		4.04%	
Interest rate caps								
Notional value	$ 395	$ 390	$ 285	$ 159	$1,058	$ 410	$ 2,697	$ 9
Foreign exchange contracts								
Notional value	$ 258	$ 3	$ 2	$ 2	$ 2	$ 23	$ 290	$ (1)
Other derivative products								
Notional value	$ 50	$ 542	$ 164	$ 140	$ 360	$ 271	$ 1,527	$ 33
Total notional value	$9,401	$10,683	$8,385	$3,633	$4,063	$5,567	$41,732	$521
Total weighted average rates on swaps:								
Receive rate	3.80%	4.31%	4.76%	5.18%	4.83%	5.15%	4.52%	
Pay rate	3.54%	3.15%	3.85%	4.22%	4.54%	5.06%	3.84%	

Approximately 75% of the notional amounts of derivative products outstanding at December 31, 2007 were entered into to create synthetic floating-rate debt for the purpose of reducing the cost of directly issuing floating-rate debt or managing liquidity risk. Most of the remaining derivative products outstanding at December 31, 2007 were entered into for other asset/liability management purposes.

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

To minimize the risk of credit losses from derivatives, we deal with counterparties that have an investment grade or better long-term credit rating from a Nationally Recognized Statistical Rating Organization such as Moody's Investors Service or Standard & Poor's, and also monitor the credit standing of and levels of exposure to individual counterparties. We typically enter into master agreements that govern all derivative transactions with a counterparty and contain netting provisions. These provisions allow us to use the net value of affected transactions with the same counterparty in the event of a default by the counterparty or early termination of the agreement. The counterparty credit ratings for the exposure on derivatives that would be owed to us due to a default or early termination by our counterparties at December 31, 2007 were:

Derivative Credit Exposure

	Number of Counterparties	Notional Principal	Years to Maturity(1) Less than 1 Year	1 to 5 Years	Over 5 Years	Maturity Distribution Netting(2)	Exposure	Collateral Held	Exposure, Net of Collateral
			($ in millions)						
Current Moody's Credit Rating									
Aaa	7	$14,012	$1	$ 48	$ 71	$ (7)	$113	$ 19	$ 94
Aa1	6	12,134		147	22	(4)	165	43	122
Aa2	1	1,227		4	48		52		52
Aa3	2	5,581	1	43	39		83	21	62
A1	2	4,562		45	2	(1)	46		46
A2	1	3,089		44		(4)	40	18	22
Total	19	$40,605	$2	$331	$182	$(16)	$499	$101	$398

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

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

(3) The remaining notional amount of derivative financial instruments of $1.127 billion at December 31, 2007 was related to interest rate swaps that one Bank and one Association entered into with certain of their customers. The risk from these transactions is offset by concurrently entering into offsetting derivative transactions with some of the above counterparties.

At December 31, 2007, the credit exposure, net of collateral, increased to $398 million from $19 million at December 31, 2006. Substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached. At December 31, 2007 and 2006, one Bank posted collateral with respect to its obligations under these agreements totaling $2 million and $61 million.

Liquidity Risk Management

General

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

Funding Sources

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

Moody's Investors Service, Standard & Poor's and Fitch Ratings rate our long-term debt as Aaa, AAA and AAA, and our short-term debt as P-1, A-1+ and F1. These are the highest ratings available from these rating agencies. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a government-sponsored enterprise. Material changes to the factors considered could result in a different debt rating. However, as a result of the System's financial performance, credit quality and standing in the capital markets, we anticipate continued access to funding necessary to support the System's needs. A rating issued by these rating agencies is not a recommendation to buy, sell, or hold securities. You should evaluate the rating of each rating agency independently. The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities.

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

	December 31,	
	2007	2006
	(in millions)	
Debt maturing within:		
one day	$ 2,630	$ 2,588
one week	5,865	4,385
one quarter	24,527	21,798
six months	35,328	32,632
one year	57,034	49,710

Cash provided by the System's operating activities was $2.647 billion for 2007, $2.271 billion for 2006 and $1.546 billion for 2005 (primarily generated from net interest income in excess of operating expenses) and provided an additional source of liquidity for the System that is not reflected in the individual Bank's calculation of days of liquidity. Further, investments in the Insurance Fund would be used to repay maturing Systemwide Debt Securities to the extent available if no other sources existed to repay the debt. At December 31, 2007 and 2006, the assets in the Insurance Fund totaled $2.599 billion and $2.312 billion. (See "Insurance Fund" for additional information.)

Eligible Investments

As permitted under Farm Credit Administration regulations, a Bank is authorized to hold eligible investments (including Federal funds), in an amount not to exceed 35% of average loans outstanding for the quarter. We utilize investments for the purposes of maintaining a diverse source of liquidity and managing short-term surplus funds and interest rate risk, and in so doing enhance profitability. Farm Credit Administration regulations also permit an Association to hold eligible investments with the approval of its affiliated Bank.

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

The credit rating criteria by investment type are:

	Moody's	Standard & Poor's	Fitch
Overnight Federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Term Federal funds	P-1, P-2	A-1+, A-1, A2	F1, F2
Commercial paper	P-1	A-1+, A-1	F1
Corporate securities	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA,AA-	AAA, AA
Mortgage-backed securities	Aaa	AAA	AAA
Asset-backed securities	Aaa	AAA	AAA

If an investment no longer meets the credit rating criteria set forth above, the investment becomes ineligible. A Bank must dispose of an investment that becomes ineligible within six months, unless the Farm Credit Administration approves, in writing, a plan that authorizes the Bank to divest the instrument over a longer period of time.

Investment by type and Federal funds by credit rating were:

December 31, 2007	AAA/Aaa	A1/P1/F1	*Split Rated	AA/Aa	**Split Rated	Total
			(in millions)			
Federal funds		$1,907				$ 1,907
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 203	1,342	$333			1,878
U.S. agency securities	1,337					1,337
Mortgage-backed securities	24,926					24,926
Asset-backed securities	2,203		8	$15	$11	2,237
Total	$28,669	$3,249	$341	$15	$11	$32,285

December 31, 2006	AAA/Aaa	A1/P1	*Split Rated	AA/Aa	A2/P2	Total
			(in millions)			
Federal funds		$1,852			$100	$ 1,952
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 132	2,150	$565	$10		2,857
U.S. agency securities	283					283
Mortgage-backed securities	21,172					21,172
Asset-backed securities	3,424					3,424
Total	$25,011	$4,002	$565	$10	$100	$29,688

* Investments that received the highest credit rating from one rating organization but a lower rating by one of the other rating organizations.

** Investments that received a AA/Aa rating from one rating organization but a lower rating by one of the other rating organizations.

As noted above, asset-backed securities must be rated AAA/Aaa by at least one rating organization in order to be defined as an eligible investment. At December 31, 2007, asset-backed securities with a fair value of $26.1 million and amortized cost of $38.1 million were considered ineligible. Eligible Federal funds and investments increased $2.571 billion during 2007 to $32.259 billion and represented 24.6% of average loans outstanding at December 31, 2007, as compared with 26.3% at December 31, 2006.

The types of mortgage-backed and asset-backed securities that were included in the System's investment portfolio at December 31, 2007 and 2006 were:

	December 31, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Mortgage-backed securities:				
Agency collateralized	$19,796	$19,765	$15,604	$15,510
Agency whole loan pass-through	1,370	1,371	1,550	1,530
Non-agency	3,847	3,790	4,153	4,132
Total mortgage-backed securities	$25,013	$24,926	$21,307	$21,172
Asset-backed securities:				
Home equity loans	$ 1,925	$ 1,804	$ 2,861	$ 2,859
Credit card receivables	242	241	161	161
Auto loans	97	96	265	264
Student loans	82	82	116	116
Small business loans	14	14	20	20
Other asset-backed			4	4
Total asset-backed securities	$ 2,360	$ 2,237	$ 3,427	$ 3,424

The fair values for floating-rate and fixed-rate mortgage-backed and asset-backed securities were:

	December 31,	
	2007	2006
	(in millions)	
Floating-rate mortgage-backed securities	$15,692	$12,747
Fixed-rate mortgage-backed securities	9,234	8,425
Total mortgage-backed securities	$24,926	$21,172
Floating-rate asset-backed securities	$ 2,017	$ 3,011
Fixed-rate asset-backed securities	220	413
Total asset-backed securities	$ 2,237	$ 3,424

Each Banks' investment securities are rated in the highest category required by regulation at the time of purchase and substantially all securities at December 31, 2007 retained these highest ratings. Of the $24.926 billion of mortgaged-backed securities, $21.136 billion were issued by triple-A rated government-sponsored enterprises. The remaining $3.790 billion of mortgage-backed securities were triple-A rated non-agency mortgage-backed securities. Although market liquidity in the non-agency mortgage-backed securities market has been reduced due to overall market conditions, the credit quality and cash flows of the securities underlying these non-agency investments remained healthy.

At December 31, 2007, $1.804 billion or 5.6% of investments totaling $32.285 billion were asset-backed securities collateralized by first or second lien home equity mortgage loans, all of which carry various forms of credit enhancements. Current credit and market conditions have reduced the liquidity of these asset-backed securities and have reduced the fair value of this portion of our investment portfolio below amortized cost. In view of the recent economic conditions and volatility related to these types of securities, the Banks are actively monitoring the creditworthiness of these securities, which were all rated either Aaa by Moody's Investors Service or AAA by Standard & Poor's, except for three securities with a fair value of $26.1 million that had been downgraded below triple-A at December 31, 2007. Subsequent to year-end and the System's press release, additional credit information became available that indicated an other-than-temporary impairment of one of these securities. As a result, a loss of $5 million was recognized in 2007.

The asset-backed securities are supported by various forms of credit enhancements, including insurance guarantees from bond insurers, overcollateralization and favorable priority of payments. However, in the past few months, the bond insurers have been facing greater challenges and uncertainties surrounding the asset-backed securities market and the potential for large significant losses. As a result, subsequent to year-end, the rating agencies downgraded and/or placed the large insurers on negative watch, which resulted in many of the securities with the guarantees also being downgraded and/or placed on negative watch. Just under half of the asset-backed securities held by the Banks are supported by insurance guarantees. Based on our current evaluations, we believe that these securities do not pose a significant risk of loss given the other credit enhancements on the securities and relatively short weighted average lives. With respect to the securities that have been downgraded by the rating agencies, the Banks are developing plans for approval by our regulator that provide that the securities may be held to maturity, thereby allowing the Banks to mitigate any financial loss.

Mission-Related and Other Investments

The Farm Credit Act states that the mission of the System is "to provide for an adequate and flexible flow of money into rural areas." Congress also recognized the "growing need for credit in rural areas" and declared that the System be designed to accomplish the objective of improving the income and well being of America's farmers and ranchers. To further the System's mission to serve rural America, the System has initiated mission-related programs and other mission-related investments approved by the Farm Credit Administration. These investments are not included in the Banks' liquidity calculations and are not covered by the eligible investment limitation discussed above. Mortgage-backed securities issued by Farmer Mac are also considered other investments and are excluded from the limitation and the Banks' liquidity calculations. However, limitations on mission-related investments are determined by the Farm Credit Administration. Mission-related and other investments outstanding at December 31 are as follows:

	2007	2006
	(in millions)	
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 162	$ 24
Mortgage-backed securities	2,963	2,692
Asset-backed securities	332	145
Total	$3,457	$2,861

At December 31, 2007 and 2006, $1.125 billion and $1.250 billion of rural housing mortgage-backed securities held under approved programs were classified as held-to-maturity and had a Aaa credit rating from Moody's Investors Service and a AAA rating from Standard & Poor's. At December 31, 2007 and 2006, certain Banks and Associations held $1.177 billion and $671 million of mortgage-backed securities issued by Farmer Mac that were classified as held-to-maturity. Certain Banks and Associations held mortgage-backed securities of $646 million and $771 million at December 31, 2007 and 2006 issued by Farmer Mac that were classified as available-for-sale.

Liquidity Standard

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

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

At December 31, 2007, all but one Bank exceeded the minimum 90 days of liquidity, while at December 31, 2006, all Banks exceeded the minimum. The one Bank originally calculated 106 days liquidity but subsequent to year-end the Bank determined that its interpretation of the regulation at year-end should be modified. Using the modified interpretation, when applied retroactively, the Bank's liquidity position fell below 90 days for 13 business days. Under the revised calculation, the Bank had 84 days of liquidity at December 31, 2007. (See Note 21 for each Bank's liquidity position at

December 31, 2007 and 2006.) The System's liquidity position was 122 days at December 31, 2007, as compared with 141 days at December 31, 2006. Overall, as compared with December 31, 2006, the System's liquidity position tightened primarily as a result of an increase in Systemwide Debt Securities maturing in three months or less, while the System's cash and investments declined as a percentage of Systemwide Debt Securities.

Contractual Obligations

We enter into contractual obligations in the ordinary course of business, including debt issuances for the funding of our business operations. Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of principal and interest to the holders of Systemwide Debt Securities are insured by amounts held in the Insurance Fund as described in Note 7 to the accompanying combined financial statements. Certain other bonds issued directly by individual Banks are the obligations solely of the issuing Bank. In addition, we enter into derivative transactions with counterparties that create contractual obligations. See "Derivative Products" for additional information. Substantially all proceeds of debt issuances were used to repay maturing debt, as well as to fund growth in loans and investment securities. Issuance, maturity, and retirement activity of Systemwide Debt Securities for the past two years was:

	Systemwide Bonds		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	(in millions)							
Balance, beginning of year	$113,833	$ 98,359	$2,029	$2,509	$ 17,768	$ 11,851	$ 133,630	$ 112,719
Issuances	65,830	47,168			418,646	339,803	484,476	386,971
Maturities/retirements	(46,516)	(31,694)	(393)	(480)	(416,754)	(333,886)	(463,663)	(366,060)
Balance, end of year	$133,147	$113,833	$1,636	$2,029	$ 19,660	$ 17,768	$ 154,443	$ 133,630

Weighted average interest rates and weighted average maturities for 2007 and 2006 were:

	Systemwide Bonds		Systemwide Medium-Term Notes		Systemwide Discount Notes		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
At December 31:								
Average interest rate	4.78%	4.89%	6.36%	6.52%	4.34%	5.14%	4.74%	4.95%
Average remaining maturity	4.1 years	3.3 years	3.8 years	3.9 years	1.3 months	1.7 months	3.6 years	2.9 years
Issuances during the year:								
Average interest rate	5.03%	5.22%			4.83%	4.91%	4.86%	4.94%
Average maturity at issuance	4.1 years	4.5 years			15 days	15 days	7.2 months	7.0 months

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

	Fixed Rate	Average Interest Rate	Floating Rate	Average Interest Rate	Total
	($ in millions)				
2008	$ 35,999	4.32%	$21,035	4.76%	$ 57,034
2009	13,139	4.54	16,449	4.61	29,588
2010	11,809	4.77	6,201	4.95	18,010
2011	6,736	4.99	2,700	4.77	9,436
2012	6,710	5.04	2,798	4.81	9,508
2013 and thereafter	27,355	5.39	3,512	4.75	30,867
Total	$101,748	4.78	$52,695	4.74	$154,443
Fair value at December 31, 2007	$102,586		$52,782		$155,368

The Farm Credit Act and Farm Credit Administration regulations require, as a condition for a Bank's participation in the issuance of Systemwide Debt Securities, that the Bank maintain specified eligible assets, referred to in the Farm Credit Act as "collateral," at least equal in value to the total amount of the debt securities outstanding for which it is primarily liable. (See "Federal Regulation and Supervision of the Farm Credit System — Bank Collateral Requirements" for a description of eligible assets.) The collateral requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the Banks. At December 31, 2007, all Banks reported compliance with the collateral requirement. (See "FCA Capital Requirements" and Note 9 to the accompanying combined financial statements.)

Each Bank determines its participation in each issue of Systemwide Debt Securities based on its funding and operating requirements, subject to:

(1) the availability of eligible collateral (as described above), (2) compliance with the conditions of participation as prescribed in the Market Access Agreement, (3) determination by the Funding Corporation of the amounts, maturities, rates of interest and terms of each issuance, and (4) Farm Credit Administration approval. As of December 31, 2007, no Bank was limited or precluded from participation in issuances of Systemwide Debt Securities. As required by the Farm Credit Act, Systemwide Debt Securities are issued pursuant to authorizing resolutions adopted by the board of directors of each Bank. Under the Market Access Agreement, each Bank's ability to withdraw its authorizing resolution is restricted and, in certain circumstances, eliminated.

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

	Other Bonds	
	2007	2006
	(in millions)	
Balance, beginning of year	$ 836	$ 857
Issuances	62,176	28,952
Maturities/retirements	(62,160)	(28,973)
Balance, end of year	$ 852	$ 836

Weighted average interest rates and weighted average maturities of other bonds for 2007 and 2006 were:

	Other Bonds	
	2007	2006
At December 31:		
Average interest rate	4.00%	4.63%
Average remaining maturity	3 days	3 days
Issuances during the year:		
Average interest rate	4.53%	4.90%
Average maturity at issuance	2 days	2 days

Capital Adequacy and the Ability to Repay Systemwide Debt Securities

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

Over the past several years, we have built capital through net income earned and retained. Capital accumulated through earnings has been partially offset by cash distributions to shareholders. Surplus of $21.481 billion is the most significant component of capital. Surplus as a percentage of capital was 81.3% and 81.7% at December 31, 2007 and 2006. Capital as a percentage of assets declined to 14.2% at December 31, 2007 from 15.0% at December 31, 2006 due principally to the growth in loans and investments. While System institutions have built strong capital levels and are generally favorably positioned to meet demands of future asset growth, sustained loan and investment growth could further reduce System capital as a percentage of assets and could place pressure on certain System institutions' capital positions. The Banks and Associations continue to evaluate capital management strategies, including raising additional third party capital, to provide additional capacity and ensure the demands for future asset growth will be met.

System Capitalization

The changes in capital for the year ended December 31, 2007 were:

	Combined Banks	Combined Associations	Capital Insurance Fund	Combination Entries	System Combined
			(in millions)		
Balance at December 31, 2006	$8,211	$16,361	$2,312	$(2,454)	$24,430
Net income	959	1,929	287	(472)	2,703
Change in accumulated other comprehensive income (loss)	(85)	6		(301)	(380)
Preferred stock issued, net	468	382			850
Preferred stock retired		(335)			(335)
Capital stock and participation certificates issued	367	75		(368)	74
Capital stock and participation certificates and surplus retired	(84)	(78)		40	(122)
Protected borrower stock retired		(2)		2	
Patronage and dividends	(658)	(600)		551	(707)
Preferred stock dividends	(83)	(11)			(94)
Balance at December 31, 2007	$9,095	$17,727	$2,599	$(3,002)	$26,419

Note: System combined capital reflected eliminations of approximately $2.6 billion and $2.4 billion of Bank equities held by Associations as of December 31, 2007 and 2006. System combined capital also reflected net eliminations of transactions between System entities. The combination entry for the change in accumulated other comprehensive loss primarily resulted from the adoption on December 31, 2007 of FASB Statement of Financial Accounting Standards No. 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which for multi-employer plans was recorded at a combined District level.

Interdependency of the Banks and the Associations

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

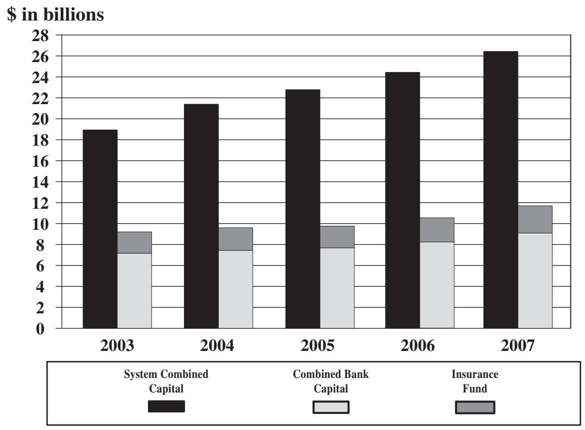
As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Farm Credit Banks, through the issuance of Systemwide Debt Securities, generally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

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

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

Bank Capital and Insurance Fund

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



During the first quarter of 2007, U.S. AgBank, FCB issued $225 million of perpetual non-cumulative fixed-to-floating preferred stock. Dividends will be paid, when, as and if declared by the Board of Directors in its sole discretion, semi-annually at an annual rate of 6.11% from initial issuance up to July 10, 2012. Beginning October 10, 2012, dividends will be paid quarterly at an annual rate equal to 3-month LIBOR plus 1.18%.

During the second quarter of 2007, AgFirst FCB issued $250 million of perpetual non-cumulative fixed-to-floating rate subordinated preferred stock. Dividends will be payable, when, as and if declared by the Board of Directors in its sole discretion, semi-annually in June and December at an annual rate equal to 6.585% of the par value of $1,000 per share up to the June 15, 2012 payment. From and after June 15, 2012, dividends will be payable quarterly at a floating rate equal to 3-month LIBOR plus a margin equal to 1.13%.

Also during the second quarter of 2007, CoBank, ACB issued $500 million in subordinated debt as a capital management strategy since this debt may be counted as regulatory permanent capital, with certain limitations. (See Notes 13 and 21 to the accompanying condensed combined financial statements for additional information related to the capitalization of System institutions and Note 10 for subordinated debt.)

Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System's combined financial statements because, under the Farm Credit Act, amounts in the Insurance Fund are to be used solely for the purposes specified in the Farm Credit Act, all of which benefit System institutions. Combined Bank capital and the Insurance Fund increased $2.488 billion since December 31, 2003 and $1.171 billion since December 31, 2006 to $11.694 billion at December 31, 2007.

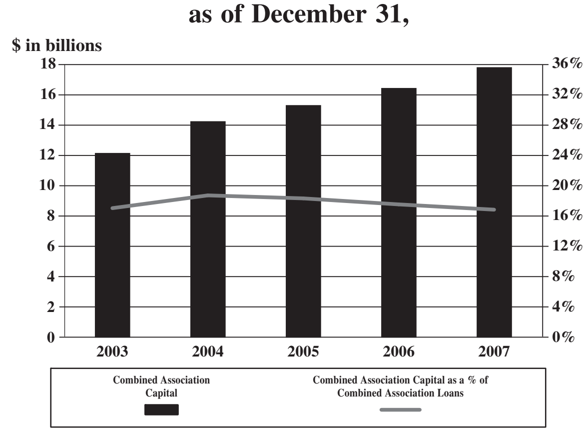
Combined Bank-only net income was $959 million for 2007, $819 million for 2006 and $714 million for 2005. The combined Bank-only net income reflects the earnings on investments, from Bank loans to Associations, and from retail loans principally consisting of domestic loans to cooperatives and other eligible borrowers and loans to finance international transactions. The Banks' loans to Associations represent a majority of the assets on the combined Bank-only balance sheet. Since the Associations operate under a regulatory regime that includes maintenance of certain minimum capital standards, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Based on the lower risk of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

Over the past five years, a substantial portion of income earned at the Bank level has been passed on to the Associations through patronage distributions. Bank capital increased $1.922 billion since December 31, 2003 and $884 million since December 31, 2006 to $9.095 billion at December 31, 2007. The Banks recorded net income of $959 million in 2007, retaining $218 million after patronage distributions and preferred stock dividends were paid.

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

Association Capital

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



Combined Association capital increased $5.612 billion since December 31, 2003 and $1.366 billion since December 31, 2006 to $17.727 billion at December 31, 2007. The growth in Association capital during 2007 resulted primarily from income earned and retained. Combined Associations recorded $1.929 billion of net income in 2007, retaining $1.329 billion after patronage distributions, as compared with $1.710 billion of net income in 2006 with $1.154 billion retained after patronage distributions.

Combined Association capital as a percentage of combined Association loans decreased to 16.8% at December 31, 2007 from 17.5% at December 31, 2006. Individual Association capital as a percentage of risk-adjusted assets ranged from 10.7% to 30.9% at December 31, 2007, as compared with 10.9% to 31.4% at December 31, 2006. (See "FCA Capital Requirements" for additional information.)

Economic Capital

The System's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of its business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. The Banks have implemented economic capital software, methodologies, and assumptions to quantify the capital requirements related to the Bank's primary areas of risk. Each Bank periodically quantifies its economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in its operations. Due to the evolving nature of economic capital, we anticipate the methodologies and assumptions will continue to be refined.

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential unexpected losses resulting from extremely severe events over a one-year time period.

- "Unexpected losses" are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period.
- The amount of economic capital required is based on each Bank's risk profile and a targeted solvency standard. For economic capital modeling purposes, each Bank has targeted an "AA" solvency standard, which equates to a 99.97% confidence level. This means the likelihood of incurring losses in excess of the required economic capital amount is estimated to be similar to the likelihood of an "AA" rated bond defaulting (0.03% probability).

Below is a brief description of the four types of risk to which the Banks attribute economic capital:

- Credit Risk — The risk that borrowers or counterparties default on their financial obligations.
- Interest Rate Risk — The risk generated from changes in interest rates.
- Operational Risk — The risk of loss resulting from inadequate or failed internal processes or systems, human factors, or changes in the competitive environment.
- Market and Other Risk — Exposures related to asset residual values affiliated with leasing activity and other areas of risk.

These risks are measured and aggregated by each Bank to estimate the exposure to potential extremely severe events and any impact to its level or composition of capital.

The Banks utilize economic capital software, including similar conceptual designs and modeling methodologies. Methodologies and assumptions used in measuring economic capital were jointly developed by Bank risk management and financial management personnel, in consultation with industry experts. The Bank modeling considers the economic capital requirements of its affiliated Associations, through the evaluation of the Associations' retail credit risk, operational risk, and interest rate risk. An economic capital shortfall (which is the difference between available capital and required economic capital) at any Association is included in the related Bank's economic capital requirements. The Bank models are calibrated to achieve a standard of default protection equivalent to an "AA" rated institution. At December 31, 2007, each Bank's capital position exceeded its calculated economic capital requirements.

Credit Risk Capital

The primary component of the economic capital requirement is credit risk capital. Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios, and derivative counterparty credit exposures.

Credit risk capital requirements are based on the risk profile of the borrower or counterparty, repayment sources (including non-farm income), the nature of underlying collateral, and other support, given current events and conditions. Our credit risk ratings process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default, as described in the "Risk Management — Credit Risk Management" section of Management's Discussion and Analysis.

In assigning credit risk capital, the Bank's economic capital models consider retail borrower probability of default, loss given default, and portfolio concentrations. Other principal drivers of credit risk that differentiate capital allocation include exposure at default, asset maturity, and asset and inter-commodity correlations. The Banks have developed standards for probability of borrower default and loss given default, based on Moody's Investor Service's external benchmarks. Historical USDA data was used to determine asset and inter-commodity correlations.

Interest Rate Risk Capital

Another significant component of the economic capital requirement is interest rate risk capital. Interest rate risk is the risk of loss of future earnings or long-term value that may result from changes in interest rates. The adverse change in interest rates may be in the form of yield curve risk, repricing risk, option risk or basis risk, as described in the "Risk Management — Interest Rate Risk Management" section of Management's Discussion and Analysis.

The amount of capital attributed by the Banks for interest rate risk is based on potential changes in Bank market value of equity, calculated under randomly generated interest rate scenarios. All Banks utilize widely accepted, third party models to quantify their interest rate risk and related risk capital requirements.

Operational Risk Capital

Another component of the economic capital requirement is operational risk capital. Operational risk for the Banks results primarily from event risk and/or business risk. Event risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors, and 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. Business risk is the risk of loss due to changes in the competitive environment or events that damage the franchise or operating economics of the business.

Each Bank's approach to quantifying operational risk capital is based on the capital of non-financial companies with similar business risks. These non-financial companies hold capital primarily for operational risk. Their level of capital and credit rating yields an inferred estimate of the level of capital to be held for operational risk. Capital as a percentage of non-interest expense is the primary methodology used in determining operational risk capital.

Market and Other Risk Capital

For certain Banks, market risk is a component of the economic capital requirement and arises primarily from the volatility in the residual value of leased assets at the maturity of lease contracts. Other areas of risk in which the Banks may have exposure are structural, liquidity, and political risk. Measurement and quantification of capital required for these risks is not considered feasible at the present time; therefore, capital is not specifically attributed for these risks. Some of the excess capital of the Banks is held for "Other Risks."

Capital Adequacy Plans

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

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

In addition, as discussed below, each Bank has a regulatory minimum for the net collateral ratio of

103%. Under the Market Access Agreement, the minimum established is 104%. Because the net collateral ratio minimum generally would be breached before any of the other minimum capital requirements, the Banks closely monitor the level of the net collateral ratio.

FCA Capital Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent of total liabilities. At December 31, 2007, all System institutions maintained ratios in excess of these standards as follows:

System Institutions	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Net Collateral Ratio
Banks*	12.1% — 20.7%	11.2% — 20.5%	4.9% — 14.2%	104.7% — 107.1%
Associations	10.7% — 30.9%	10.4% — 30.2%	8.9% — 29.2%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%**

* See Note 21 for each Bank's permanent capital ratio and net collateral ratio at December 31, 2007 and 2006.

** In connection with preferred stock and subordinated debt offerings, certain Banks are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%.

Insurance Fund

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

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

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

Due to the restricted use of funds in the Insurance Fund, it has been included as a restricted asset and as restricted capital in the System's combined financial statements. As of December 31, 2007, the assets in the Insurance Fund totaled $2.599 billion. The aggregate amounts of additions to the Insurance Fund and the related transfers from surplus to restricted capital were $287 million in 2007, $250 million in 2006 and $129 million in 2005. In addition, in 2005 $231 million of the Insurance Fund was transferred to surplus reflecting the amount used to repay maturing Financial Assistance Corporation bonds. (See Note 7 to the accompanying combined financial statements and the Supplemental Combining Information on pages F-41 through F-43 for combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's combined financial statements.)

Premiums are due until the assets in the Insurance Fund for which no specific use has been identified or designated reach the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate outstanding insured obligations (adjusted to reflect the System's reduced risk on loans guaranteed by federal or state governments) or such other percentage of the aggregate insured obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. At December 31, 2007, 2006 and 2005, as determined by the Insurance Corporation, the assets in the Insurance Fund for which no specific use has been identified or designated was 1.68%, 1.72% and 1.83% of aggregate insured obligations. With the Allocated Insurance Reserve Accounts, the Insurance Fund was 1.71%, 1.75% and 1.86% of aggregate insured obligations at December 31, 2007, 2006 and 2005. The decline in these percentages between the years resulted from the significant increase in earning assets that primarily were funded by Systemwide Debt Securities. In 2005, the $231 million in Insurance Fund assets used to repay the Financial Assistance Corporation bonds did not affect these percentages as these assets had previously been identified and designated as a liability to repay the Financial Assistance Corporation bonds. Thus, these assets had been excluded from the calculation to determine the "secure base amount."

In January 2008, the Insurance Corporation reviewed the level of the secure base amount and determined that, until its next semi-annual review, it would continue to assess the statutory maximum premiums of 15 basis points on accruing loans and 25 basis points on nonaccrual loans, and zero basis points for loans supported by federal or state guarantees. For an additional discussion on the Insurance Fund and the Allocated Insurance Reserve Accounts, see Note 7 to the accompanying combined financial statements.

Joint and Several Liability

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

Operational Risk Management

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

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

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

Political Risk Management

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

We manage political risk by actively supporting The Farm Credit Council, which is a full-service, federated trade association located in Washington, D.C. representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. In addition, each District has a District Farm Credit Council that is a regional trade association dedicated to promoting the interests of cooperative farm lending institutions and their borrowers in the District.

Regulatory Matters

During 2007, the Farm Credit Administration took no enforcement actions against the Banks or Associations. There were no enforcement actions in effect for the Banks or Associations at December 31, 2007.

In September 2007, the Farm Credit Administration issued a final rule and a direct final rule amending the priority of claims regulations. The final rule amended the priority of claims regulations to give the same subrogation rights to a Bank that makes a joint and several liability payment under a written agreement as the Bank has under a statutory joint and several call. The Farm Credit Administration must approve the written agreement. The direct final rule amended the priority of claims regulations to clarify that subordinated claims are to be paid after the claims of general creditors are paid in full.

On October 31, 2007, the Farm Credit Administration published an advance notice of proposed rulemaking in the Federal Register with respect to the consideration of possible modifications to the Farm Credit Administration's risk-based capital rules for Farm Credit System institutions that are similar to the standardized approach delineated in the Basel II Framework. The Farm Credit Administration is seeking comments to facilitate the development of a proposed rule that would enhance its regulatory capital framework and more closely align minimum capital requirements with risks taken by System institutions. Comments on the advance notice of proposed rulemaking are due no later than March 31, 2008. The System is in the process of developing a comment letter to provide to the Farm Credit Administration on the advance notice of proposed rulemaking.

Proposed Federal Legislation

The current farm bill expired on September 30, 2007. In July 2007, the House of Representatives passed its version of a new farm bill — the Farm, Nutrition, and Bioenergy Act of 2007. In December 2007, the Senate passed its version of the farm bill — the Food and Energy Security Act of 2007.

These two farm bills contain provisions that would expand certain authorities of the Farm Credit System Insurance Corporation. The proposed changes generally would authorize the Insurance Corporation to collect higher levels of premiums and expand the base upon which premiums are charged. Premiums of up to 20 basis points could be charged against insured debt adjusted for government-guaranteed loans and up to an additional 10 basis points could be charged for any loan volume that is nonaccrual or investments that are other-than-temporarily impaired. Currently, premiums of up to 15 basis points may be charged on accruing loans and up to 25 basis points for nonaccrual loans.

At the end of 2007, Congress adopted a short term extension of current law that expires on March 15, 2008. Before a new farm bill can be enacted into law, the Senate and House of Representatives must complete the conferencing process. There is an underlying permanent law that could become effective and guide commodity support programs should Congress fail to adopt a new farm bill, which requires the President's signature to become law. It is premature to predict the final outcome of this legislative process.

Recently Adopted or Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 — Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit 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 was effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The System adopted the balance sheet recognition provisions of the Standard at 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 effective for fiscal years ending after December 15, 2008. Currently, the System uses a measurement date of September 30 and will eliminate the early measurement date in 2008. This change in measurement date will have an immaterial impact on the System's financial condition.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. This Statement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability between market participants on the measurement date. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. The Statement is effective for the System for financial statements issued for the year beginning January 1, 2008. We are currently evaluating the impact of adoption on the System's financial condition and results of operations.

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 financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must 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 became effective as of January 1, 2008. The impact of adoption of the Standard is not expected to have a material impact on the System's financial condition or results of operations.

INDEX TO COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Funding Corporation's management has completed an assessment of the effectiveness of the System's internal control over financial reporting as of December 31, 2007. In making the assessment, Funding Corporation's management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Funding Corporation concluded that as of December 31, 2007, the System's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Funding Corporation determined that there were no material weaknesses in the System's internal control over financial reporting as of December 31, 2007.

Jamie B Stewart Jr.

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

H. John Marsh Jr.

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

REPORT OF INDEPENDENT AUDITORS

TO THE BOARDS OF DIRECTORS
OF THE FARM CREDIT SYSTEM:

In our opinion, the accompanying combined statements of condition and the related combined statements of income, of changes in capital and of cash flows appearing on pages F-4 through F-40 of this Annual Information Statement present fairly, in all material respects, the financial position of the Farm Credit System (the System) at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the System maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The System's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Report on Internal Control over Financial Reporting appearing on page F-2 of this Annual Information Statement. Our responsibility is to express opinions on these financial statements and on the System's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental combining information on pages F-41 through F-48 of this Annual Information Statement is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

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

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

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

New York, NY
February 28, 2008

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CONDITION
(in millions)

	December 31, 2007	December 31, 2006
ASSETS		
Cash	$ 718	$ 568
Federal funds sold and securities purchased under resale agreements	1,907	1,952
Investments (Note 3)		
Available-for-sale (amortized cost of $30,588 and $27,874, respectively)	30,378	27,736
Mission-related and other held-to-maturity (fair value of $2,773 and $2,049, respectively)	2,774	2,083
Mission-related and other available-for-sale (amortized cost of $675 and $775, respectively)	683	778
Loans (Note 4)	142,906	123,436
Less: allowance for loan losses (Note 4)	(781)	(734)
Net loans	142,125	122,702
Accrued interest receivable	2,013	1,839
Premises and equipment (Note 5)	552	526
Other assets (Notes 6, 14, 15 and 16)	2,702	2,368
Restricted assets (Note 7)	2,599	2,312
Total assets	$186,451	$162,864
LIABILITIES AND CAPITAL		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes	$ 19,660	$ 17,768
Systemwide bonds and medium-term notes	37,374	31,942
	57,034	49,710
Due after one year:		
Systemwide bonds and medium-term notes	97,409	83,920
Total Systemwide Debt Securities (Notes 8 and 9)	154,443	133,630
Subordinated debt (Note 10)	500	
Other bonds (Note 9)	852	836
Notes payable and other interest-bearing liabilities	557	380
Accrued interest payable	1,448	1,315
Other liabilities (Notes 6, 14, 15 and 16)	2,007	2,048
Mandatorily redeemable preferred stock (Note 12)	225	225
Total liabilities	160,032	138,434
Commitments and contingencies (Notes 4, 16 and 19)		
Capital		
Preferred stock (Note 13)	1,525	1,003
Capital stock and participation certificates (Note 13)	1,357	1,324
Restricted capital (Notes 7 and 13)	2,599	2,312
Accumulated other comprehensive loss, net of tax (Notes 3, 13, 14 and 17)	(543)	(163)
Allocated surplus (Note 13)	1,437	1,291
Unallocated surplus (Note 13)	20,044	18,663
Total capital	26,419	24,430
Total liabilities and capital	$186,451	$162,864

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF INCOME
(in millions)

	For Year Ended December 31,		
	2007	2006	2005
Interest income			
Investments, Federal funds sold and securities purchased under resale agreements	$ 1,911	$1,589	$ 950
Loans	9,511	8,021	6,161
Total interest income	11,422	9,610	7,111
Interest expense			
Systemwide bonds, medium-term notes and master notes	6,370	5,291	3,493
Systemwide discount notes	895	666	309
Other interest-bearing liabilities	97	69	46
Financial Assistance Corporation bonds			17
Total interest expense	7,362	6,026	3,865
Net interest income	4,060	3,584	3,246
(Provision for loan losses) loan loss reversal	(81)	(35)	1
Net interest income after provision for loan losses/loan loss reversal	3,979	3,549	3,247
Noninterest income			
Fees for financially related services	180	120	104
Loan-related fee income	115	110	108
Income earned on Insurance Fund assets (Note 7)	98	89	81
Operating lease income	42	42	42
Mineral income	23	25	21
Gains on sales of investments and other assets, net	1	3	1
Losses on extinguishment of debt	(21)	(16)	(17)
Net gains (losses) on derivative transactions	4	3	(17)
Other noninterest income	20	41	30
Total noninterest income	462	417	353
Noninterest expense			
Salaries and employee benefits (Note 14)	1,009	956	895
Occupancy and equipment expense	139	132	128
Purchased services	105	92	87
Other operating expense	344	325	301
Gains on other property owned	(1)	(2)	(6)
Other noninterest expense	1	1	4
Total noninterest expense	1,597	1,504	1,409
Income before income taxes	2,844	2,462	2,191
Provision for income taxes (Note 15)	(141)	(83)	(95)
Net income	$ 2,703	$2,379	$2,096

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CHANGES IN CAPITAL
(in millions)

	Preferred Stock	Capital Stock and Participation Certificates	Restricted Capital Farm Credit Insurance Fund	Accumulated Other Comprehensive Income (Loss)	Allocated Surplus	Unallocated Surplus	Total Capital
Balance at December 31, 2004	$ 885	$1,399	$2,164	$(154)	$1,039	$16,056	$21,389
Comprehensive income							
Net income						2,096	2,096
Change in unrealized losses on investments available-for-sale, including reclassification adjustments of $0				(136)			(136)
Change in unrealized losses on cash flow hedges, including reclassification adjustments of $33				44			44
Minimum pension liability adjustment				(22)			(22)
Income tax benefit related to other comprehensive loss				26			26
Total comprehensive income				(88)		2,096	2,008
Transfer of Insurance Fund premiums and other income from surplus to restricted capital — Farm Credit Insurance Fund			129			(129)	
Transfer from restricted capital to surplus to reflect amounts in the Insurance Fund used to repay maturing Financial Assistance Corporation bonds			(231)			231	
Preferred stock issued by Banks	100					7	107
Preferred stock issued, net by Associations	32						32
Preferred stock dividends						(63)	(63)
Capital stock and participation certificates issued		106					106
Capital stock and participation certificates retired		(217)					(217)
Patronage:							
Cash					(130)	(458)	(588)
Capital stock, participation certificates and surplus allocations		45			371	(416)	
Balance at December 31, 2005	1,017	1,333	2,062	(242)	1,280	17,324	22,774
Comprehensive income							
Net income						2,379	2,379
Change in unrealized losses on investments available-for-sale, including reclassification adjustments of $1				36			36
Change in unrealized losses on cash flow hedges, including reclassification adjustments of $23				8			8
Minimum pension liability adjustment				44			44
Income tax related to other comprehensive income				(9)			(9)
Total comprehensive income				79		2,379	2,458
Transfer of Insurance Fund premiums and other income from surplus to restricted capital — Farm Credit Insurance Fund			250			(250)	
Preferred stock retired, net by Associations	(14)						(14)
Preferred stock dividends						(72)	(72)
Capital stock and participation certificates issued		99					99
Capital stock and participation certificates retired		(171)					(171)
Patronage:							
Cash					(142)	(502)	(644)
Capital stock, participation certificates and surplus allocations		63			153	(216)	
Balance at December 31, 2006	1,003	1,324	2,312	(163)	1,291	18,663	24,430
Comprehensive income							
Net income						2,703	2,703
Change in unrealized losses on investments available-for-sale, including reclassification adjustments of $3				(69)			(69)
Change in unrealized losses on cash flow hedges, including reclassification adjustments of $18				2			2
Minimum pension liability adjustment				8			8
Income tax related to other comprehensive income				(9)			(9)
Total comprehensive income				(68)		2,703	2,635
Adjustment to initially apply FASB Statement No. 158, net of tax				(312)			(312)
Transfer of Insurance Fund premiums and other income from surplus to restricted capital — Farm Credit Insurance Fund			287			(287)	
Preferred stock issued by Banks	475					(7)	468
Preferred stock retired, net by Associations	47						47
Preferred stock dividends						(94)	(94)
Capital stock and participation certificates issued		74					74
Capital stock and participation certificates retired		(122)					(122)
Patronage:							
Cash					(136)	(571)	(707)
Capital stock, participation certificates and surplus allocations		81			282	(363)	
Balance at December 31, 2007	$1,525	$1,357	$2,599	$(543)	$1,437	$20,044	$26,419

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

FARM CREDIT SYSTEM

COMBINED STATEMENT OF CASH FLOWS
(in millions)

	For the Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities			
Net income	$ 2,703	$ 2,379	$ 2,096
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses (loan loss reversal)	81	35	(1)
Depreciation and amortization on premises and equipment	74	70	70
Gains on sales of investments, net and other assets	(1)	(3)	(1)
Losses on impairment of investments available-for-sale	5		
Accretion on mission-related and other investments held-to-maturity	2	(1)	(14)
Income on Insurance Fund assets, net of operating expenses	(96)	(86)	(80)
Increase in accrued interest receivable	(174)	(434)	(289)
Decrease (increase) in other assets	188	(12)	(110)
Change in amortized discount on Systemwide discount notes		33	45
Increase in accrued interest payable	133	372	340
Payment to U.S. Treasury for interest advanced on Financial Assistance Corporation bonds			(440)
Decrease in other liabilities	(268)	(82)	(70)
Net cash provided by operating activities	2,647	2,271	1,546
Cash flows from investing activities			
Increase in loans, net	(20,214)	(18,260)	(9,973)
Decrease in Federal funds sold and securities purchased under resale agreements, net	45	431	344
Investments available-for-sale:			
Purchases	(14,963)	(16,666)	(18,797)
Proceeds from maturities and payments	11,106	12,403	14,426
Proceeds from sales	1,138	163	461
Mission-related and other investments held-to-maturity:			
Purchases	(275)	(1,192)	(1,705)
Proceeds from maturities and payments	246	1,214	856
Mission-related and other investments available-for-sale:			
Purchases	(32)		
Proceeds from maturities and payments	131	82	67
Proceeds from sale	8		
Purchases of tobacco contract receivables, net	(3)	(341)	(463)
Premiums paid to the Insurance Fund	(164)	(49)	(47)
Proceeds from the Insurance Fund to repay the maturing Financial Assistance Corporation bonds			231
Purchases of premises and equipment, net of disposals	(100)	(98)	(100)
Proceeds from sales of other assets	23	14	23
Net cash used in investing activities	(23,054)	(22,299)	(14,677)
Cash flows from financing activities			
Systemwide bonds and master notes issued	65,830	47,168	44,464
Systemwide bonds, medium-term notes and master notes retired	(47,736)	(32,434)	(32,101)
Systemwide discount notes issued	418,646	339,803	243,825
Systemwide discount notes retired	(416,754)	(333,919)	(242,287)
Subordinated debt issued, net	497		
Other bonds issued (retired), net	16	(21)	(41)
Financial Assistance Corporation bonds retired			(325)
Increase in notes payable and other interest-bearing liabilities, net	177	103	27
Protected borrower stock retired	(2)	(4)	(6)
Preferred stock issued by Banks	468		107
Preferred stock issued by Associations	382	377	251
Preferred stock retired by Associations	(335)	(391)	(219)
Capital stock and participation certificates issued	74	99	106
Capital stock, participation certificates and surplus retired	(122)	(171)	(217)
Cash patronage and preferred stock dividends paid	(584)	(514)	(429)
Net cash provided by financing activities	20,557	20,096	13,155
Net increase in cash	150	68	24
Cash at beginning of year	568	500	476
Cash at end of year	$ 718	$ 568	$ 500
Supplemental schedule of non-cash investing and financing activities:			
Loans transferred to other assets	$ 34	$ 20	$ 19
Property disposals through financed sales		(1)	(5)
Loans securitized and retained as mission-related and other held-to-maturity investments	676	470	13
Loans securitized and retained as mission-related and other available-for-sale investments		550	
Transfer of mission-related and other held-to-maturity investments to mission-related and other available-for-sale investments	12		
Adjustments for minimum pension liability and FASB Statement No. 158	(304)		
Supplemental non-cash fair value changes related to hedging activities:			
Increase (decrease) in Systemwide bonds, medium-term notes and master notes	827	260	(334)
Decrease in investments			1
(Increase) decrease in other assets	(507)	(25)	18
(Decrease) increase in other liabilities	(320)	(235)	310
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	7,229	5,621	3,480
Taxes	205	121	94

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

NOTE 1 — ORGANIZATION, OPERATIONS AND PRINCIPLES OF COMBINATION

Organization and Operations

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

At December 31, 2007, the System consisted of: (i) four Farm Credit Banks (AgFirst FCB; AgriBank, FCB; FCB of Texas; and U.S. AgBank, FCB) and their affiliated Associations, (ii) one Agricultural Credit Bank (CoBank, ACB) and its affiliated Associations, (iii) the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and (iv) various service and other organizations.

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

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

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

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

The Farm Credit Leasing Services Corporation (Leasing Services Corporation), a wholly-owned subsidiary of CoBank, ACB, provides a variety of leasing programs primarily for agriculture-related equipment and facilities. Other leasing programs exist in the System through Associations and through alliances with non-System leasing companies.

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

As described in Note 11, the Farm Credit System Financial Assistance Corporation (Financial Assistance Corporation) was established in 1988 pursuant to the Farm Credit Act to provide capital and other assistance to System institutions experiencing financial difficulty at that time. The authority to provide assistance expired on December 31, 1992. The last outstanding Financial Assistance Corporation bond matured in June 2005. The Farm Credit Administration Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

The Farm Credit Act also provided for the establishment of the Farm Credit System Insurance Corporation (Insurance Corporation). As more fully described in Note 7, the Farm Credit Insurance Fund (Insurance Fund) is under the direct control of the Insurance Corporation.

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

Principles of Combination

The accompanying System combined financial statements include the accounts of the Banks, the affiliated Associations, the Financial Assistance Corporation, the Funding Corporation and the Insurance Fund and reflect the investments in, and allocated earnings of, the service organizations owned jointly by the Banks and/or Associations. The System combined financial statements include the equity investments of the Farm Credit System Building Association. All significant intra-System transactions and balances have been eliminated in combination. Combined financial statements of the System are presented because of the financial and operational interdependence of the Banks and Associations. Notwithstanding the presentation in the accompanying combined financial statements, the joint and several liability for Systemwide Debt Securities is limited to the Banks, as more fully described in Notes 9, 13 and 21.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Practices

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

Recently Issued or Adopted Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (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 financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must 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 became effective as of January 1, 2008. The impact of adoption of the Standard is not expected to have a material impact on the System's financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 — Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit 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 was effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006 and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The System was 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. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. Currently, the System uses a measurement date of September 30th. The implementation of this Standard had no impact on the income statement but increased accumulated other comprehensive loss by $312 million.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective as of January 1, 2008. The System is currently evaluating the impact of adoption on the System's financial condition and results of operations.

Cash

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

Investments

The Banks and Associations, as permitted under Farm Credit Administration regulations, hold eligible investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. These investments are generally classified as available-for-sale and carried at fair value, and unrealized holding gains and losses are netted and reported as a separate component of capital. Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other than temporarily impaired. If impaired, the impairment loss is taken through earnings in the period of impairment. All or a portion of the unrealized holding gain or loss of an available-for-sale security that is designated as a hedged item in a fair value hedge must be recognized in earnings during the period of the hedge. Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Neither the Banks nor the Associations hold investments for trading purposes.

Premiums and discounts are amortized or accreted into interest income over the term of the respective issues.

Banks and Associations may also hold additional investments in accordance with mission-related and other investment programs approved by the Farm Credit Administration. These programs allow Banks and Associations to make investments that further the System's mission to serve rural America. These investments are not included in the Banks' liquidity calculations and are not covered by the eligible investment limitations specified by the Farm Credit Administration regulations. Mortgage-backed securities issued by Farmer Mac are considered other investments and are excluded from the limitation and the Banks' liquidity calculations. Mission-related and other investments for which the System institution has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity.

Loans and Allowance for Loan Losses

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

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

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

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

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

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

Premises and Equipment

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

Other Assets

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

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

Employee Benefit Plans

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

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

Income Taxes

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

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

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

Derivative Products and Hedging Activity

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

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

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

(dollars in millions, except as noted)

NOTE 3 — INVESTMENTS

Available-for-Sale

The following is a summary of investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk and classified as available-for-sale:

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 1,879		$ (1)	$ 1,878	5.07%
U.S. agency securities	1,336	$ 1		1,337	4.72
Mortgage-backed securities	25,013	81	(168)	24,926	5.05
Asset-backed securities	2,360	1	(124)	2,237	5.10
Total	$30,588	$83	$(293)	$30,378	5.04

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 2,857			$ 2,857	5.30%
U.S. agency securities	283			283	4.33
Mortgage-backed securities	21,307	$32	$(167)	21,172	5.08
Asset-backed securities	3,427	2	(5)	3,424	5.45
Total	$27,874	$34	$(172)	$27,736	5.14

The System realized gross losses of $3 million in 2007 and gross gains of $1 million in 2006 from sales of investment securities.

A summary of the fair value and amortized cost of investments available-for-sale at December 31, 2007 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$1,799		$ 79						$ 1,878	5.07%
U.S. agency securities	337		1,000						1,337	4.72
Mortgage-backed securities	1		86		$1,485		$23,354		24,926	5.05
Asset-backed securities			306		95		1,836		2,237	5.10
Total fair value	$2,137	5.03%	$1,471	4.80%	$1,580	4.81%	$25,190	5.07%	$30,378	5.04
Total amortized cost	$2,136		$1,471		$1,580		$25,401		$30,588	

(dollars in millions, except as noted)

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

Mission-related and other investments

The System may hold mission-related and other investments. Mission-related programs and other mission-related investments are approved by the Farm Credit Administration. The following is a summary of mission-related and other investments, which are held-to-maturity:

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 162	$ 2	$ (3)	$ 161	6.43%
Mortgage-backed securities	2,302	21	(20)	2,303	5.71
Asset-backed securities	310	—	(1)	309	6.54
Total	$2,774	$23	$(24)	$2,773	5.84

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 24			$ 24	7.45%
Mortgage-backed securities	1,921	$3	$(36)	1,888	5.62
Asset-backed securities	138	—	(1)	137	5.79
Total	$2,083	$3	$(37)	$2,049	5.65

A summary of the fair value and amortized cost of mission-related and other investments that are held-to-maturity at December 31, 2007 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$10		$16		$ 98		$ 38		$ 162	6.43%
Mortgage-backed securities	1		32		119		2,150		2,302	5.71
Asset-backed securities	—		10		55		245		310	6.54
Total amortized cost	$11	7.12%	$58	6.61%	$272	6.42%	$2,433	5.75%	$2,774	5.84
Total fair value	$11		$58		$271		$2,433		$2,773	

(dollars in millions, except as noted)

The following is a summary of mission-related and other investments that are available-for-sale:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Fair Value	Weighted Average Yield
Mortgage-backed securities	$653	$8	$661	5.16%
Asset-backed securities	22	—	22	6.07
Total	$675	$8	$683	5.19

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Fair Value	Weighted Average Yield
Mortgage-backed securities	$768	$3	$771	5.21%
Asset-backed securities	7	—	7	7.10
Total	$775	$3	$778	5.23

There were no gross unrealized losses at December 31, 2007 or December 31, 2006.

A summary of the fair value and amortized cost of mission-related and other investments that are available-for-sale at December 31, 2007 by contractual maturity is as follows:

	Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Mortgage-backed securities			$661		$661	5.16%
Asset-backed securities	$20		2		22	6.07
Total fair value	$20	6.06%	$663	5.16%	$683	5.19
Total amortized cost	$20		$655		$675	

The following table shows the gross unrealized losses and fair value of the System's available-for-sale, and mission-related and other investment securities that have been in a continuous unrealized loss position at December 31, 2007. An investment is considered impaired if its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commercial paper, bankers' acceptances, certificates of deposit and other securities	$ 1,200	$ 4		
Mortgage-backed securities	11,656	94	$6,289	$ 94
Asset-backed securities	2,032	113	203	12
Total	$14,888	$211	$6,492	$106

The ratings of the eligible investments meet the applicable regulatory requirements and their current unrealized loss positions result from interest rate fluctuations and a decrease in liquidity in the marketplace, and not from any deterioration in credit quality. System institutions have the ability and the intent to hold these investments for a period of time sufficient to collect all amounts due according to the contractual terms of the investments, and thus System institutions do not consider these eligible investments to be other-than-temporarily impaired at December 31, 2007.

(dollars in millions, except as noted)

At December 31, 2007, three securities with fair values of $26.1 million were ineligible since their ratings did not meet regulatory requirements. These securities were evaluated to determine if the Banks have the ability and intent to hold these securities for a period of time to collect all contractual principal and interest. One of the securities with a fair value of $7.4 million was determined to be other-than-temporarily impaired resulting in a $5 million loss being recognized in 2007.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

Loans outstanding consisted of the following:

	December 31, 2007	December 31, 2006
Real estate mortgage loans	$ 63,458	$ 56,489
Production and intermediate-term loans	32,267	28,731
Agribusiness loans:		
Loans to cooperatives	15,855	12,222
Processing and marketing loans	9,772	6,781
Farm-related business loans	2,464	2,138
Energy and water/waste disposal loans	7,496	6,279
Rural residential real estate loans	3,965	3,408
Communication loans	3,350	3,290
International loans	2,135	2,183
Lease receivables	1,708	1,489
Loans to other financing institutions	436	426
Total loans	$142,906	$123,436

Approximately 45% of the loan volume at December 31, 2007 and 2006 contained terms under which the interest rate on the outstanding balance may be adjusted from time-to-time during the term of the loan. These floating-rate loans are comprised of administered-rate loans that may be adjusted at the discretion of the lending institution and indexed/adjustable loans that are periodically adjusted based on changes in specified indices. Fixed-rate loans comprised the remaining 55% of loans outstanding at December 31, 2007 and 2006.

As of December 31, 2007 and 2006, 61% and 66% of the loans made in connection with international transactions, which were for the purpose of financing agricultural exports, were guaranteed through the United States Department of Agriculture's Commodity Credit Corporation.

Interest income on nonaccrual and accruing restructured loans that would have been recorded under the original terms of such loans at December 31, 2007 were as follows:

(dollars in millions, except as noted)

Interest income that would have been recognized under original terms	$ 84
Less: interest income recognized	(66)
Interest income not recognized	$ 18

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

	December 31, 2007	December 31, 2006
Nonaccrual loans:		
Current as to principal and interest	$267	$324
Past due	245	209
Total nonaccrual loans	512	533
Impaired accrual loans:		
Restructured accrual loans	53	57
Accrual loans 90 days or more past due	56	25
Total impaired accrual loans	109	82
Total impaired loans	$621	$615

	December 31, 2007	December 31, 2006
Impaired loans with related allowance	$138	$ 98
Impaired loans with no related allowance	483	517
Total impaired loans	$621	$615
Allowance on impaired loans	$ 32	$ 44

The following table summarizes impaired loan information for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Average impaired loans	$594	$597	$733
Interest income recognized on impaired loans	70	61	62

Commitments to lend additional funds to debtors whose loans were classified as impaired were not significant at December 31, 2007 and 2006.

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

	2007	2006	2005
Balance at beginning of year	$734	$755	$792
Loan loss reversals	(19)	(29)	(45)
Provisions for loan losses	100	64	44
Loans charged-off	(62)	(81)	(70)
Recoveries	28	31	34
Other		(6)	
Balance at end of year	$781	$734	$755

NOTE 5 — PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2007	December 31, 2006
Land, buildings and improvements	$ 585	$ 541
Furniture and equipment	448	425
	1,033	966
Less: accumulated depreciation	(481)	(440)
	$ 552	$ 526

(dollars in millions, except as noted)

NOTE 6 — OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

	December 31, 2007	December 31, 2006
Tobacco contracts receivables	$ 807	$ 804
Equipment held for lease	741	641
Interest rate swaps and other derivatives	584	84
Unamortized debt issue costs	98	77
Accounts receivable	89	84
Equity investments in other System institutions	70	70
Net deferred tax assets	46	61
Prepaid expenses	44	31
Other property owned	32	21
Pension assets	27	
Prepaid pension costs		275
Cash collateral posted with derivative counterparties		46
Intangible assets related to pensions		4
Other	164	170
Total	$2,702	$2,368

Other liabilities consisted of the following:

	December 31, 2007	December 31, 2006
Patronage and dividends payable	$ 575	$ 504
Accounts payable	432	365
Pension and other postretirement benefit plan liabilities	401	314
Accrued salaries and employee benefits	125	111
Bank drafts payable	91	96
Interest rate swaps and other derivatives	63	383
Net deferred tax liabilities	59	65
Protected borrower stock	11	13
Other	250	197
Total	$2,007	$2,048

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

Protection of certain borrower stock is provided under the Farm Credit Act, which requires System institutions, when retiring protected borrower stock, to retire the stock at par or stated value regardless of its book value. Protected borrower stock includes participation certificates and allocated equities that were outstanding as of January 6, 1988, or that were issued or allocated prior to October 6, 1988. If a System institution is unable to retire protected borrower stock at par or stated value due to the liquidation of the institution, amounts required to retire protected borrower stock would be obtained from the Insurance Fund, as discussed in Note 7. As a result of the borrower capital protection mechanisms contained in the Farm Credit Act, the at-risk characteristics necessary for such protected borrower stock to be classified as permanent equity have been substantially reduced. Accordingly, at December 31, 2007 and 2006, $11 million and $13 million of protected borrower stock has been classified as a liability in the accompanying Combined Statement of Condition.

NOTE 7 — FARM CREDIT INSURANCE FUND

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

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

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

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

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

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

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

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

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

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

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

At December 31, 2003, the Insurance Fund attained the secure base amount. In addition, at the end of that year, the amount in the Insurance Fund exceeded the average secure base amount for the year. As a result, as required by statute, the Insurance Corporation allocated $40 million to Allocated Insurance Reserve Accounts. Financial Assistance Corporation stockholders are allocated 10% of the allocation and 90% is allocated to the Banks. These reserve accounts remain part of the Insurance Fund, and, therefore, may be used for statutorily authorized Insurance Corporation purposes. Pursuant to the Farm Credit Act, the earliest any payments could have been made from the reserve accounts was 2006, subject to certain conditions and limitations. No payments were made from the reserve accounts in 2007 because the assets for which no specific use had been identified or designated was below the 2% secure base amount.

(dollars in millions, except as noted)

As of December 31, 2007, the assets in the Insurance Fund aggregated $2.599 billion. These assets are to be used, to the extent available, for the following identified purposes:

Assets for which no specific use has been identified or designated by the Insurance Corporation	$2,559
Allocated Insurance Reserve Accounts	40
Aggregate assets in the Insurance Fund	$2,599

At December 31, 2007, assets in the Insurance Fund consisted of cash and cash equivalents, which includes investments in U.S. Treasury obligations with original maturities of 90 days or less of $480 million, investments of $1.907 billion, accrued interest receivable of $21 million and premiums receivable from System institutions of $191 million accrued on the basis of loans outstanding during the year ended December 31, 2007.

At December 31, 2007 and 2006, the investments, which are classified as restricted assets and are carried at amortized cost, consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2007:				
U.S. Treasury obligations	$1,907	$19	$(1)	$1,925

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2006:				
U.S. Treasury obligations	$1,429	$1	$(26)	$1,404

The amortized cost and fair value at December 31, 2007 by contractual maturity are as follows:

	Amortized Cost	Fair Value
Due in one year or less	714	715
Due one year through five years	1,143	1,160
Due after five years through ten years	50	50
	$1,907	$1,925

NOTE 8 — SHORT-TERM BORROWINGS

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

	2007		2006		2005	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Systemwide discount notes:						
Outstanding at December 31	$19,660	4.34%	$17,768	5.14%	$11,851	3.96%
Average during year	17,830	5.02	13,526	4.92	9,827	3.14
Maximum month-end balance during year	20,663		17,960		11,851	
Systemwide bonds(1):						
Outstanding at December 31	4,214	4.61	3,505	4.86	2,575	3.71
Average during year	3,224	4.95	2,918	4.78	2,306	2.69
Maximum month-end balance during year	4,214		3,505		3,669	

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

(dollars in millions, except as noted)

NOTE 9 — SYSTEMWIDE DEBT SECURITIES AND OTHER BONDS

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at December 31, 2007:

	Bonds		Medium-term notes		Discount notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2008	$ 36,586	4.43%	$ 788	6.43%	$19,660	4.34%	$ 57,034	4.43%
2009	29,334	4.55	254	6.75			29,588	4.57
2010	17,871	4.82	139	6.43			18,010	4.83
2011	9,400	4.92	36	6.26			9,436	4.93
2012	9,484	4.97	24	7.07			9,508	4.98
2013 and thereafter	30,472	5.31	395	5.93			30,867	5.32
Total	$133,147	4.78	$1,636	6.36	$19,660	4.34	$154,443	4.74

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

Year of Maturity	Amount	Range of Next Call Dates
2008	$ 4,648	January 2008-June 2008
2009	4,388	January 2008-December 2008
2010	7,278	January 2008-June 2009
2011	4,071	January 2008-December 2009
2012	4,964	January 2008-December 2010
2013 and thereafter	15,171	January 2008-May 2014
Total	$40,520	

The average maturity of Systemwide discount notes at December 31, 2007 and 2006 was 1.3 months and 1.7 months. Pursuant to authorizations by the Farm Credit Administration, the maximum amount of Systemwide discount notes, medium-term notes and global debt securities that Banks in the aggregate may have outstanding at any one time is currently $40 billion, $40 billion and $5 billion. There is no limit on the amount of Systemwide bonds that may be outstanding at any one time.

Systemwide Debt Securities are the joint and several obligations of the Banks. Payments of principal and interest to the holders of Systemwide Debt Securities with an outstanding balance aggregating $154.443 billion at December 31, 2007 are insured by amounts held in the Insurance Fund as described in Note 7. Certain other bonds issued directly by individual Banks are the obligations solely of the issuing Bank. The aggregate amount of bonds issued directly by the Banks was $852 million at December 31, 2007 and $836 million at December 31, 2006. All of these bonds mature in the following year, and had a weighted average interest rate of 4.00% for 2007 and 4.63% for 2006.

The Farm Credit Act and Farm Credit Administration regulations require each Bank to maintain specified eligible assets at least equal in value to the total amount of debt securities outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide Debt Securities. Each Bank was in compliance with these requirements as of December 31, 2007. At December 31, 2007, the combined Banks had specified eligible assets of $166.4 billion, as compared with $156.7 billion of Systemwide Debt Securities and other bonds and accrued interest payable at that date. The specified eligible asset requirement does not provide holders of the securities with a security interest in any assets of the Banks.

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

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

NOTE 10 — SUBORDINATED DEBT

In June 2007, CoBank, ACB issued $500 million of floating rate unsecured subordinated debt due in 2022, generating net proceeds of $496.8 million that were primarily used to increase the permanent capital of the Bank pursuant to the Farm Credit Administration regulations, and for general corporate purposes. It is subordinate to all other categories of creditors, including any claims of the holders of Systemwide Debt Securities (as defined in Note 13) and general creditors, and is senior to all stock and retained earnings. The debt is not a Systemwide Debt Security, and thus does not qualify as the joint and several liability of all the Banks and is not insured by the Insurance Corporation.

The debt bears interest at an annual rate equal to three-month LIBOR, reset quarterly, plus 0.60%, payable quarterly each year in cash on September 15, December 15, March 15, and June 15. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, CoBank may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt may be redeemed, at the Bank's option, on June 15, 2017, or upon the occurrence of certain defined regulatory conditions, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided CoBank has made payment in full of all amounts then due in respect of its senior indebtedness.

NOTE 11 — FINANCIAL ASSISTANCE CORPORATION BONDS

The Farm Credit Act provided for capital assistance to System institutions experiencing severe financial stress through the issuance by the Financial Assistance Corporation of U.S. Treasury-guaranteed 15-year bonds. The last remaining Financial Assistance Corporation bonds matured and were repaid on June 10, 2005. The Farm Credit Administration Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

NOTE 12 — MANDATORILY REDEEMABLE PREFERRED STOCK

As of December 31, 2007, AgFirst FCB had 225,000 shares issued and outstanding of mandatorily redeemable cumulative preferred stock at $1,000 per share that is redeemable on December 15, 2016. Preferred stock dividends are payable at the rate of 8.393% per annum of the $1,000 per share par value. Beginning March 15, 2012, the rate will change to a floating rate equal to three-month LIBOR plus 3.615%. On or after the dividend payment date in December 2011, the preferred stock will be redeemable in whole or in part at the option of the Bank on any dividend payment date at its par value of $1,000 per share. Although the mandatorily redeemable preferred stock has not been included in capital for financial reporting purposes, this issuance of preferred stock qualifies as capital for certain regulatory purposes.

(dollars in millions, except as noted)

NOTE 13 — CAPITAL STRUCTURE

Preferred Stock

As of December 31, 2007, the System had preferred stock issued and outstanding of $1.525 billion that was issued separately by four Banks and three Associations. The preferred stock issued by the Banks is generally held by institutional investors or knowledgeable, high net worth individuals. The following table presents the general terms of each perpetual preferred stock issuance by the Banks (par amount in whole dollars):

Bank	Issue Date	Amount	Shares Issued and Outstanding	Par Amount	Security Type and Dividend Rate
CoBank	June 2001	$ 300	6,000,000	$ 50	Cumulative perpetual 7.814% payable quarterly(1)
CoBank	November 2003	200	4,000,000	50	Cumulative perpetual 7.000% payable quarterly(2)
AgFirst	October 2003	150	150,000	1,000	Non-cumulative perpetual 7.300% payable semi-annually(3)
AgFirst	June 2007	250	250,000	1,000	Non-cumulative perpetual 6.585% payable semi-annually(4)
Texas	November 2003 and September 2005	200	200,000	1,000	Cumulative perpetual 7.561% payable semi-annually(5)
U.S. AgBank	March 2007	225	225,000	1,000	Non-cumulative perpetual 6.11% semi-annually(6)
		$1,325			

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

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

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

(4) The preferred stock is perpetual, non-cumulative, fixed-to-floating rate subordinated preferred stock. Dividends will be payable, when, as and if declared by the Board of Directors in its sole discretion, semi-annually in June and December at an annual rate equal to 6.585% of the par value of $1,000 per share up to the June 15, 2012 payment. From and after June 15, 2012 dividends will be payable quarterly at a floating rate equal to 3-month LIBOR plus a margin equal to 1.13%.

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

(6) The preferred stock is perpetual, non-cumulative, fixed-to-floating preferred stock. Dividends will be paid, when, as and if declared by the Board of Directors in its sole discretion, semi-annually at an annual rate of 6.11% from initial issuance up to July 10, 2012. Beginning October 10, 2012, dividends will be paid quarterly at an annual rate equal to 3-month LIBOR plus 1.18%.

In addition, three Associations had Class H preferred stock outstanding of $200 million at December 31, 2007. The purchase of this preferred stock is limited to existing common stockholders of each Association. The Association's board of directors sets the dividend rate and retirement of the stock is at the discretion of the board.

Capital Stock and Participation Certificates

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

(dollars in millions, except as noted)

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

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

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

Capital consisted of the following at December 31, 2007:

	Combined Banks	Combined Associations	Combination Entries	System Combined
Preferred stock	$1,325	$ 200		$ 1,525
Capital stock and participation certificates	3,465	510	$(2,618)	1,357
Protected borrower stock		11	(11)	
Restricted capital — Insurance Fund			2,599	2,599
Accumulated other comprehensive loss	(235)	(4)	(304)	(543)
Surplus	4,540	17,010	(69)	21,481
Total capital	$9,095	$17,727	$ (403)	$26,419

Combined System surplus reflected net eliminations of $69 million representing transactions between the Banks, the Associations, and/or the Insurance Fund primarily related to surplus allocations by certain Banks to their Associations. The Associations owned capital stock and participation certificates of the Banks amounting to approximately $2.6 billion. These amounts have been eliminated in the accompanying combined financial statements. Restricted capital is available only for the uses described in Note 7 and is not available for payment of dividends or patronage refunds. Accumulated other comprehensive loss, net of tax, at December 31, 2007 and 2006 was comprised of the following components:

	2007	2006
Unrealized losses on investments available-for-sale, net	$(190)	$(113)
Unrealized losses on cash flow hedges, net	(27)	(28)
Pension and other benefit plans	(326)	
Minimum pension liability		(22)
	$(543)	$(163)

As discussed in Notes 9 and 21, only the Banks are statutorily liable for the payment of principal and interest on Systemwide Debt Securities. Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies.

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

(dollars in millions, except as noted)

Farm Credit Administration's capital regulations require that the Banks and Associations achieve and maintain permanent capital of at least seven percent of risk-adjusted assets. In addition, Farm Credit Administration regulations require that: (1) all System institutions achieve and maintain a total surplus ratio of at least seven percent of risk-adjusted assets and a core surplus ratio of at least three and one-half percent of risk-adjusted assets and (2) all Banks achieve and maintain a net collateral ratio of at least 103 percent of total liabilities. Failure of an institution to meet any of these capital requirements may result in certain discretionary actions by the Farm Credit Administration that, if undertaken, could have a direct effect on the institution's financial and operational performance. At December 31, 2007, all System institutions reported compliance with these standards. Ranges of capital ratios reported by System institutions at December 31, 2007 were as follows:

System Institutions	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Net Collateral Ratio
Banks	12.1%–20.7%	11.2%–20.5%	4.9%–14.2%	104.7%–107.1%
Associations	10.7%–30.9%	10.4%–30.2%	8.9%–29.2%	Not Applicable
Regulatory minimum required	7.0%	7.0%	3.5%	103%*

* In connection with preferred stock and subordinated debt offerings, certain Banks are required by the Farm Credit Administration to maintain a minimum net collateral ratio of 104%.

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

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

NOTE 14 — EMPLOYEE BENEFIT PLANS

The Banks and substantially all Associations participate in defined benefit retirement plans. The Banks and Associations, except for CoBank and its related Associations, generally sponsor multi-employer plans that can not be attributed to any individual entity. Thus, these plans are recorded at the combined District level. All retirement plans are non-contributory and benefits are based on salary and years of service. As of January 1, 2007, many Banks and Associations have frozen participation in their defined benefit pension plans and offered defined contribution retirement plans to all employees hired subsequent to the freeze. In addition, System institutions provide certain healthcare and other postretirement benefits to eligible retired employees. Employees of System institutions may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for the System.

On December 31, 2007, the System adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which requires the recognition of a plan's over-funded or under-funded status as an asset or liability with an offsetting adjustment to accumulated other comprehensive income (loss), net of tax. The Standard requires the determination of the fair values of a plan's assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income, net of tax. These amounts were previously netted against the plans' funded status in the System's combined statement of condition pursuant to the provisions of Statement of Financial Accounting Standards No. 87. These amounts will be subsequently recognized as components of net periodic benefit costs. Further, actuarial gains and losses that arise in subsequent periods that are not initially recognized as a component of net periodic benefit cost will be recognized as a component of accumulated other comprehensive income, net of tax. Those amounts will subsequently be recognized as a component of net periodic benefit cost as they are amortized during future periods. The adoption of the Standard resulted in a significant change in accumulated other comprehensive loss, which primarily was reflected in the combination entry as the plans are multi-employer plans.

The incremental effects of adopting the provisions of the Standard on the System's combined statement of condition at December 31, 2007 are presented in the following table. The adoption of the Standard had no effect on the statement of income for the year ended December 31, 2007, or for any year presented.

(dollars in millions, except as noted)

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Other assets - (decrease)	$2,924	$(222)	$2,702
Other liabilities - increase	1,917	90	2,007
Accumulated other comprehensive loss, net of tax - (increase)	(231)	(312)	(543)

Approximately $16 million will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2008.

The Standard also requires that the funded status of a plan be measured as of the date of the company's year-end for fiscal years ending after December 15, 2008. The current measurement date of September 30 will be changed to December 31 beginning in 2008.

The following tables set forth the funding status and the amounts recognized in the System's Combined Statement of Condition for pension and other postretirement benefit plans:

	Pension Benefits December 31,		Other Benefits December 31,	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	$1,942	$1,974	$ 218	$ 234
Service cost	57	59	5	5
Interest cost	114	102	13	12
Plan participants' contributions			2	
Plan amendments	(8)	8		(5)
Actuarial gain	(17)	(116)	(20)	(19)
Benefits paid	(105)	(85)	(11)	(9)
Curtailments			(4)	
Benefit obligation at end of year	$1,983	$1,942	$ 203	$ 218
Change in plan assets:				
Fair value of plan assets at beginning of year	$1,640	$1,554	$ 7	$ 8
Actual return on plan assets	222	134		
Employer contributions	27	37	9	8
Plan participants' contributions			2	
Benefits and premiums paid	(105)	(85)	(11)	(9)
Fair value of plan assets at end of year	$1,784	$1,640	$ 7	$ 7
Funded status	$ (199)	$ (302)	$(196)	$(211)
Unrecognized net actuarial loss	N/A	498	N/A	31
Unrecognized prior service cost	N/A	12	N/A	(46)
Unrecognized net transition (asset) or obligation	N/A	(3)	N/A	1
Fourth quarter employer contributions and other	19	5	2	2
Net amount recognized at December 31	$ (180)	$ 210	$(194)	$(223)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit costs	N/A	$ 275	N/A	
Accrued benefit liability	N/A	(91)	N/A	$(223)
Intangible asset	N/A	4	N/A	
Pension asset	$ 27			
Pension liability	(207)		$(194)	
Accumulated other comprehensive loss		22		
Net amount recognized	$ (180)	$ 210	$(194)	$(223)

The accumulated benefit obligation for all defined benefit pension plans was $1.621 billion, $1.645 billion and $1.648 billion at December 31, 2007, 2006 and 2005.

(dollars in millions, except as noted)

The following represent the amounts included in accumulated other comprehensive loss (pre-tax) at December 31, 2007:

	Pension Benefits	Other Benefits
Net actuarial gain/loss	$359	$ 11
Prior service costs	(2)	(41)
Transition asset	2	
Total amount recognized in AOCL	$359	$(30)

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

	December 31, 2007	December 31, 2006
Projected benefit obligation	$582	$562
Accumulated benefit obligation	479	463
Fair value of plan assets	436	404

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

	Pension Benefits For the Years Ended December 31,		Other Benefits For the Years Ended December31,	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	$ 57	$ 59	$ 5	$ 6
Interest cost	114	102	13	12
Expected return on plan assets	(133)	(126)		
Net amortization and deferral	34	46	(4)	(3)
Curtailments			(4)	
Net periodic benefit cost	$ 72	$ 81	$10	$15

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

	Pension Benefits 2007	Pension Benefits 2006
Discount rate	6.35%-6.50%	6.00%
Rate of compensation increase	4.42%-5.04%	4.44%-5.00%

	Other Benefits 2007	Other Benefits 2006
Discount rate	6.35%-6.50%	6.00%

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

	Pension Benefits 2007	Pension Benefits 2006
Discount rate	6.00%	5.25%
Expected long-term return on plan assets	8.00%-8.50%	8.00%-8.50%
Rate of compensation increase	4.50%-5.04%	4.50%-5.00%

	Other Benefits 2007	Other Benefits 2006
Discount rate	6.00%	5.25%
Expected long-term return on plan assets	6.00%	6.00%-8.00%

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

For measurement purposes, annual rates of increase of 7.00% to 11.00% in the per capita cost of covered health benefits were assumed for 2008. The rates were assumed to step down to between 4.75% and 6.00% in various years beginning in 2010 — 2016, and remain at that level thereafter.

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

	1% Increase	1% Decrease
Effect on total of service and interest cost	$ 2	$ (2)
Effect on postretirement benefit obligation	26	(18)

(dollars in millions, except as noted)

Plan Assets

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

	Pension Benefits December31,		Other Benefits December31,	
	2007	2006	2007	2006
Asset Category				
Equity securities	65%	63%		
Debt securities	32	33	99%	99%
Other	3	4	1	1
Total	100%	100%	100%	100%

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

Asset Category	Pension Benefits Target Allocation for Next Year	Other Benefits Target Allocation for Next Year
Equity securities	45%-70%	
Debt securities	28%-60%	0%-100%
Other	0%-10%	

The Banks and Associations expect to contribute $43 million to their pension plans and $10 million to their other postretirement benefit plans in 2008.

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

Year	Pension Benefits	Other Benefits
2008	$108	$10
2009	118	11
2010	130	12
2011	135	13
2012	149	14
2013 to 2017	816	76

The Banks and Associations also participate in defined contribution savings plans. Certain plans require Banks and Associations to match a percentage of employee contributions. Employer contributions to these plans were $36 million, $36 million and $34 million for the years ended December 31, 2007, 2006 and 2005.

NOTE 15 — INCOME TAXES

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

	For the Years Ended December 31,		
	2007	2006	2005
Current:			
Federal	$128	$83	$109
State and local	7	9	
Deferred:			
Federal	9	(7)	(25)
State	(3)	(2)	11
Provision for income taxes	$141	$83	$ 95

(dollars in millions, except as noted)

The deferred income tax provision (benefit) results from differences between amounts of assets and liabilities as measured for income tax return and financial reporting purposes. The significant components of deferred tax assets and liabilities at December 31, 2007 and 2006 were as follows:

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Allowance for loan losses	$ 221	$ 220
Employee benefit plan obligations	60	43
Loss carryforwards	30	20
Unrealized net losses on investments available-for-sale	13	23
Other	52	50
Gross deferred tax assets	376	356
Less: valuation allowance	(64)	(47)
Deferred tax assets, net of valuation allowance	312	309
Deferred tax liabilities:		
Direct financing leases	(239)	(228)
Pensions	(28)	(31)
Depreciation	(3)	(3)
Patronage allocated by Banks to Associations	(28)	(32)
Other	(27)	(19)
Gross deferred tax liabilities	(325)	(313)
Net deferred tax liability	$ (13)	$ (4)
System entities with net deferred tax assets (included in other assets)	$ 46	$ 61
System entities with net deferred tax liabilities (included in other liabilities)	(59)	(65)
	$ (13)	$ (4)

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

	Year Ended December 31, 2007	2006	2005
Federal tax at statutory rate	$ 967	$ 837	$ 745
State tax, net	6	10	11
Effect of nontaxable entities	(672)	(600)	(527)
Patronage distributions allocated by taxable entities	(178)	(141)	(128)
Other	18	(23)	(6)
Provision for income taxes	$ 141	$ 83	$ 95

The majority of System entities adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	$ 3
Additions based on tax positions related to the current year	1
Settlements	(1)
Balance at December 31, 2007	$ 3

System entities recognize interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. The amount of interest recognized was $573 thousand and the total amount of penalties recognized totaled $84 thousand for 2007. At December 31, 2007, $2.8 million of interest and $282 thousand of penalties were accrued. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $3.7 million at December 31, 2007. System entities did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

NOTE 16 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the System's financial instruments at December 31, 2007 and 2006. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for certain System financial instruments. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(dollars in millions, except as noted)

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, Federal funds sold and securities purchased under resale agreements	$ 2,625	$ 2,625	$ 2,520	$ 2,520
Investments	33,835	33,834	30,597	30,563
Loans	142,906	143,991	123,436	123,262
Allowance for loan losses	(781)		(734)	
Net loans	142,125	143,991	122,702	123,262
Tobacco contract receivables	807	819	804	790
Derivative assets	584	584	84	84
Financial liabilities:				
Systemwide Debt Securities	(154,443)	(155,368)	(133,630)	(133,294)
Subordinated debt	(500)	(463)		
Other bonds	(852)	(852)	(836)	(836)
Other interest bearing liabilities	(557)	(557)	(380)	(380)
Mandatorily redeemable preferred stock	(225)	(250)	(225)	(238)
Derivative liabilities	(63)	(63)	(383)	(383)
Other financial instruments:				
Commitments to extend credit		(64)		(48)
Standby letters of credit	(11)	(11)	(4)	(4)

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

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

B. *Investment Securities:* Includes investments for liquidity, mission-related and other purposes. The fair value is based on currently quoted market prices.

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

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

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

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

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

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

NOTE 17 — DERIVATIVE PRODUCTS AND HEDGING ACTIVITIES

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

The Banks enter into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. The Banks may also enter into derivatives with their customers as a service to enable them to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset this risk by concurrently entering into offsetting agreements with non-System institutional counterparties. Interest rate swaps allow the Banks to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating rate borrowings were made directly. Under interest rate swap arrangements, the Banks agree with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

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

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

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

To minimize the risk of credit losses, the Banks almost exclusively deal with non-customer counterparties that have an investment grade or better credit rating from a major rating agency, and also monitor the credit standing and levels of exposure to individual counterparties. The Banks do not anticipate nonperformance by any of these counterparties. The Banks typically enter into master agreements that contain netting provisions. These provisions allow the Banks to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A majority of derivative contracts are supported by collateral arrangements with counterparties. At December 31, 2007 and 2006, the System's exposure to counterparties, net of collateral, was $398 million and $19 million. At December 31, 2007 and 2006, one Bank had posted $2 million and $15 million in securities as collateral and at December 31, 2006, the one Bank also had $46 million in cash as collateral with respect to its obligations under these arrangements.

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

Fair-Value Hedges

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

For the year ended December 31, 2007, the System recognized a net loss of $6 million (reported as net interest income in the statement of operations), which represented the ineffective portion of all fair-value hedges, including the time value of option contracts. The System recognized a net gain of $1 million for 2006 and net gain of $3 million for 2005. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. In addition, the System recognized net gains on fair value hedges of $2 million and $5 million for 2007 and 2006, primarily due to the discontinuance of certain hedge transactions. No such net gains were recognized in 2005.

Cash Flow Hedges

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

For the years ended December 31, 2007, 2006 and 2005, the System recognized net losses of $2 million, $1 million and $2 million (reported as net interest income in the statement of operations), which represented the total ineffectiveness of all cash flow hedges, including the time value of option contracts. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. In addition, the System recognized gains on derivatives not designated as hedges of $7 million in 2007 and $11 million in 2006, as compared with losses of $6 million in 2005. The System also recognized losses on discontinuance of cash flow hedges of $5 million, $13 million and $11 million in 2007, 2006 and 2005.

(dollars in millions, except as noted)

For cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current-period earnings are included in the line item in which the hedged item is recorded in the same period the floating-rate asset, liability or forecasted transaction affects earnings. As of December 31, 2007, $4 million of the deferred net losses on derivative instruments accumulated in other comprehensive income are expected to be reclassified as earnings during the next twelve months.

NOTE 18 — RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Banks and Associations may enter into loan transactions with their officers and directors and non-System organizations with which such persons may be associated. These loans are subject to special approval requirements contained in Farm Credit Administration regulations and are, in the view of the lending System institution's management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Total loans outstanding to such persons were $1.9 billion at December 31, 2007 and $1.7 billion at December 31, 2006. During 2007 and 2006, $4.9 billion and $3.7 billion of new loans were made to such persons and repayments totaled $4.7 billion and $3.5 billion. In the opinions of Bank and Association managements, substantially all of such loans outstanding at December 31, 2007 and 2006 did not involve more than a normal risk of collectibility.

NOTE 19 — COMMITMENTS AND CONTINGENCIES

At December 31, 2007, various lawsuits were pending or threatened against System institutions. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending legal actions will not have a material adverse impact on the System's combined results of operations or financial position.

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

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

	December 31, 2007	December 31, 2006
Commitments to extend credit	$50,414	$44,279
Standby letters of credit	2,692	2,484
Commercial and other letters of credit	230	233

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

(dollars in millions, except as noted)

NOTE 20 — QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	2007 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$ 973	$1,001	$1,034	$1,052
(Provision for loan losses) loan loss reversal	1	(39)	(26)	(17)
Net noninterest expense	(280)	(283)	(260)	(312)
Provision for income taxes	(40)	(39)	(21)	(41)
Net income	$ 654	$ 640	$ 727	$ 682

	2006 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net interest income	$ 854	$ 876	$ 910	$ 944
(Provision for loan losses) loan loss reversal	(5)	19	(2)	(47)
Net noninterest expense	(265)	(261)	(268)	(293)
Provision for income taxes	(30)	(27)	(19)	(7)
Net income	$ 554	$ 607	$ 621	$ 597

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

(dollars in millions, except as noted)

NOTE 21 — COMBINING BANK-ONLY INFORMATION

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

Combining Bank-Only Statement of Condition

December 31, 2007

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
Assets							
Cash	$ 15	$ 137	$ 17	$ 63	$ 41		$ 273
Federal funds sold and securities purchased under resale agreements	459	562	126	113	647		1,907
Investments (Note 3)	6,994	6,855	2,411	5,437	10,434		32,131
Loans							
To Associations(1)	14,603	42,880	8,058	15,737	12,213		93,491
To others	4,512	1,126	2,808	978	28,278	$(406)	37,296
Less: allowance for loan losses	(3)	(3)	(1)	(1)	(447)		(455)
Net loans	19,112	44,003	10,865	16,714	40,044	(406)	130,332
Accrued interest receivable	115	565	71	241	328		1,320
Other assets	232	142	53	116	695	389	1,627
Total assets	$26,927	$52,264	$13,543	$22,684	$52,189	$ (17)	$167,590
Liabilities and Capital							
Systemwide Debt Securities (Note 9):							
Due within one year	$10,957	$18,019	$ 4,630	$ 7,829	$15,602	$ (3)	$ 57,034
Due after one year	13,890	30,773	7,994	13,275	31,481	(4)	97,409
Total Systemwide Debt Securities	24,847	48,792	12,624	21,104	47,083	(7)	154,443
Subordinated debt (Note 10)					500		500
Accrued interest payable	180	475	115	211	467		1,448
Other liabilities	218	600	75	80	905	1	1,879
Mandatorily redeemable preferred stock (Note 12)	225						225
Total liabilities	25,470	49,867	12,814	21,395	48,955	(6)	158,495
Capital (Note 13)							
Preferred stock	400		200	225	500		1,325
Capital stock and participation certificates	365	1,073	202	555	1,292	(22)	3,465
Accumulated other comprehensive loss	(39)	(65)	(4)	(83)	(28)	(16)	(235)
Surplus	731	1,389	331	592	1,470	27	4,540
Total capital	1,457	2,397	729	1,289	3,234	(11)	9,095
Total liabilities and capital	$26,927	$52,264	$13,543	$22,684	$52,189	$ (17)	$167,590

(dollars in millions, except as noted)

December 31, 2006

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
Assets							
Cash	$ 70	$ 56	$ 14	$ 42	$ 7		$ 189
Federal funds sold and securities purchased under resale agreements	431	661	89	103	668		1,952
Investments (Note 3)	6,441	8,625	2,672	4,257	7,462		29,457
Loans							
To Associations(1)	13,877	36,089	7,815	14,127	9,967		81,875
To others	3,275	1,001	2,240	760	23,110	$(334)	30,052
Less: allowance for loan losses		(3)		(1)	(439)		(443)
Net loans	17,152	37,087	10,055	14,886	32,638	(334)	111,484
Accrued interest receivable	105	484	68	218	261		1,136
Other assets	213	94	36	75	343	331	1,092
Total assets	$24,412	$47,007	$12,934	$19,581	$41,379	$ (3)	$145,310
Liabilities and Capital							
Systemwide Debt Securities (Note 9):							
Due within one year	$ 9,627	$15,549	$ 4,705	$ 6,007	$13,826	$ (4)	$ 49,710
Due after one year	12,986	28,212	7,416	12,174	23,137	(5)	83,920
Total Systemwide Debt Securities	22,613	43,761	12,121	18,181	36,963	(9)	133,630
Accrued interest payable	188	419	101	206	401		1,315
Other liabilities	205	574	48	118	975	9	1,929
Mandatorily redeemable preferred stock (Note 12)	225						225
Total liabilities	23,231	44,754	12,270	18,505	38,339	$ 0	137,099
Capital (Note 13)							
Preferred stock	150		200		500		850
Capital stock and participation certificates	313	932	163	547	1,242	(15)	3,182
Accumulated other comprehensive loss	2	(20)	(21)	(48)	(39)	(24)	(150)
Surplus	716	1,341	322	577	1,337	36	4,329
Total capital	1,181	2,253	664	1,076	3,040	(3)	8,211
Total liabilities and capital	$24,412	$47,007	$12,934	$19,581	$41,379	$ (3)	$145,310

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

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

(dollars in millions, except as noted)

Combining Bank-Only
Statement of Income

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
2007							
Interest income	$ 1,469	$ 2,585	$ 754	$1,117	$ 2,763	$(14)	$ 8,674
Interest expense	(1,208)	(2,380)	(656)	(988)	(2,118)	9	(7,341)
Net interest income	261	205	98	129	645	(5)	1,333
Loan loss reversal (provision for loan losses)	(2)		(1)		5		2
Noninterest income	3	24	13	17	44	(2)	99
Noninterest expense	(70)	(46)	(36)	(29)	(181)	(16)	(378)
Provision for income taxes					(97)		(97)
Net income	$ 192	$ 183	$ 74	$ 117	$ 416	$(23)	$ 959
2006							
Interest income	$ 1,223	$ 2,146	$ 653	$ 950	$ 2,164	$(20)	$ 7,116
Interest expense	(995)	(1,972)	(565)	(841)	(1,639)	3	(6,009)
Net interest income	228	174	88	109	525	(17)	1,107
Loan loss reversal (provision for loan losses)	7		(2)		(4)		1
Noninterest income	16	38	9	12	51	7	133
Noninterest expense	(61)	(49)	(30)	(28)	(163)	(17)	(348)
Provision for income taxes					(74)		(74)
Net income	$ 190	$ 163	$ 65	$ 93	$ 335	$(27)	$ 819
2005							
Interest income	$ 795	$ 1,470	$ 392	$ 660	$ 1,528	$ (2)	$ 4,843
Interest expense	(589)	(1,317)	(318)	(570)	(1,045)	(1)	(3,840)
Net interest income	206	153	74	90	483	(3)	1,003
(Provision for loan losses) loan loss reversal	5	3		4	(25)		(13)
Noninterest income	14	36	8	13	47	(6)	112
Noninterest expense	(61)	(53)	(24)	(24)	(137)	(19)	(318)
Provision for income taxes					(70)		(70)
Net income	$ 164	$ 139	$ 58	$ 83	$ 298	$(28)	$ 714

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

Combining Bank-Only
Statement of Changes in Capital

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	U.S. AgBank, FCB	CoBank, ACB	Combination Entries	Combined Banks
Balance at December 31, 2004	$1,024	$2,076	$501	$ 944	$2,862	$ 29	$7,436
Comprehensive income							
Net income	164	139	58	83	298	(28)	714
Change in unrealized losses on investments	(12)	(25)	(18)	(12)	(67)		(134)
Change in unrealized losses on cash flow hedges	6	14		12	4	9	45
Minimum pension liability adjustment				(2)	(3)	(1)	(6)
Income tax benefit related to other comprehensive loss					24		24
Total comprehensive income	158	128	40	81	256	(20)	643
Preferred stock issued, net			107				107
Preferred stock dividends	(11)		(9)		(37)		(57)
Capital stock and participation certificates issued	2	128	17	32	56	(1)	234
Capital stock, participation certificates, and surplus retired	(4)	(118)			(67)	(1)	(190)
Patronage and dividends	(132)	(100)	(32)	(65)	(168)	5	(492)
Balance at December 31, 2005	1,037	2,114	624	992	2,902	12	7,681
Comprehensive income							
Net income	190	163	65	93	335	(27)	819
Change in unrealized losses on investments	5	(2)	6	3	20		32
Change in unrealized losses on cash flow hedges		(1)	(1)	9	(8)	9	8
Minimum pension liability adjustment				3	2		5
Income tax benefit related to other comprehensive loss					(5)		(5)
Total comprehensive income	195	160	70	108	344	(18)	859
Preferred stock issued, net							
Preferred stock dividends	(11)		(15)		(38)		(64)
Capital stock and participation certificates issued	89	182	26	53	79	(3)	426
Capital stock, participation certificates, and surplus retired		(93)			(54)		(147)
Patronage and dividends	(129)	(110)	(41)	(77)	(193)	6	(544)
Balance at December 31, 2006	1,181	2,253	664	1,076	3,040	(3)	8,211
Comprehensive income							
Net income	192	183	74	117	416	(23)	959
Change in unrealized losses on investments	(40)	(34)	17	(37)	23		(71)
Change in unrealized losses on cash flow hedges		(11)	1	1	2	9	2
Minimum pension liability adjustment				2	(2)		
Income tax benefit related to other comprehensive loss					(9)		(9)
Total comprehensive income	152	138	92	83	430	(14)	881
Adjustment for the adoption of FASB Statement No. 158, net of tax	(1)		(1)	(1)	(3)	(1)	(7)
Preferred stock issued, net	247			221			468
Preferred stock dividends	(20)		(15)	(11)	(37)		(83)
Capital stock and participation certificates issued	57	169	39	8	101	(7)	367
Capital stock, participation certificates, and surplus retired	(5)	(28)			(51)		(84)
Patronage and dividends	(154)	(135)	(50)	(87)	(246)	14	(658)
Balance at December 31, 2007	$1,457	$2,397	$729	$1,289	$3,234	$(11)	$9,095

(dollars in millions, except as noted)

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

	AgFirst FCB	AgriBank, FCB	FCB of Texas	U.S. AgBank, FCB	CoBank, ACB
December 31, 2007					
Net collateral ratio	106.0%	104.7%	105.2%	105.0%	107.1%
Permanent capital ratio	20.6%	19.7%	13.4%	20.7%	12.1%
Liquidity in days	165	84*	121	148	164
Average liquidity in days during 2007	181	122	153	183	137
December 31, 2006					
Net collateral ratio	105.3%	104.8%	105.4%	105.1%	107.1%
Permanent capital ratio	19.2%	20.2%	13.7%	20.4%	11.4%
Liquidity in days	170	123	151	168	120
Average liquidity in days during 2006	206	148	154	197	157

* The Bank originally calculated 106 days of liquidity. Subsequent to year-end, the Bank determined its interpretation of the Farm Credit Administration regulation, guiding the calculation of the ratio, should be modified. Using the modified interpretation, when applied retroactively, the Bank's liquidity position fell below the regulatory minimum of 90 days for 13 business days.

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities (See Notes 7 and 9 for additional information.) That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

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

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

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

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

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

COMBINING STATEMENT OF CONDITION (CONDENSED)
(in millions)

December 31, 2007

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 34,311	$ 2,149		$ 36,460			$ 36,460
Loans	130,787	105,638	$(93,519)	142,906			142,906
Less: allowance for loan losses	(455)	(321)	(5)	(781)			(781)
Net loans	130,332	105,317	(93,524)	142,125			142,125
Other assets	2,947	6,462	(4,142)	5,267			5,267
Restricted assets					$2,599		2,599
Total assets	$167,590	$113,928	$(97,666)	$183,852	$2,599	$ 0	$186,451
Systemwide Debt Securities and other bonds	$155,795			$155,795			$155,795
Other liabilities	2,475	$ 96,201	$(94,675)	4,001		$ 11(a)	4,012
Mandatorily redeemable preferred stock	225			225			225
Total liabilities	158,495	96,201	(94,675)	160,021		11	160,032
Capital							
Protected borrower stock		11		11		(11)(a)	
Preferred stock	1,325	200		1,525			1,525
Capital stock and participation certificates	3,465	510	(2,618)	1,357			1,357
Restricted capital					$2,599		2,599
Accumulated other comprehensive loss	(235)	(4)	(304)	(543)			(543)
Surplus	4,540	17,010	(69)	21,481			21,481
Total capital	9,095	17,727	(2,991)	23,831	2,599	(11)	26,419
Total liabilities and capital	$167,590	$113,928	$(97,666)	$183,852	$2,599	$ 0	$186,451

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

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

December 31, 2006

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
Cash and investments	$ 31,598	$ 1,519		$ 33,117			$ 33,117
Loans	111,927	93,406	$(81,897)	123,436			123,436
Less: allowance for loan losses	(443)	(286)	(5)	(734)			(734)
Net loans	111,484	93,120	(81,902)	122,702			122,702
Other assets	2,228	5,980	(3,475)	4,733			4,733
Restricted assets					$2,312		2,312
Total assets	$145,310	$100,619	$(85,377)	$160,552	$2,312	$ 0	$162,864
Systemwide Debt Securities and other bonds	$134,466			$134,466			$134,466
Other liabilities	2,408	$ 84,258	$(82,936)	3,730		$ 13(a)	3,743
Mandatorily redeemable preferred stock	225			225			225
Total liabilities	137,099	84,258	(82,936)	138,421		13	138,434
Capital							
Protected borrower stock		13		13		(13)(a)	
Preferred stock	850	153		1,003			1,003
Capital stock and participation certificates	3,182	514	(2,372)	1,324			1,324
Restricted capital					$2,312		2,312
Accumulated other comprehensive loss	(150)	(11)	(2)	(163)			(163)
Surplus	4,329	15,692	(67)	19,954			19,954
Total capital	8,211	16,361	(2,441)	22,131	2,312	(13)	24,430
Total liabilities and capital	$145,310	$100,619	$(85,377)	$160,552	$2,312	$ 0	$162,864

Combination entry (a) reclassifies protected borrower stock to other liabilities in recognition of its reduced at-risk characteristics at the System level.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

COMBINING STATEMENT OF INCOME (CONDENSED)

For the Year Ended December 31,
(in millions)

	Combined Banks	Combined Associations	FAC	Eliminations	Combined without Insurance Fund	Insurance Fund	Combination Entries	System Combined
2007								
Net interest income	$1,333	$ 2,714		$ 13	$ 4,060			$ 4,060
(Provision for loan losses) loan loss reversal	2	(83)			(81)			(81)
Noninterest income	99	869		(604)	364	$290	$(192)(b)	462
Noninterest expense	(378)	(1,527)		119	(1,786)	(3)	192(b)	(1,597)
Provision for income taxes	(97)	(44)			(141)			(141)
Net income	$ 959	$ 1,929	$ 0	$(472)	$ 2,416	$287	$ 0	$ 2,703
2006								
Net interest income	$1,107	$ 2,469		$ 8	$ 3,584			$ 3,584
(Provision for loan losses) loan loss reversal	1	(38)		2	(35)			(35)
Noninterest income	133	715		(519)	329	$252	$(164)(b)	417
Noninterest expense	(348)	(1,427)		109	(1,666)	(2)	164(b)	(1,504)
Provision for income taxes	(74)	(9)			(83)			(83)
Net income	$ 819	$ 1,710	$ 0	$(400)	$ 2,129	$250	$ 0	$ 2,379
2005								
Net interest income	$1,003	$ 2,238	$ 2	$ 3	$ 3,246			$ 3,246
Loan loss reversal (provision for loan losses)	(13)	12		2	1			1
Noninterest income	112	643		(483)	272	$131	$ (50)(b)	353
Noninterest expense	(318)	(1,260)	(2)	124	(1,457)	(9)	57(b)	(1,409)
Provision for income taxes	(70)	(25)			(95)			(95)
Net income	$ 714	$ 1,608	$ 0	$(354)	$ 1,967	$122	$ 7	$ 2,096

Combination entry (b) eliminates the Insurance Fund premiums expensed by the Banks and the related income recognized by the Insurance Corporation. Combination entry (b) also eliminates the expense in 2005 related to the increase in the payable recorded by the Insurance Fund.

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

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

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

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

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

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

December 31, 2007

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	$ 7,674	$ 8,540	$ 2,592	$ 6,427	$11,227		$ 36,460
Loans	20,728	48,894	15,114	19,756	41,854	$(3,440)	142,906
Less: allowance for loan losses	(79)	(101)	(24)	(66)	(511)		(781)
Net loans	20,649	48,793	15,090	19,690	41,343	(3,440)	142,125
Other assets	938	1,903	319	612	1,131	364	5,267
Restricted assets						2,599	2,599
Total assets	$29,261	$59,236	$18,001	$26,729	$53,701	$ (477)	$186,451
Systemwide Debt Securities and other bonds	$24,847	$49,281	$12,624	$21,108	$47,943	$ (8)	$155,795
Other liabilities	623	1,019	3,126	1,176	1,103	(3,035)	4,012
Mandatorily redeemable preferred stock	225						225
Total liabilities	25,695	50,300	15,750	22,284	49,046	(3,043)	160,032
Capital							
Protected borrower stock	5	5		1		(11)	
Preferred stock	400		200	425	500		1,525
Capital stock and participation certificates	128	211	69	48	935	(34)	1,357
Restricted capital						2,599	2,599
Accumulated other comprehensive loss	(154)	(171)	(34)	(128)	(40)	(16)	(543)
Surplus	3,187	8,891	2,016	4,099	3,260	28	21,481
Total capital	3,566	8,936	2,251	4,445	4,655	2,566	26,419
Total liabilities and capital	$29,261	$59,236	$18,001	$26,729	$53,701	$ (477)	$186,451

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

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

December 31, 2006

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	$ 7,143	$ 9,811	$ 2,822	$ 5,131	$ 8,220	$ (10)	$ 33,117
Loans	18,670	41,987	12,905	17,626	34,296	(2,048)	123,436
Less: allowance for loan losses	(72)	(91)	(14)	(64)	(493)		(734)
Net loans	18,598	41,896	12,891	17,562	33,803	(2,048)	122,702
Other assets	1,020	1,799	278	565	749	322	4,733
Restricted assets						2,312	2,312
Total assets	$26,761	$53,506	$15,991	$23,258	$42,772	$ 576	$162,864
Systemwide Debt Securities and other bonds	$22,613	$44,152	$12,121	$18,184	$37,406	$ (10)	$134,466
Other liabilities	614	955	1,758	1,092	1,023	(1,699)	3,743
Mandatorily redeemable preferred stock	225						225
Total liabilities	23,452	45,107	13,879	19,276	38,429	(1,709)	138,434
Capital							
Protected borrower stock	6	6		1		(13)	
Preferred stock	150		200	153	500		1,003
Capital stock and participation certificates	119	201	65	65	902	(28)	1,324
Restricted capital						2,312	2,312
Accumulated other comprehensive loss	2	(20)	(27)	(55)	(40)	(23)	(163)
Surplus	3,032	8,212	1,874	3,818	2,981	37	19,954
Total capital	3,309	8,399	2,112	3,982	4,343	2,285	24,430
Total liabilities and capital	$26,761	$53,506	$15,991	$23,258	$42,772	$ 576	$162,864

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

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

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund, FAC & Combination Entries	System Combined
2007							
Net interest income	$ 722	$1,316	$ 431	$ 664	$ 932	$ (5)	$ 4,060
Provision for loan losses	(8)	(22)	(43)	(4)	(4)		(81)
Noninterest income	39	172	26	46	87	92	462
Noninterest expense	(341)	(636)	(171)	(282)	(340)	173	(1,597)
Provision for income taxes		(36)		(4)	(101)		(141)
Net income	$ 412	$ 794	$ 243	$ 420	$ 574	$260	$ 2,703
2006							
Net interest income	$ 674	$1,164	$ 384	$ 592	$ 783	$ (13)	$ 3,584
(Provision for loan losses) loan loss removal	1	(15)	(9)	(8)	(4)		(35)
Noninterest income	57	125	22	32	90	91	417
Noninterest expense	(322)	(588)	(157)	(268)	(314)	145	(1,504)
Provision for income taxes		(14)			(69)		(83)
Net income	$ 410	$ 672	$ 240	$ 348	$ 486	$223	$ 2,379
2005							
Net interest income	$ 613	$1,051	$ 339	$ 530	$ 719	$ (6)	$ 3,246
Loan loss reversal (provision for loan losses)	6	9	(1)	10	(23)		1
Noninterest income	53	103	18	33	72	74	353
Noninterest expense	(297)	(521)	(135)	(239)	(266)	49	(1,409)
Provision for income taxes	2	(20)	(1)	(3)	(74)	1	(95)
Net income	$ 377	$ 622	$ 220	$ 331	$ 428	$118	$ 2,096

FARM CREDIT SYSTEM

SUPPLEMENTAL COMBINING INFORMATION

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

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined	Insurance Fund, FAC & Combination Entries	System Combined
Balance at December 31, 2004	$3,000	$7,300	$1,736	$3,489	$3,955	$1,909	$21,389
Net income	377	622	220	331	428	118	2,096
Change in unrealized losses on investments	(12)	(25)	(18)	(12)	(69)		(136)
Change in unrealized losses on cash flow hedges	6	14		11	4	9	44
Minimum pension liability adjustment			(7)	(7)	(7)	(1)	(22)
Income tax benefit related to other comprehensive loss					26		26
Total comprehensive income	371	611	195	323	382	126	2,008
Protected borrower stock retired	(2)	(3)		(1)		6	
Preferred stock issued, net			107	32			139
Preferred stock dividends	(11)		(9)	(6)	(37)		(63)
Capital stock and participation certificates issued	12	25	25	24	21	(1)	106
Capital stock, participation certificates, and surplus retired	(17)	(20)	(41)	(44)	(97)	2	(217)
Patronage and dividends	(208)	(94)	(58)	(85)	(147)	4	(588)
Balance at December 31, 2005	3,145	7,819	1,955	3,732	4,077	2,046	22,774
Net income	410	672	240	348	486	223	2,379
Change in unrealized losses on investments	5	(2)	6	7	20		36
Change in unrealized losses on cash flow hedges			(2)	9	(8)	9	8
Minimum pension liability adjustment			16	12	16		44
Income tax benefit related to other comprehensive loss		(1)		(1)	(7)		(9)
Total comprehensive income	415	669	260	375	507	232	2,458
Protected borrower stock retired	(2)	(2)				4	
Preferred stock retired, net				(14)			(14)
Preferred stock dividends	(11)		(15)	(9)	(37)		(72)
Capital stock and participation certificates issued	10	25	23	23	18		99
Capital stock, participation certificates, and surplus retired	(12)	(17)	(37)	(29)	(75)	(1)	(171)
Patronage and dividends	(236)	(95)	(74)	(96)	(147)	4	(644)
Balance at December 31, 2006	3,309	8,399	2,112	3,982	4,343	2,285	24,430
Net income	412	794	243	420	574	260	2,703
Change in unrealized losses on investments	(40)	(34)	17	(35)	23		(69)
Change in unrealized losses on cash flow hedges		(11)	1	2	2	8	2
Minimum pension liability adjustment			5	5	(2)		8
Income tax benefit related to other comprehensive loss					(9)		(9)
Total comprehensive income	372	749	266	392	588	268	2,635
Adjustment to initially apply FASB Statement No. 158, net of tax	(116)	(106)	(30)	(45)	(14)	(1)	(312)
Protected borrower stock retired	(1)	(1)				2	
Preferred stock retired, net	247			268			515
Preferred stock dividends	(21)		(16)	(21)	(36)		(94)
Capital stock and participation certificates issued	24	22	14	13	1		74
Capital stock, participation certificates, and surplus retired	(15)	(12)	(10)	(30)	(55)		(122)
Patronage and dividends	(233)	(115)	(85)	(114)	(172)	12	(707)
Balance at December 31, 2007	$3,566	$8,936	$2,251	$4,445	$4,655	$2,566	$26,419

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION

COMBINED BANK AND ASSOCIATION (DISTRICT) SELECTED KEY FINANCIAL RATIOS (unaudited)

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

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	U.S. AgBank District Combined	CoBank District Combined
December 31, 2007					
Return on average assets	1.48%	1.40%	1.44%	1.69%	1.24%
Return on average capital	11.40%	9.12%	10.86%	9.51%	12.72%
Net interest margin	2.64%	2.38%	2.60%	2.74%	2.03%
Net loan charge-offs as a % of average loans	0.01%	0.03%	0.23%	0.01%	(0.04)%
Allowance for loan losses as a % of loans	0.38%	0.21%	0.16%	0.33%	1.22%
Capital as a % of total assets	12.19%	15.09%	12.50%	16.63%	8.67%
Risk funds as a % of loans	17.58%	18.48%	15.05%	22.83%	12.34%
Debt to capital	7.21:1	5.63:1	7.00:1	5.01:1	10.54:1%
Operating expense as a % of net interest income and noninterest income	44.50%	42.69%	37.40%	39.65%	33.60%
December 31, 2006					
Return on average assets	1.67%	1.35%	1.66%	1.58%	1.29%
Return on average capital	12.40%	8.33%	11.69%	8.87%	11.60%
Net interest margin	2.80%	2.39%	2.72%	2.76%	2.10%
Net loan charge-offs as a % of average loans	0.09%	0.03%	0.04%	0.05%	0.04%
Allowance for loan losses as a % of loans	0.39%	0.22%	0.11%	0.36%	1.44%
Capital as a % of total assets	12.37%	15.70%	13.21%	17.12%	10.15%
Risk funds as a % of loans	18.11%	20.22%	16.47%	22.95%	14.10%
Debt to capital	7.09:1	5.37:1	6.57:1	4.84:1	8.85:1
Operating expense as a % of net interest income and noninterest income	43.65%	45.64%	38.51%	42.92%	36.45%

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

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

	Change in Market Value of Equity				Change in Net Interest Income			
	December 31, 2007				December 31, 2007			
District	−169	−100	+100	+200	−169	−100	+100	+200
AgFirst	5.43%	3.80%	−2.73%	−4.82%	7.72%	7.76%	6.71%	11.51%
AgriBank	2.96	1.69	−2.13	−4.93	−1.13	−1.03	2.28	3.68
Texas	0.92	1.29	−2.51	−5.61	2.21	3.18	4.73	9.38
U.S. AgBank	1.17	1.28	−1.29	−2.15	−6.39	−3.95	6.22	13.56
CoBank	2.06	1.84	−3.07	−6.76	−2.24	0.19	−0.26	−0.40

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

The Banks serve as financial intermediaries between the capital markets and the retail lending activities of their related Associations. Accordingly, in addition to the supplemental combining Bank and Association (District) information provided on pages F-41 to F-47, selected financial information regarding the 10 largest Associations by asset size is provided below for the purpose of additional analysis.

December 31, 2007
($ in millions)

	Total Assets	Gross Loans	Net Income	Allowance for Loan Losses	Allowance for Loan Losses as a % of Gross Loans	Nonperforming Loans as a % of Gross Loans	Permanent Capital Ratio
AgriBank District							
FCS of Mid-America, ACA	$13,345	$11,850	$158	$18	0.15%	0.52%	13.26%
FCS of America, ACA	12,944	12,175	196	34	0.28	0.26	12.43
AgStar Financial Services, ACA	4,664	3,792	65	10	0.26	0.78	11.23
Greenstone FCS, ACA	4,317	4,135	70	8	0.19	0.83	13.50
1st Farm Credit Services, ACA	2,720	2,601	43	5	0.19	0.58	12.90
Texas District							
Capital Farm Credit, ACA	3,260	3,170	65	8	0.25	0.82	13.14
U.S. AgBank District							
Farm Credit West, ACA	3,807	3,275	84	7	0.21	0.54	14.20
American AgCredit, ACA	3,412	3,240	60	9	0.28	0.54	17.87
CoBank District							
Northwest FCS, ACA	7,021	6,573	114	33	0.50	0.65	14.66
First Pioneer Farm Credit, ACA	2,732	2,603	58	24	0.92	0.42	15.48

Note: None of the 10 largest Associations was in the AgFirst District.

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

Young, Beginning and Small Farmers and Ranchers

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

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

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

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

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

	At December 31, 2007	
	Number of loans	Volume
	($ in millions)	
Total YBS loans and commitments	820,607	$122,650
Loans and commitments to young farmers and ranchers	148,901	$ 15,069
% of loans and commitments to young farmers and ranchers	18.1%	12.3%
Loans and commitments to beginning farmers and ranchers	205,891	$ 24,742
% of loans and commitments to beginning farmers and ranchers	25.1%	20.2%

The following table summarizes information regarding new loans made during 2007 to young and beginning farmers and ranchers:

	For the Year Ended December 31, 2007	
	Number of new loans	Volume
	($ in millions)	
Total new YBS loans and commitments	304,158	$45,329
New loans and commitments to young farmers and ranchers	50,550	$ 5,220
% of new loans and commitments to young farmers and ranchers	16.6%	11.5%
New loans and commitments to beginning farmers and ranchers	64,178	$ 8,418
% of new loans and commitments to beginning farmers and ranchers	21.1%	18.6%

FARM CREDIT SYSTEM

SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

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

	At December 31, 2007				
	Loan Size				
	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
			($ in millions)		
Total number of YBS loans and commitments	408,655	161,153	153,697	97,102	820,607
Number of loans and commitments to small farmers and ranchers	267,988	99,038	83,251	28,063	478,340
% of loans and commitments to small farmers and ranchers	65.6%	61.5%	54.2%	28.9%	58.3%
Total YBS loan and commitment volume	$ 6,306	$ 9,444	$ 19,902	$86,998	$122,650
Total loan and commitment volume to small farmers and ranchers	$ 3,983	$ 5,778	$ 10,474	$11,907	$ 32,142
% of loan and commitment volume to small farmers and ranchers	63.2%	61.2%	52.6%	13.7%	26.2%

The following table summarizes information regarding new loans made during 2007 to small farmers and ranchers:

	For the Year Ended December 31, 2007				
	Loan Size				
	$50 thousand or less	$50 to $100 thousand	$100 to $250 thousand	Over $250 thousand	Total
			($ in millions)		
Total number of new YBS loans and commitments	144,246	54,976	51,516	53,420	304,158
Number of new loans and commitments to small farmers and ranchers	93,658	28,915	23,148	9,433	155,154
% of new loans and commitments to small farmers and ranchers	64.9%	52.6%	44.9%	17.7%	51.0%
Total new YBS loan and commitment volume	$ 1,983	$ 2,700	$ 5,982	$34,664	$ 45,329
Total new loan and commitment volume to small farmers and ranchers	$ 1,236	$ 1,478	$ 2,805	$ 4,284	$ 9,803
% of loan and commitments volume to small farmers and ranchers	62.3%	54.7%	46.9%	12.4%	21.6%

INDEX TO SUPPLEMENTAL INFORMATION

DIRECTORS AND MANAGEMENT

Boards of Directors

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

The following information sets forth the directors of each Bank as of December 31, 2007. The information includes the director's name, age, and business experience, including principal occupation and employment during the past five years. For additional discussion and information on the compensation of each Bank's board of directors, see the Bank's annual report.

AgFirst Farm Credit Bank

William C. Bess, Jr., 64, from Lincolnton, North Carolina, has a 70-head cow-calf operation. He serves on the boards of the national Farm Credit Council Board, the Farm Credit System's national trade organization, Farm Credit Council Services, and Carolina Farm Credit, ACA. He is also a member of the Cleveland County and Catawba Cattlemen's Associations. Mr. Bess became a director in 1995 and his term expires December 31, 2009.

Henry M. (Buddy) Frazee, 69, of Alachua, Florida, is a retired managing partner of a large cow-calf beef cattle operation, and is President of West Putnam Lakes, Inc. and H&P Frazee Enterprises, Inc., timber and land development companies. He is also managing partner, trustee of Ashley Lake Plantation and West Putnam Enterprises, land development partnerships. In addition, along with his son, he manages a 2,000-acre game preserve and deer hound kennel. He currently serves on the board of Farm Credit of North Florida, ACA. Mr. Frazee became a director in 2005 and his term expires December 31, 2008.

Don W. Freeman, 67, of Montgomery, Alabama, manages a 400-acre cow-calf operation and a 80 unit river rental business near Lowndesboro, Alabama. He is a member of the national Farm Credit Council Board, Lowndes County Farmers Federation Board, and the Lowndes County Cattlemen's Association Board. He is also past president of the Alabama Chapter of the American Society of Farm Managers and Rural Appraisers. He is a member of First South Farm Credit, ACA. Mr. Freeman became a director in 1995 and his term expires December 31, 2009.

Robert L. Holden, Sr., 61, is co-owner and operator of a dairy, a 900-acre row-crop farm, and a 200,000 broiler operation in Whigham, Georgia. He is a director of the Southwest Georgia Farm Credit, ACA, Georgia Milk Producers, Grady County Farm Bureau, American Dairy Association of Georgia, and First United Ethanol, LLC. Mr. Holden became a director in 1995 and his term expires December 31, 2010.

Paul M. House, 59, Vice Chairman of the Board, is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass. He also operates a dairy. He serves as a director of the Farm Credit of the Virginias, ACA. Mr. House became a director in 2002 and his term expires on December 31, 2011.

Thomas W. Kelly, 70, Chairman of the Board, is a farmer from Tyrone, Pennsylvania. His farming operation includes raising dairy heifers and growing corn, soybeans and hay. Along with his son, he handles land management for Spring Lane Hunt Club. He currently is a director of AgChoice Farm Credit, ACA and Mid-Atlantic Master Farmer Association and is a former director of Holstein Association, USA. Mr. Kelly became a director in 2001 and his term expires December 31, 2008.

Lyle Ray King, 63, of Ash, North Carolina, owns and operates a farm where he grows, timber, corn, soybeans and wheat. He currently serves on the boards of Cape Fear Farm Credit, ACA, Atlantic Telephone Membership Cooperative, and Landbank Resource Management, a real estate company. Mr. King became a director in 2005 and his term expires December 31, 2008.

Richard Kriebel, 64, is a contract farmer from Benton, Pennsylvania, raising contract vegetables, forage and grain. His cropland consists of owned-and-leased acres of corn, hay and vegetables. He is a director of AgChoice Farm Credit, ACA, and a former member of the Columbia County ASCS, Columbia County Extension and the Columbia County Planning Commission. Mr. Kriebel became a director in 1995 and his term expired on December 31, 2007.

M. Wayne Lambertson, 61, of Pokomoke City, Maryland, owns and operates with his son a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity broiler operation. He is co-owner of a restaurant, Green Turtle, and partner in a development and construction company, J.W.L. Enterprise, LLC. He currently serves on the national Farm Credit Council Board, MidAtlantic Farm Credit, ACA board of directors and the board of the Delmarva Poultry Industry DPI, a trade organization. Mr. Lambertson became a director in 2002 and his term expires December 31, 2009.

Paul Lemoine, 62, is a cattle and row crop farmer from Plaucheville, Louisiana. He is active in a number of organizations related to farming and is employed as a crop sales consultant with Agriliance Chemical Co. He is a member of the Louisiana Cattlemen's Association and the Avoyelles Parish Farm Bureau. He is also a member of the First South ACA. Mr. Lemoine became a director in 1995 and his term expired on December 31, 2007.

James L. May, 58, is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 330 acres and leases another 700 acres. He is involved in the development and marketing of 500 heifers for replacement cows and embryo transfer. May's operation also includes 150 acres of alfalfa hay, 500 acres of corn and soybeans, and 100 acres of wheat. He currently serves as a member of the Central Kentucky Ag Credit board, Lincoln County Extension Council, Lincoln County Ag Development Board, and is a member of the Lincoln County Farm Bureau. Mr. May became a director in 2006 and his term expires December 31, 2009.

Eugene W. Merritt, Jr., 63, from Easley, South Carolina, is co-owner of an ornamental tree farm and is a landscape contractor. He also operates a 400-acre timber and grass farm. He serves on the boards of AgSouth Farm Credit, ACA; People Bancorp, a commercial bank holding company; Peoples National Bank, a commercial bank; and Jackson Companies, a recreational company. Mr. Merritt became a director in 1995 and his term expires December 31, 2010.

Katherine A. Pace, 45, from Orlando, Florida, is a certified public accountant with 22 years in public accounting. She provides consulting services to family owned businesses through her company Family Business Consulting, LLC. Previously, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005 where her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations such as the National Society of Accountants for Cooperatives. She is a member of the American Institute of Certified Public Accountants and currently serves on the boards of several charitable organizations as well as on an advisory board for a private for profit organization involved in agriculture. Ms. Pace was appointed to the AgFirst board in January 2006 and her term expires on December 31, 2011.

Dale W. Player, 71, from Bishopville, South Carolina, is co-owner of a 1,850-acre row crop operation, with cotton being the primary crop. He is a director of ArborOne, ACA, member of the South Carolina Cotton Board of Directors, and director of the Carolinas Cotton Cooperative. He also serves as a delegate to the National Cotton Council and alternate director to the National Cotton Board. Mr. Player became a director in 1995 and his term expired on December 31, 2007.

J. Dan Raines, Jr., 63, is a beef producer from Ashburn, Georgia. His operations include commercial beef cattle, registered Angus cattle and timber. He serves as a director on the boards of AgGeorgia Farm Credit, ACA and the Federal Agricultural Mortgage Corporation (Farmer Mac). He also serves as director and president of Raines Commercial Group, Inc., which is primarily engaged in employee leasing. Mr. Raines became a director in 1995 and his term expires December 31, 2009.

Walter L. Schmidlen, Jr., 67, from Elkins, West Virginia, is a past dairy farmer and now continues his cow-calf operation along with growing hay and corn on a 700-acre farm with lease/rented land. He presently serves on the board of the Farm Credit of the Virginias, ACA, and was a former director of Southern States Cooperative and Sire Power. Mr. Schmidlen became a director in 2001 and his term expires December 31, 2008.

Robert G. Sexton, 48, Chairman of the Board, is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Orchid Island Juice Company. He serves as a director of Farm Credit of South Florida, ACA; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. Mr. Sexton became a director in 2000 and his term expires on December 31, 2011.

Kenneth A. Spearman, 63, from Winter Haven, Florida, currently serves as Director of Internal Audit for Florida's Natural Growers, Inc. Prior to this, he was Controller for Citrus Central, Inc. in Orlando, Florida from 1980-1991, and was co-founder of a public accounting firm in Chicago, Illinois after employment with Arthur Andersen & Co. He obtained his Masters Degree in Business Administration from Governors State University in University Park, Illinois, and his B.S. degree in accounting from Indiana University. He served as chairman of the board of trustees for the Lake Wales Medical Center. He is a member of the Institute of Internal Auditors, and the National Society of Accountants for Cooperatives, where he was also past National President. Mr. Spearman was appointed to the AgFirst board in January 2006 and his term expires December 31, 2009.

Robert H. Spiers, Jr., 62, is a full-time farmer, with a tobacco, corn, wheat, soybean and cotton operation on 1,100 acres in Dinwiddie County, Virginia. He currently serves on the boards of Colonial Farm Credit, ACA, Tobacco Associates, Inc. and Dinwiddie County Farm Bureau. He is also director and treasurer of the Old Hickory Hunt Club. He has been active in several farming organizations, including the Virginia Flue-Cured Tobacco Board and Virginia Farm Bureau. He became a director in 2006 and his term expires December 31, 2009.

William H. Voss, 66, is from McComb, Mississippi. He owns a cattle and timber operation in Southwest Mississippi and is involved in land and commercial property management. He currently serves on the Board of directors of First South Farm Credit, headquartered in Ridgeland, Miss., and is a member of the Pike County Economic Development District Board. Previously, Voss has served as chairman of the Mississippi Real Estate Commission and the Pike County Farm Service Committee. He became a director in 2007 and his term expires December 31, 2010.

In 2007, each member of AgFirst FCB's board of directors received compensation of $48,000, plus expenses.

AgriBank, FCB

Fred Adams, 63, is a self-employed livestock farmer in Readyville, Tennessee. Mr. Adams serves as chair of the Audit Committee. He is also the Foundation President of Middle Tennessee State University, Murfreesboro, Tennessee. Mr. Adams became a director in 1998 and his term expires in 2008.

Armin Apple, 63, is a self-employed grain farmer in McCordsville, Indiana and a Hancock County Indiana Commissioner. Mr. Apple serves as chair of the Finance Committee. Mr. Apple also serves on the AgriBank District Farm Credit Council and is on the board of The Farm Credit Council. Mr. Apple became a director in 2003 and his term expires in 2011.

Ed Breuer, 43, is a self-employed grain and livestock farmer in Mandan, North Dakota. Mr. Breuer serves as vice chair of the Governance Committee. He is also a director of Farm Credit Services of Mandan, ACA. Mr. Breuer became a director in 2004 and his term expires in 2011.

Timothy Clayton, 53, appointed director, Plymouth, Minnesota is a Principal of the management consulting firm Emerging Capital, LLC. Mr. Clayton serves as vice chair of the Audit Committee. He is also a director of the National Federation of Independent Business in Washington, D.C., which provides political advocacy for small businesses. Mr. Clayton became a director in 2005 and his term expires in 2009.

Richard Davidson, 63, is a self-employed grain and livestock farmer in Washington C.H., Ohio. Mr. Davidson serves on the Finance Committee. Mr. Davidson became a director in 2005 and his term expires in 2009.

Roger Decker, 66, is a self-employed grain and livestock farmer in Westgate, Iowa. Mr. Decker serves on the Governance Committee. He is also a director of AMPI Milk Cooperative in New Ulm, Minnesota, serves on the

AgriBank District Farm Credit Council and is on the board of The Farm Credit Council. Mr. Decker became a director in 2003 and his term expires in 2010.

Douglas Felton, 61, is a self-employed grain farmer in Cannon Falls, Minnesota. Mr. Felton serves as chair of the Governance Committee. He is also a director of AgStar Financial Services, ACA, D&T Enterprise of Minnesota, Inc., which is engaged in custom harvesting and is a director of Great Western Industrial Park, LLC, which is an industrial development company. He also serves on the AgriBank District Farm Credit Council and is on the board of The Farm Credit Council. Mr. Felton became a director in 1996 and his term expires in 2008.

Meredith Kapp, 65, is a self-employed grain and livestock farmer in Crosby, Missouri. Mr. Kapp serves as vice chair of the Human Resources Committee. He is also a director of the Crosby-Helena Fire Protection District, a volunteer fire department in Crosby, Missouri. Mr. Kapp became a director in 2004 and his term expires in 2008.

David Keller, 60, is a self-employed grain and livestock farmer in Mt. Carroll, Illinois. Mr. Keller serves on the Governance Committee. He also is a director of 1st Farm Credit Services, ACA. Mr. Keller became a director in 2005 and his term expires in 2009.

Thomas Klahn, 58, vice chairman, is a self-employed grain farmer in Lodi, Wisconsin. Mr. Klahn serves on the Audit Committee. He is also a director of Badgerland Farm Credit Services, ACA, and serves on the AgriBank District Farm Credit Council. Mr. Klahn became a director in 2002 and his term expires in 2009.

Lyndon Limberg, 65, is a self-employed farmer in Gary, South Dakota. He serves on the Human Resources Committee. He also serves on the board of the Antelope Valley Reformed Church in Gary, South Dakota. Mr. Limburg became a director in 2007 and his term expires in 2011.

Bill Mainer, 71, is a self-employed livestock and poultry farmer in Branch, Arkansas. Mr. Mainer serves on the Finance Committee. He is also a director of FCS of Western Arkansas, ACA, and serves on the AgriBank District Farm Credit Council. Mr. Mainer became a director in 1988 and his term expires in 2010.

James McElroy, 59, is a self-employed grain farmer in Waverly, Kentucky. Mr. McElroy serves on the Finance Committee. He is also a director of Union County Kentucky Soil and Conservation District, a natural resource conservation organization. Mr. McElroy became a director in 2000 and his term expires in 2010.

David Norman, 50, appointed director, Morrilton, Arkansas is a Vice President of Winrock International, a non profit development foundation. Mr. Norman serves on the Governance Committee. He is also a chair of Volunteers for Economic Growth Alliance, an international development organization. Mr. Norman became a director in 2003 and his term expires in 2011.

Thomas Payne, 66, appointed director, Columbia, Missouri, is the Vice Chancellor and Dean of the College of Agriculture, Food and Natural Resources and Director of the Missouri Agricultural Experiment Station at the University of Missouri. Dr. Payne serves on the Human Resources Committee. He is also a director of Agricultural Futures of America in Kansas City, Missouri. He also serves on the board of the Graduate Institute of Cooperative Leadership, Columbia, Missouri and as a member of the advisory board of the World Agricultural Forum, St. Louis, Missouri. Dr. Payne became a director in 2003 and his term expires in 2010.

John Schmitt, 51, is a self-employed grain and beef cattle farmer in Quincy, IL. He serves on the Audit Committee. He also is a director of 1st FCS, ACA, Normal, Illinois and Adams County Illinois Farm Bureau. Mr. Schmitt became a director in 2007 and his term expires in 2011.

William Stutzman, 60, is a self-employed cash crop farmer in Blissfield, Michigan and president of Ogden Telephone Company. Mr. Stutzman serves as chair of the Human Resources Committee. He is also a director of GreenStone Farm Credit Services, ACA, where he serves on their Audit Committee. He also serves on the Farm Credit Foundation Plan Sponsor Committee. Mr. Stutzman became a director in 2003 and his term expires in 2010.

Roy Tiarks, 57, chairman, is a self-employed grain and livestock farmer in Council Bluffs, Iowa. Mr. Tiarks serves on the Audit Committee. He is also a director of the Federal Farm Credit Banks Funding Corporation. Mr. Tiarks became a director in 1996 with AgAmerica, FCB and beginning January 1, 2003 became a director of AgriBank, FCB. His term expires in 2009.

Keri Votruba, 48, is a self-employed grain and livestock farmer in Hemingford, Nebraska. Mr. Votruba serves as vice-chair of the Finance Committee. Mr. Votruba became a director in 2004 and his term expires in 2008.

In 2007, each member of AgriBank, FCB's board of directors received an annual retainer which was paid quarterly for attendance at meetings and other official activities. Director compensation was $43,934, plus expenses, per director for 2007.

CoBank, ACB

Gene Batali, 66, is the owner/operator of Batali Ranch, Inc., a specialized farming operation (mint) in Yakima, Washington. Mr. Batali serves on the Board's Budget and Finance Committee. Mr. Batali became a director in 2007 and his term expires in 2009.

D. Sheldon Brown, 61, is a dairy farmer in Salem, New York. Mr. Brown is secretary and treasurer of Woody Hill Farms, Inc., a dairy farm, and is also a general partner in Woody Hill Farms, LLC, real property management. Mr. Brown serves on the Board's Budget and Finance Committee. Mr. Brown became a director in 1998 and his term expires in 2009.

Rita M. Brown, 55, is the COO of Cleartel Communications in Delray Beach, Florida. She was formerly the senior vice president and general manager of CTSI, LLC, and a senior officer for Commonwealth Telephone Enterprises, Inc. in Dallas, Pennsylvania. Ms. Brown serves on the Board's Loan Review Committee and the Governance Committee. Ms. Brown became a director in 2000 and her term expires in 2010.

Everett Dobrinski, second vice chairman, 61, is owner/operator of Dobrinski Farm, a cereal grain and oilseed farm in Makoti, North Dakota. Mr. Dobrinski serves as the board chairman of Verendrye Electric Cooperative. He serves as a director with North Dakota Coordinating Council for Cooperatives, Dakota Pride Cooperative, and The Farm Credit Council. Mr. Dobrinski serves on the Board's Executive Committee (also the Compensation Committee) and as chairman of the Loan Review Committee. Mr. Dobrinski became a director in 1999 and his term expires in 2011.

Randal J. Ethridge, 56, is executive vice president of People's Electric Cooperative, a rural electric distribution cooperative in Ada, Oklahoma, and owner/operator of Ethridge Ranch, a cattle ranching operation. Mr. Ethridge serves on the following boards: president/director, Science and Natural Resources Foundation, director, Oklahoma Association of Electric Cooperatives, and alternate director, Western Farmers Electric Cooperative. Mr. Ethridge serves on the Board's Loan Review Committee. Mr. Ethridge became a director in 1997 and his term expires in 2010.

William M. Farrow III, 52, is the CEO and Managing Partner of F.C. Partners Group, LLC in Chicago, Illinois. He was formerly EVP and CIO for the Chicago Board of Trade in Chicago, Illinois. Mr. Farrow serves on the Board's Audit Committee. Mr. Farrow became a director in 2007 and his term expires in 2010.

Mary E. Fritz, 58, is owner/operator of Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation in Chester, Montana. Ms. Fritz serves as director of Northwest Farm Credit Services, ACA. Ms. Fritz serves on the Board's Executive Committee (also the Compensation Committee) and the Governance Committee. Ms. Fritz became a director in 2003 and her term expires in 2011.

Ron Harkey, 55, is president and CEO of Farmers Cooperative Compress, a cotton-warehousing cooperative, in Lubbock, Texas. Mr. Harkey serves as an officer of the Cotton Growers Warehouse Association and the Amarillo Cotton Warehouse, and as a director of the Texas Agricultural Cooperative Council, National Council of Farmer Cooperatives, and EWR, Inc. He serves as an advisory director of Plains Capital Bank, and as a delegate for the National Cotton Council. Mr. Harkey serves on the Board's Budget and Finance Committee. Mr. Harkey became a director in 2002 and his term expired on December 31, 2007.

William H. Harris, 58, is the owner/operator of Harris Farms and partner of HR&W Harvesting, processing vegetable farms in LeRoy, New York. Mr. Harris serves on the Board's Audit Committee and the Loan Review Committee. Mr. Harris became a director in 2001 and his term expires in 2011.

Daniel T. Kelley, first vice chairman, 59, is the owner/operator of Kelley Farms, a diversified corn and soybean operation, in Normal, Illinois. Mr. Kelley serves as board president of Evergreen FS, Inc., a farm supply and grain marketing operation. In addition, Mr. Kelley serves as a board chairman and president of Growmark, Inc., board chairman of FS Financial Services Corp., vice chairman of the Illinois Agricultural Leadership Foundation, and director of Nationwide Mutual Insurance Company. Mr. Kelley serves on the Board's Executive Committee (also the Compensation Committee) and the Governance Committee. Mr. Kelley became a director in 2004 and his term expires in 2009.

James A. Kinsey, 58, is owner/operator of Kinsey's Oak Front Farms, a purebred Angus seed-stock producer, in Flemington, West Virginia. Mr. Kinsey also serves as a director of Farm Credit of the Virginias, ACA and the Federal Farm Credit Banks Funding Corporation. Mr. Kinsey serves on the Board's Executive Committee (also the Compensation Committee). Mr. Kinsey became a director in 2001 and his term expires in 2008.

Gary A. Miller, 47, is the president and CEO of GreyStone Power Corporation in Douglasville, Georgia. Mr. Miller serves as a director trustee of Wellstar Health System, a hospital in Marietta, Georgia. Mr. Miller is a director on the advisory board for Regions Bank of West Georgia, a local bank in Douglasville, Georgia. Mr. Miller is also a director for Oglethorpe Power Corporation located in Tucker, Georgia. Mr. Miller serves on the Board's Audit Committee. Mr. Miller became a director in 2006 and his term expires in 2009.

Robert D. Nattier, 64, is the retired president and CEO of Mid Kansas Cooperative in Moundridge, Kansas. He is co-operator of 4-N, Inc., a grain and livestock operation, and owner of Foxridge Golf Club in Newton, Kansas. Mr. Nattier also serves as a director of the North Newton Housing Authority, the Newton Chamber of Commerce, and Wheatland Homes. Mr. Nattier serves on the Board's Budget and Finance Committee, and as chairman of the Board's Governance Committee. Mr. Nattier became a director in 2003 and his term expires in 2008.

J. Roy Orton, chairman, 69, is president/owner of Orton Farms, Inc., a fruit farm in Ripley, New York. He serves as a director of The Farm Credit Council. Mr. Orton serves as chairman of the Board Executive Committee (also the Compensation Committee). Mr. Orton became a director in 1995 and his term expired on December 31, 2007.

Michael P. Riley, 58, is an Adjunct Professor of Business at Humphreys College in Stockton, California. He is a retired CFO of Diamond of California. He serves as Treasurer of the Greater Modesto Area Flood Relief, a non-profit organization serving victims of natural disasters. Mr. Riley serves as chairman of the Board's Budget and Finance Committee, and on the Loan Review Committee. Mr. Riley became a director in 2005 and his term expired on December 31, 2007.

Barry M. Sabloff, 61, is vice chairman/director of Marquette National Corporation, a bank holding company, Marquette Bank, a community bank, and is a director of Marquette Bank Foundation and Marquette Bank Affordable Housing Foundation, all located in Chicago, Illinois. He is a director of Calypso Technology, Inc., a provider of trading systems to financial institutions located in San Francisco, California. Mr. Sabloff is trustee of Columbia College Chicago, chairman/member Board of Advisors, Sherwood Conservatory of Music at Columbia College Chicago, and director of The American School in London Foundation. Mr. Sabloff is the Board's financial expert, serves as chairman of the Board's Audit Committee, and is on the Board's Loan Review Committee. Mr. Sabloff became a director in 2005 and his term expires in 2008.

D. Wayne Seaman, 69, is president of Seaman Enterprises, consulting for boards and employees for cooperatives in Carroll, Iowa. Mr. Seaman also serves as a director on the following boards: CADC, Home State Bank, Highway Farms, Western Iowa Energy and FC Feeds. Mr. Seaman serves on the Board's Executive Committee (also the Compensation Committee) and Governance Committee. Mr. Seaman became a director in 2000 and his term expires in 2008.

Richard W. Sitman, 54, is owner/operator of Jos. M. Sitman, Inc., a retail business in Greensburg, Louisiana. Mr. Sitman also serves as the board chairman of Dixie Electric Membership Cooperative, DEMCO Energy Services, Inc., and Dixie Business Center and as board secretary of the Bank of Greensburg. Mr. Sitman serves on the Board's Budget and Finance Committee. Mr. Sitman became a director in 1999 and his term expires in 2010.

Kevin A. Still, 50, is CEO and treasurer of Co-Alliance, LLP, a partnership of four cooperatives supplying energy, agronomy, and animal nutrition, producing swine, and marketing grain in Danville, Indiana. He is CEO and treasurer of both Midland Co-op, Inc. and Frontier Co-op, agricultural retail cooperatives in Danville, Indiana. He is also director of Hartford Bio Energy and Chinook Bio Products LLC. Mr. Still serves on the Board's Audit Committee and the Governance Committee. Mr. Still became a director in 2002 and his term expires in 2010.

Robert M. Tetrault, 56, is president/owner of T/R Fish, Inc., a marketing company for commercial fishing in Portland, Maine, and president/owner of Tara Lynn, Inc., Tara Lynn II, Inc. and Robert Michael, Inc., commercial fishing groups in Portland, Maine. Mr. Tetrault is a director of Farm Credit of Maine, ACA and serves as a director on the boards of The Farm Credit Council and FCCServices, and is the director/owner of Vessel Services, Inc. Mr. Tetrault is a member of the Farm Credit System Audit Committee and the FCC/FCCS Trust Committee. Mr. Tetrault serves on the Board's Executive Committee (also the Compensation Committee). Mr. Tetrault became a director in 1999 and his term expired on December 31, 2007.

Douglas W. Triplett, 71, is owner/operator of Triplett Farms, a corn and soybean farm in Annandale, Minnesota. Mr. Triplett serves as chairman of Centra Sota Lake Region, LLC, vice chairman of Centra Sota Cooperative, and treasurer of Albion Township. Mr. Triplett serves on the Board's Audit Committee. Mr. Triplett became a director in 2002 and his term expired on December 31, 2007.

In 2007, each member of CoBank, ACB's board of directors was compensated for attendance at meetings and other official activities. Director compensation ranged from $48,815 to $63,460 for 2007, plus expenses.

Farm Credit Bank of Texas

C. Kenneth Andrews, 74, is a rancher in Madisonville, Texas. He serves on the Bank's Audit Committee, Compensation Committee and the Tenth District Farm Credit Council board, and represented the district on The Farm Credit Council board from 1996 to 2005. Mr. Andrews became a director in 1994 and his term expires in 2008.

Ralph W. "Buddy" Cortese, 61, chairman of the board of directors, is a rancher/farmer in Fort Sumner, New Mexico. He is a member of the Bank's Audit Committee and Compensation Committee and serves on the American Land Foundation Board. In June 2003, he was appointed to the Farmer Mac board. He is also a member of the Texas Agricultural Cooperative Council board of directors. Mr. Cortese became a director in 1995 and his term expires in 2010.

Joe R. Crawford, 70, is from Baileyton, Alabama, and owns and operates a cattle business. Mr. Crawford is Vice Chairman of the Bank's Audit Committee and also serves on the Bank's Compensation Committee and on the board of directors and the audit committee of the Federal Farm Credit Banks Funding Corporation. He is a member and past president of the Alabama Cattlemen's Association and a member of the National Cattlemen's Beef Association, the Alabama Farm Bureau and the Alabama Farmers Federation. Mr. Crawford became a director in 1998 and his term expires in 2009.

James F. Dodson, 54, is from Robstown, Texas and grows cotton and milo and operates a seed sales business with his family. Mr. Dodson serves on the Bank's Audit Committee, Compensation Committee and serves as chairman of the Tenth District Farm Credit Council. He is also on the board of Cotton Incorporated. He is president of Dodson Farms, Inc., Dodson Ag, Inc.; the owner of Jimmy Dodson Farms; a partner in Weber Greene, Ltd; and managing partner in Weber Station LLC. In addition, Mr. Dodson serves on the boards of Gulf Coast Cooperative and South Texas Cotton and Grain Association and holds leadership positions in the National Cotton Council of America and American Cotton Producers. Mr. Dodson became a director in 2003 and his term expires in 2008.

Elizabeth G. "Betty" Flores, 63, is from Laredo, Texas, where she served as city mayor from 1998 to 2006. Ms. Flores serves on the Bank's Audit Committee and Compensation Committee. Previously, she was senior vice president of the Laredo National Bank. She is a member of Leadership America 2008. She is a partner with a family ranching and real estate limited partnership, E.G. Ranch, Ltd. She became a director in 2006 and her term expires in 2009.

Jon "Mike" Garnett, 63, vice chairman of the board of directors and chairman of the Compensation Committee, is from Spearman, Texas. Mr. Garnett raises grain and forage crops and runs stocker cattle. He is a member of the Bank's Audit Committee, The Farm Credit Council board of directors, and The Farm Credit Council board of directors' legislative committee and serves on the State Technical Committee for the Natural Resources Conservation Service. Mr. Garnett became a director in 1999 and his term expires in 2010.

William F. Staats, 69, is from Baton Rouge, Louisiana. Dr. Staats is Louisiana Bankers Association chair emeritus of banking and professor emeritus, Department of Finance at Louisiana State University. He is chairman of the Bank's Audit Committee and is the designated financial expert. Dr. Staats also serves on the Bank's Compensation Committee. He serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Platinum Healthcare Staffing, Inc. Dr. Staats is a member of the Farm Credit System Audit Committee. He is also a member of Texas Lutheran University board of regents. Dr. Staats became a director in 1997 and his term expires in 2008.

In 2007, each member of the FCB of Texas' board of directors was compensated for attendance at meetings and other official activities. Each director's compensation totaled $48,815 for 2007, plus expenses. Additional compensation of $5,000 was paid in 2007 for exceptional circumstances in which extraordinary time and effort were expended by a board member.

U.S. AgBank, FCB

Wayne Allen, 66, is from Nevada City, California. Mr. Allen 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 served on the board of directors of that organization for 24 years. Mr. Allen serves as Chairman of the Bank's Compensation Committee and also serves on the Bank's Risk Management Committee. He became a director in 2003 and his current term expires in 2009.

Wesley D. Brantley, Jr., 67, is from Ada, Oklahoma. Mr. Brantley is a CPA and was an audit partner with Horne and Company, CPAs, in Ada, Oklahoma from 1967 to 1998. His areas of practice included banks, savings and loans, farm cooperatives, insurance companies, colleges, and state and local governments. In 1998, Mr. Brantley accepted a position as Chief Financial Administrator of the Chickasaw Nation, a federally recognized Indian tribe. In this capacity, he was responsible for the tribe's financial statements, budget and grant writing departments, internal audit department, governmental and grant finance department, purchasing and supply department and oversight of the housing and tribal business finance department. Mr. Brantley has retired from this position and now serves in a consulting capacity. Mr. Brantley serves on the Bank's Audit Committee and has been designated as a financial expert. He also serves on the Bank's Risk Management Committee. He became a director in 2005 and his current term expires in 2008.

John J. "Jack" Breen, 65, is from Middletown, New Jersey. Mr. Breen is the retired managing director-administration of the Federal Farm Credit Banks Funding Corporation. Mr. Breen joined the Funding Corporation management team in 1991 with responsibility for Farm Credit System financing programs and selling group management. In 1996, he assumed responsibility for a newly created Administration Group encompassing all Funding Corporation operating activities. Mr. Breen serves on the Bank's Audit Committee and has been designated as a financial expert. He also serves on the Bank's Risk Management Committee. He became a director in 2004 and his current term expires in 2010.

Oghi A. "Tony" DeGiusti, Jr., 55, is from Tuttle, Oklahoma. Mr. DeGiusti is a farmer who produces alfalfa and grass hay and wheat. He also owns and operates a cow/calf stocker operation. 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 Bank's Compensation Committee and Risk Management Committee. He became a director in 2005 and his current term expires in 2008.

John Eisenhut, 62, Vice Chairman, is from Turlock, California. Mr. Eisenhut is an almond grower and Manager of Grower Relations for Hilltop Ranch, an almond processor. He is a member and former chairman of the board of American AgCredit, ACA, and a member and former officer of the Stanislaus County Farm Bureau. He serves on the Bank's Compensation Committee and the Bank's Risk Management Committee. He became a director in 2005 and his current term expires in 2009.

Lyle H. Gray, 73, is from Leon, Kansas. Mr. Gray is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit Services of Central Kansas, ACA. Mr. Gray is a past member of 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 Bank's Compensation Committee and Risk Management Committee. He became a director in 1990 and his current term expires in 2009.

J. Less Guthrie, 63, is from Porterville, California. Mr. Guthrie owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation. He is a member of Farm Credit West, ACA. Mr. Guthrie serves on the board of directors of Guthrie Investment Co., Inc., and F&T Financial Services. He also serves as the vice chairman of the board of directors of the Federal Farm Credit Banks Funding Corporation and on the board of directors of the California Cattlemen's Association. Mr. Guthrie serves on the Bank's Compensation Committee and Risk Management Committee. He became a director in 1997 and his current term expires in 2010.

George D. Jenik, 73, is from Sterling, Colorado. Mr. Jenik, 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. Mr. Jenik serves on the Bank's Audit Committee and Risk Management Committee. He became a director in 1997 and his current term expires in 2008.

David S. Phippen, 57, is from Ripon, California. Mr. Phippen is an almond grower and a co-owner in an almond processing company. He is a member of American AgCredit, ACA. He was a director and chairman of the board of directors of AgCredit Financial, ACA, but retired in December 2004, when that association merged into American AgCredit, ACA. Mr. Phippen is a member and former chairman of the Almond Board of California. He currently serves as an alternate on that board. He also serves as a director of the San Joaquin County Farm Bureau. Mr. Phippen serves as vice chairman of the Bank's Risk Management Committee. He also serves on the Bank's Compensation Committee. He became a director in 2006 and his current term expires in 2009.

Glen A. ("Andy") Rector, 66, chairman, is from Agate, Colorado. Mr. Rector is a farmer and rancher with a cow/calf/yearling and wheat operation, and is in partnership with his two sons. He is a member of Farm Credit of Southern Colorado, ACA. He serves as an ex-officio member of the Bank's Audit Committee and Compensation Committee. He also serves on the Bank's Risk Management Committee. He became a director in 2002 and his current term expires in 2010.

Sheldon D. Richins, 71, is from Henefer, Utah. Mr. Richins is a rancher and stockman with a cow/calf operation and is in partnership with his two sons. Mr. Richins is a member and former chairman of the board of directors of Western AgCredit, ACA. Mr. Richins serves 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 Bank's Compensation Committee and Risk Management Committee. He became a director in 2005 and his current term expires in 2008.

Edward L. Schenk, 69, is from Chickasha, Oklahoma. Mr. Schenk is a farmer and rancher, producing primarily alfalfa, wheat and livestock. He also practices veterinary medicine on a part-time basis. Mr. Schenk is a member of Chisholm Trail Farm Credit, ACA, and Farm Credit of Central Oklahoma, ACA. Mr. Schenk is past chairman of the board of directors of the Farm Credit Council and continues to serve as a director on that board. Mr. Schenk serves on the Bank's Audit Committee and Risk Management Committee. He became a director in 1995 and his current term expires in 2009.

Kenneth W. Shaw, 57, is from Mountainair, New Mexico. Mr. Shaw is a rancher and stockman with a cow/calf/yearling operation. He is a member of Farm Credit of New Mexico, ACA. Mr. Shaw serves as vice chairman of the Bank's Compensation Committee. He also serves on the Bank's Risk Management Committee. He became a director in 1999 and his current term expires in 2010.

Donnell Spencer, 73 is from Richfield, Utah. Mr. Spencer is a farmer and rancher raising alfalfa and livestock. He is president of Diversified Spencer, Inc., a family farming corporation. Mr. Spencer is a member and former chairman of the board of directors of Western AgCredit, ACA. Mr. Spencer serves as chairman of the Bank's Audit Committee. He also serves on the Bank's Risk Management Committee. He became a director in 2000 and his current term expires in 2008.

David Vanni, 66, is from Gilroy, California. Mr. Vanni is the owner and operator of Rancho de Solis Winery, Inc., in Santa Clara County, California. His operation consists of 40 acres of wine grapes and covers all aspects of a winery operation, including production and marketing. Mr. Vanni is a member of American AgCredit, ACA, and served as a member of the board of directors from 1984 until his election to the U.S. AgBank, FCB, Board. He is a member of the Santa Clara County Farm Bureau and serves on the Ag Advisory Committee to the Santa Clara Valley Water District Board. Mr. Vanni serves on the Bank's Audit Committee and Risk Management Committee. He became a director in 2007, and his current term expires in 2010.

Robert J. Wietharn, 46, is from Clay Center, Kansas. Mr. Wietharn is a farmer and pork producer. He manages and is a stockholder of two family-owned corporations whose operations include marketing farrow-to-finish hogs and raising corn and soybeans. He is a member of Frontier Farm Credit, ACA. Mr. Wietharn is a stockholder and chairman of the board of Valley Farmers, Inc. (grain elevator) and is involved in the manufacturing and sale of irrigation equipment. Mr. Wietharn serves as chairman of the Bank's Risk Management Committee. He also serves as vice chairman of the Bank's Audit Committee. He became a director in 2002, and his current term expires in 2010.

In 2007, 15 members of the U.S. AgBank, FCB board of directors were compensated $41,600 for attendance at meetings and other official activities, plus expenses. One director whose term expired on September 30, 2007 was compensated $31,200 and one director whose term commenced on October 1, 2007 was compensated $10,400.

Federal Farm Credit Banks Funding Corporation

F. Gerald Byrne, 61, is from Long Beach, Indiana and is a retired chairman and executive vice president of Bank One Capital Markets. Mr. Byrne serves on the Funding Corporation Audit Committee. Mr. Byrne became a director in 2007 and his term expires in 2010.

Joe R. Crawford, 70, is from Baileyton, Alabama and owns and operates a cattle business. Mr. Crawford is also a member of the board of directors of the Farm Credit Bank of Texas. Mr. Crawford serves on the Funding Corporation Audit Committee. Mr. Crawford became a director in 2003 and his term expires in 2012.

Larry R. Doyle, 55, CEO of the Farm Credit Bank of Texas in Austin, Texas, previously served as executive vice president and chief operating officer of AgFirst Farm Credit Bank. Mr. Doyle serves on the Funding Corporation Governance Committee. Mr. Doyle became a director in 2006 and his term expires in 2011.

Robert B. Engel, 54, is president and CEO of CoBank, ACB since July 1, 2006. Prior to his appointment as president and CEO, Mr. Engel served as president and chief operating officer of CoBank, ACB. Mr. Engel serves on the Board of Trustees of The Regis University. Mr. Engel serves on the Funding Corporation Compensation Committee. Mr. Engel became a director in 2003 and his term expires in 2009.

J. Less Guthrie, 63, vice chairman, owns and operates a cow/calf and stocker cattle ranch and a diversified farming operation in Porterville, California. He is a member of Farm Credit West, ACA and a member of the board of directors of U.S. AgBank, FCB. Mr. Guthrie serves on the board of directors of Guthrie Investment Co., Inc., and F&T Financial Services. He also serves on the board of directors of the California Cattlemen's Association (trade association). He is chairman of the Funding Corporation Compensation Committee. Mr. Guthrie became a director in 2000 and his term expires in 2010.

James A. Kinsey, 58, is owner/operator of Kinsey's Oak Front Farms, a purebred angus seed-stock producer, in Flemington, West Virginia. Mr. Kinsey is a member of the board of directors of CoBank, ACB and Farm Credit of the Virginias, ACA. He serves on the Funding Corporation Governance Committee. Mr. Kinsey became a director in 2004 and his term expires in 2009.

F. A. Lowrey, 55, chairman, is president and CEO of AgFirst Farm Credit Bank in Columbia, South Carolina. Mr. Lowrey serves on the board of directors of the University of South Carolina Educational Foundation, the National Council of Farmer Cooperatives, and Palmetto Agribusiness Council. Mr. Lowrey also serves on the Funding Corporation Compensation Committee. Mr. Lowrey became a director in 2001 and his term expires in 2010.

Jamie B. Stewart, Jr., 63, is a non-voting member of the board. Mr. Stewart is the president and CEO of the Federal Farm Credit Banks Funding Corporation in Jersey City, New Jersey. Prior to joining the Funding Corporation, Mr. Stewart was first vice president of the Federal Reserve Bank of New York. Mr. Stewart is a director of the Gestalt International Study Center and chairman of the Westchester Institute for Training. He became a director in 2004 and his term will expire when he retires.

Roy Tiarks, 57, is from Council Bluffs, Iowa. Mr. Tiarks raises corn and soybeans, and has a cow/calf operation. Mr. Tiarks is chairman of the board of AgriBank, FCB and is a director of the Coalition of American Agricultural Producers (trade association). He is chairman of the Funding Corporation Governance Committee. Mr. Tiarks became a director in 2001 and his term expires in 2011.

Ann E. Trakimas, 51, is from Taos, New Mexico. Ms. Trakimas is a retired vice president and head of Financial Institutions. Group from Goldman Sachs & Co. Ms. Trakimas is the chairman of the Funding Corporation Audit Committee and also serves on the Farm Credit System Audit Committee. Ms. Trakimas became a director in 2005 and her term expires in 2009.

Funding Corporation Bank director members and appointed members are compensated for their time served and for travel and related expenses, while Bank CEOs or presidents are only compensated for travel and related expenses. In 2007, the directors eligible for compensation were paid between $32,319 and $37,500 for the year, plus expenses. One director whose term expired on in February 2007 was compensated $6,181.

Certain Relationships and Related Transactions

The System is a cooperatively owned network of agricultural lending institutions. Agricultural producers typically become members of an Association when they establish a borrowing/financing relationship with the Association. In CoBank's case, its Associations, together with other borrowers of the Bank, own CoBank, as well as borrow from the Bank. Accordingly, most Bank directors are agricultural producers who are member/borrowers of an Association and, in the case of CoBank, its other member/borrowers.

As discussed in Note 18 to the accompanying combined financial statements, Banks and Associations may, in the ordinary course of business, enter into loan transactions with their officers and directors and other organizations with which officers and directors are associated. These loans are subject to special approval requirements contained in the Farm Credit Administration regulations and are, in the view of System institutions' managements, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The following is a list of aggregate loan balances outstanding at December 31, 2007 to the directors of each Bank and its affiliated Associations and other organizations with which the directors are associated:

	(in millions)
AgFirst FCB	$241
AgriBank, FCB	256
FCB of Texas	160
U.S. AgBank, FCB	657
CoBank, ACB	538

Senior Officers

The chief executive officer and/or president and all other senior officers of each Bank and the Funding Corporation, together with their age and length of service at their present position as of December 31, 2007, as well as prior positions held if in the current position less than five years, are as follows:

Name, Age and Title	Time in Position	Prior Experience
AgFirst Farm Credit Bank:		
F.A. Lowrey, 55, *President and Chief Executive Officer*	10 years	CEO, Palmetto Farm Credit, ACA from April 1989 to January 1998.

Name, Age and Title	Time in Position	Prior Experience
Thomas S. Welsh, 60, Executive Vice President, Chief Administrative and Legislative Officer	10 years	Chief Marketing and Planning Officer from January 1996 until March 1998.
Leon T. Amerson, 45, *Executive Vice President, Chief Operating Officer*	1.5 years	Chief Financial Officer since March 1998 to September 2006.
Charl L. Butler, 50, *Senior Vice President, Chief Financial Officer*	9 months	Chief Financial Officer and Secretary at National Bank of South Carolina from 1991 until 2007.
William L. Melton, 59, *Senior Vice President, Chief Lending Officer*	4.5 years	Senior Executive Officer/Bank Lending from January to July 2003, prior to that Lending Services Manager.
Benjamin F. Blakewood, 59, *Senior Vice President, Chief Information Officer*	9.5 years	
Frederick T. Mickler, III, 58, *Senior Vice President and General Counsel*	10 years	Assistant General Counsel July 1989 until April 1998.
AgriBank, FCB:		
L. William York, 54, *Chief Executive Officer*	2 years	Senior Vice President of Global Operations and Chief Credit Officer of CNH Capital
Brian O'Keane, 39, Chief Financial Officer	6 months	Global Treasurer of CNH Capital
Ross B. Anderson, 58, *Senior Vice President and Chief Credit Officer*	16 years	
Greg Taylor, 47, *Senior Vice President, Business and Marketing Strategies*	1 year	Vice President of North America AgFinancial Services of CNH Capital
Greg C. Elwood, 57, *Vice President, Wholesale Lending and Relationship Management*	10 years	
Martin L. Fischer, 54, *Vice President and Treasurer*	8.5 years	
Jeff Moore, 47, *Vice President and Controller*	9.5 years	
Bill L. Johnson, 48, *Vice President, Operations and Information Management*	1.5 years	Executive Vice President — Strategic Business Solutions of Northwest Farm Credit Services, ACA; and Executive Vice President — Strategic Relationships of Farm Credit Financial Partners, Inc.
Sandi L. Schmiesing, 55, *Vice President, Human Resources and Administrative Services*	1.3 years	Senior Vice President of Farm Credit Council Services; and Owner/Consultant of Sand Castle Group, LLC
Donald W. Theuninck, 60, *Vice President, Audit*	16 years	
William J. Thone, 54, *Vice President, Secretary and General Counsel*	8.5 years	
CoBank, ACB:		
Robert B. Engel, 54, *President and Chief Executive Officer*	1.5 years	President and Chief Operating Officer since 2000
Brian P. Jackson, 49, *Executive Vice President and Chief Financial and Administrative Officer*	7 months	Executive Vice President and Chief Financial Officer since 2000
Douglas E. Wilhelm, 58, *Executive Vice President and Chief Credit and Risk Officer*	1.5 years	Senior Vice President, Risk Management Division since 2001
Philip S. DiPofi, 47, *Executive Vice President, Agribusiness Banking Group*	3 years	Senior Vice President, Strategic Relationships and Farm Credit Leasing Divisions since 2001
John C. Holsey, 58, *Executive Vice President, Global Financial Services Group*	7 years	
Mary E. McBride, 52, *Executive Vice President, Communications and Energy Banking Group*	4.5 years	Senior Vice President, Operations and Corporate Finance Divisions since 1998

Name, Age and Title	Time in Position	Prior Experience
Kathleen M. Butler, 48, *Senior Vice President and Division Manager, Human Resources*	6 years	
Jack E. Cassidy, 55, *Senior Vice President and Division Manager, Government and Board Relations*	3 months	Senior Vice President and Division Manager, Corporate and Board Relations since 1991
Allan S. Kantrowitz, 57, *Senior Vice President and General Counsel*	13 years	
Farm Credit Bank of Texas:		
Larry R. Doyle, 55, *Chief Executive Officer*	4.5 years	Executive Vice President and Chief Operating Officer, AgFirst Farm Credit Bank.
Thomas W. Hill, 57, *Senior Vice President, Chief Financial Officer and Chief Operations Officer*	4 years	Chief Financial Officer since 1994
Steven H. Fowlkes, 55, *Senior Vice President and Chief Credit Officer*	4 years	Senior Vice President since 1997
Kyle Pankonien, *Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	Appointed January 2008	Vice President, Corporate Affairs, Deputy General Counsel
William E. Zimmerman, 63, *Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary (retired January 2008)*	20 years	
U.S. AgBank, FCB:		
Darryl W. Rhodes, 57, *President and Chief Executive Officer*	1 year	Executive Vice President, Finance since 1991
David D. Janish, 49, *Senior Vice President, Finance*	10 months	President and CEO of AgVantis, Inc. since 2002
James L. Grauerholz, 58, *Senior Vice President, Administration*	13 years	
Dennis E. Grizzell, 59, *Senior Vice President, Credit*	13 years	
Gregory J. Buehne, 55, Senior *Vice President, Legal and Legislative Services*	9 months	Governance and Strategic Planning consulting for Farm Credit System entities from 2002 to 2007; prior to that, Senior Vice President and General Counsel for Western Farm Credit Bank
Thomas R. Kruse, 59, *Senior Vice President, Internal Audit and Quality Assurance*	9 months	Vice President — Risk Management since 1997
Federal Farm Credit Banks Funding Corporation:		
Jamie B. Stewart, Jr., 63, *President and Chief Executive Officer*	4 years	President and Chief Executive Officer; First Vice President of the Federal Reserve Bank of New York
Douglas A. Williams, 50, *Managing Director — Administration*	1 year	Managing Director — Finance since 1992
H. John Marsh, Jr., 55, *Managing Director — Financial Management Division*	15 years	
Kathleen M. Mullarkey, 60, *Senior Vice President, General Counsel and Corporate Secretary*	11 years	
Glenn R. Doran, 45, *Managing Director — Finance*	6 months	Senior Vice President — Finance since 2001
Scott Pearson, 45, *Senior Vice President and Director — Information Services*	6 months	Vice President and Director — Information Services since 2002

Membership, Farm Credit System Audit Committee

The Farm Credit System Audit Committee is comprised of five members, all of whom are appointed by the board of directors of the Funding Corporation. The Funding Corporation Board has determined that each member of the System Audit Committee is financially literate and has designated two members to be financial experts as defined by the Securities and Exchange Commission. All members of the Committee are independent of management of the Funding Corporation or any System Bank or Association.

The membership of the Farm Credit System Audit Committee as of December 31, 2007, was as follows:

Robert M. Tetrault, 56, is president/owner of T/R Fish, Inc., a marketing company for commercial fishing in Portland, Maine; and president/owner of Tara Lynn, Inc., Tara Lynn II, Inc. and Robert Michael, Inc., commercial fishing groups in Portland, Maine. Mr. Tetrault is chairman of the board of Farm Credit of Maine, ACA and serves as a director on the following boards: The Farm Credit Council, FCCServices and Marine Resource Education Project, and is the director/owner of Vessel Services, Inc. Mr. Tetrault served as a director of CoBank, ACB until his term expired on December 31, 2007. Mr. Tetrault is a member of the FCC Trust Committee. Mr. Tetrault became a member of the Audit Committee in 2004 and his term expires in 2011.

Ann E. Trakimas, 51, is from Taos, New Mexico. Ms. Trakimas is a retired vice president and head of Financial Institutions Group from Goldman Sachs & Co. Ms. Trakimas serves on the board of the Federal Farm Credit Banks Funding Corporation. Ms. Trakimas became a member of the Audit Committee in 2007 and her term expires in 2008.

William F. Staats, 69, is from Baton Rouge, Louisiana and serves as vice chairman of the Committee. Mr. Staats is Louisiana Bankers Association chair emeritus of banking and professor emeritus, Department of Finance at Louisiana State University. He is a director of the Farm Credit Bank of Texas and serves on the Bank's Compensation Committee and as chairman of the Bank's Audit Committee. He serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Platinum Healthcare Staffing Inc. Mr. Staats became a member of the Audit Committee in 2004 and his term expires in 2010.

Robert G. Weber, 70, is from Williamsville, New York, and is an outside member of the Committee. Mr. Weber served as chairman of the board and Executive Committee of First Niagara Financial Group, Inc. and served as the financial expert on its Audit Committee. He also served on the board of International Motion Control, Inc. and as chairman of the Audit and Pension Committees. Mr. Weber is a retired partner of KPMG LLP. The Funding Corporation board has designated Mr. Weber as an Audit Committee financial expert. Mr. Weber became an Audit Committee member in 2004 and his term expires in 2008.

Arthur R. Wyatt, 80, is from the Village of Golf, Florida and Champaign, Illinois, is an outside member of the Committee and serves as chairman of the Committee. He is a retired partner of Arthur Andersen, LLP. The Funding Corporation board has designated Mr. Wyatt as an Audit Committee financial expert. Mr. Wyatt became an Audit Committee member in 1995 and his term expires in 2009.

The Committee held four meetings during 2007 and had one teleconference. All members were in attendance for each meeting and the teleconference. Each member of the Committee was compensated for attendance at meetings and other official activities. Compensation ranged from $12,000 to $35,250 for 2007, plus expenses. One member whose term expired on March 31, 2007 was compensated $4,250.

COMPENSATION OF CHIEF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Overview

The philosophy of System institutions with respect to compensating each institution's senior officers is to attract, develop and retain senior officers who are highly qualified and proficient at executing each institution's strategic objectives and operational activities, and deliver performance results that optimize the return to the shareholders. In the case of the Banks, each Bank emphasizes:

- Establishing a clear link between the financial performance (e.g., earnings, capital, asset quality, liquidity, sensitivity to changes in interest rates, and customer satisfaction) of the Bank and each senior officer's total compensation package, including rewarding appropriate risk-taking with the Bank's capital to generate returns for the shareholders, while avoiding unnecessary risks, and

- Providing a total compensation package to each senior officer that is competitive within the financial services industry and their local market.

The total compensation philosophy of System institutions seeks to achieve the appropriate balance between market-based base salary and benefits, and variable incentive compensation that is designed to incent and reward both the current and long-term achievement of System institutions' strategic business objectives and business plans. System institutions believe that this philosophy fosters a performance-oriented, results-based culture wherein compensation varies on the basis of results achieved.

All System institutions are cooperatives with no publicly traded stock. Therefore, no stock options or other equity- or stock-based compensation programs have been, or can be, granted to senior officers of System institutions. However, it is a general practice across the System to reward the performance of an institution's senior officers with some form of non-equity incentive compensation.

The operations of the Funding Corporation are different than the Banks' operations. While the Banks generate income through loans, investments, and related operations, the primary functions of the Funding Corporation are to raise funds as an agent for the Banks in the debt markets and to issue the combined financial statements of the System. The performance of the Funding Corporation in these two areas is used to gauge the performance of each Funding Corporation senior officer for purposes of determining his or her total compensation package. All operating expenses of the Funding Corporation are reimbursed by the Banks through the assessment of fees; there are no revenues generated by the Funding Corporation.

In addition to compensation, System institutions provide a comprehensive and market-based package of employee benefits for health and welfare and for retirement purposes. Some retirement benefits are restored or enhanced for certain senior officers through one or more non-qualified retirement plans. In other words, while the benefits may be limited as the result of Internal Revenue Code limitations, the benefits that would have been accrued had the Internal Revenue Code limits not been in place are made up for certain senior officers through certain non-qualified retirement plans. In addition, certain institutions have provided for enhanced retirement benefits for named executives.

CEO Compensation Policy

The following discussion regarding compensation policy, summary compensation tables, and related disclosures focuses on the CEOs of the Banks and the Funding Corporation since they are the CEOs of the System entities responsible for the Systemwide disclosures.

The Bank and Funding Corporation CEOs generally have three primary forms of compensation: base pay in the form of a salary, non-equity incentive compensation, and retirement benefits.

Base Pay in the Form of a Salary

The base salary component of each Bank's and the Funding Corporation's CEO recognizes the individual's particular experience, skills, responsibilities, and knowledge. Each Bank's and the Funding Corporation's compensation committee or executive committee serving as the compensation committee of each entity's board of directors reviews the appropriate level of base salary and benefits generally on an annual basis. Each committee takes into consideration industry factors and the local market place. Each committee may also use independent consultants or other means to obtain external comparative data for the CEOs of similar financial institutions, based upon asset size and other factors.

Non-Equity Incentive Compensation

Each Bank and the Funding Corporation has some form of non-equity incentive compensation for its CEO. The overall objective of the incentive compensation is to align each CEO's performance objectives with the interests of the shareholders. The receipt of incentive compensation by each Bank CEO is based upon the performance of the Bank in achieving certain strategic and financial goals. In some cases, the Banks may have both short-term incentive compensation, which focuses on the current performance of the Bank, such as profitability, credit quality, capital adequacy and operating efficiency, and long-term incentive compensation, which focuses on the long-term success of the Bank, such as profitability, credit quality and capital adequacy. In the case of the Funding Corporation, the receipt of incentive compensation is based upon the performance of its specific functions noted previously. In addition, a portion of the incentive compensation may be based upon individual goals and performance. Also, in certain instances, the CEOs may be able to defer payment of a portion of the incentive compensation by directing the deferred amounts be invested in accordance with available options selected by retirement trust committees of the Banks or the Funding Corporation. For each Bank's and the Funding Corporation's CEO, a significant portion of their total compensation is "at-risk" in the form of incentive compensation.

Retirement Benefits

Each Bank and the Funding Corporation CEO participates in a defined benefit retirement plan and a defined contribution plan. However, some of the defined benefit retirement plans are closed to new participants. In addition, some of the Banks and the Funding Corporation provide supplemental executive retirement plans and/or pension restoration plans for their CEOs. These plans provide for the portion of the CEO's benefit that cannot be paid from the retirement plan due to the pay and benefit limitations set by the Internal Revenue Code and/or provide enhanced retirement benefits to the CEO. Additional discussions of the retirement benefits for each Bank's and the Funding Corporation's CEO are set forth below.

Additional Information

Additional discussion of each Bank's compensation policies can be obtained by reference to the discussions provided in the Bank's annual report.

Summary Compensation Table

Name	Year	Salary	Non-equity incentive plan compensation	Change in pension value*	All other compensation	Total
AgFirst Farm Credit Bank						
F. A. Lowrey, President and CEO(1).	2007	$524,720	$ 220,802	$ 488,886	$21,731	$1,256,139
AgriBank, FCB						
L. William York, CEO(2)	2007	441,667	204,889	33,567	33,901	714,024
CoBank, ACB						
Robert B. Engel, President and CEO(3).	2007	491,667	1,888,324	833,281	26,486	3,239,758
Farm Credit Bank of Texas						
Larry R. Doyle, CEO(4)	2007	440,017	560,000	1,884,534	22,017	2,906,568
U.S. AgBank, FCB						
Darryl W. Rhodes, President and CEO(5)	2007	438,901	340,000	1,237,759	41,627	2,058,287
Federal Farm Credit Banks Funding Corporation						
Jamie B. Stewart, Jr., President and CEO(6)	2007	400,000	575,000	112,006	54,658	1,141,664

* While preferential earnings on nonqualified deferred compensation are required to be reported with the change in pension value, the CEOs did not receive any preferential earnings in 2007.

(1) The Compensation Committee of the Board of Directors reviews Mr. Lowrey's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. There is no employment agreement for Mr. Lowrey.

(2) The Compensation Committee of the Board of Directors reviews Mr. York's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. While being employed "at will," with no specified term of employment, the agreement provides that if Mr. York is terminated for any reason other than cause, his base salary and the employer-paid portion of medical and dental benefits will be continued for 12 months. In the event of a change in control and Mr. York is not named to the new CEO position, or a substantially similar role, in the successor organization, Mr. York will be given a severance payment equal to 24 months total compensation. Total compensation is defined as base pay plus annual incentive compensation. The annual incentive amount will be based on the average of the annual incentive earned for the two most recently completed annual incentive periods. In addition, the employer-paid portion of medical and dental benefits will be continued for 18 months.

(3) The Compensation Committee of the Board of Directors reviews Mr. Engel's performance semi-annually, and the board annually approves his compensation level, including base salary, short-term and long-term incentive compensation. Mr. Engel is employed pursuant to an employment agreement that provides specified compensation and related benefits upon the occurrence of a triggering event, which is defined as termination without cause, constructive termination or a change in control. The employment agreement provides for the (a) payment of the prorated base salary and incentives through the date of the termination, (b) a severance payment equal to three times the sum of base salary and short-term incentives at target, (c) enhanced retirement benefits if the termination results from a change in control, (d) the continued participation in the Bank's health and welfare benefits, and (e) certain other benefits to the same extent as such benefits were being provided on the date of termination. Severance is payable in monthly installments over the three year severance period. In order to receive severance and other benefits, Mr. Engel must sign a release agreeing to give up any claims, actions or lawsuits against CoBank related to his employment. The agreement also provides for non-competition and non-solicitation by the President and CEO over the term of the severance period.

(4) The Compensation Committee of the Board of Directors reviews Mr. Doyle's performance annually, and the Board of Directors annually approves his compensation level, including base salary and incentive compensation. While being employed "at will," with no specified term of employment, Mr. Doyle will receive a set severance amount if terminated for any reason other than cause and will receive a guarantee of bridging of time and service to satisfy the pension rule of 85, i.e., credit for additional time and service so that there is no reduction in pension benefits, if such termination should occur before Mr. Doyle reaches the rule of 85 for pension benefits. The agreement also provides for a guarantee of a minimum compensation level, consisting of base salary and incentive compensation during employment.

(5) The Compensation Committee of the Board of Directors reviews Mr. Rhodes' performance annually, and the board annually approves his compensation level, including base salary and short-term and long-term incentive compensation. Mr. Rhodes is employed "at will" with no specified term of employment. No termination benefits are provided to the President and CEO under the employment agreement.

(6) The Compensation Committee of the Board of Directors reviews Mr. Stewart's performance annually and the Board of Directors annually approves the compensation level, including base salary and incentive compensation. While being employed "at will," with no specified

term of employment, the agreement provides that if Mr. Stewart is terminated for any reason, he will receive a severance benefit equal to six months base salary.

Pensions Benefits for the Year Ended December 31, 2007

Additional information on each Bank's pension benefits can be obtained by reference to the discussions provided in the Bank's annual report.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit
AgFirst Farm Credit Bank			
F. A. Lowrey, President and CEO(1)	AgFirst Farm Credit Retirement Plan	33.33	$1,418,699
	AgFirst Farm Credit Bank Supplemental Retirement Plan	33.33	2,542,885
AgriBank, FCB			
L. William York, CEO(2)	Seventh Farm Credit District Retirement Plan	17.92	$ 137,013
CoBank, ACB			
Robert B. Engel, President and CEO(3)	CoBank, ACB Retirement Plan	7.58	$ 134,218
	Supplemental Executive Retirement Plan	7.58	539,221
	Executive Retirement Plan	7.58	2,337,940
Farm Credit Bank of Texas			
Larry R. Doyle, CEO(4)	Farm Credit Bank of Texas Pension Plan	33.58	$ 823,761
	Supplemental Pension Plan for Farm Credit Bank of Texas	33.58	5,867,225
U.S. AgBank, FCB			
Darryl W. Rhodes, President and CEO(5)	Ninth District Pension Plan	36.93	$1,342,523
	U.S. AgBank Pension Restoration Plan	36.93	2,601,282
	Supplemental Executive Retirement Plan	36.93	547,785
Federal Farm Credit Banks Funding Corporation			
Jamie B. Stewart, Jr., President and CEO(6)	CoBank, ACB Retirement Plan	3.92	$ 134,666
	Supplemental Executive Retirement Plan	3.92	976,534

Note: No pension benefit payments were made to any CEO during 2007.

(1) The AgFirst President and CEO participates in a defined benefit retirement plan. The President and CEO is eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2% times years of credited service times the high three-year average compensation, subject to the Internal Revenue Code limitation of $335,000 for 2007. For the purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include bonuses or non-equity incentive plan compensation). Benefits under the plan are payable as a five-year certain and life annuity. Benefits under the plan are not subject to an offset for Social Security. Benefits that would have accrued had the IRS limits not been in place are made up through a non-qualified supplemental executive retirement plan.

(2) The AgriBank CEO has a frozen benefit that he earned under the final average pay formula of the defined benefit retirement plan for his prior service with the AgriBank District. Upon his rehire, he began earning benefits under the cash balance defined benefit retirement plan formula; however, credit is provided for his prior service. His benefit is based on the Internal Revenue Code limitation of $335,000 for 2007 at the contribution rate of 8%. In addition, he will receive an integrated contribution of 5% for all pay over the social security wage base of $97,500 for 2007 up to the IRS compensation limit. Pay in excess of the IRS limit is excluded from his qualified retirement benefit.

(3) The CoBank President and CEO participates in a final average pay defined benefit retirement plan, a noncontributory plan, an unfunded supplemental retirement plan and an unfunded executive retirement plan and is eligible to participate in a 401(k) retirement savings plan, which includes a matching contribution by the Bank. The President and CEO is also eligible for other postretirement benefits, upon reaching normal retirement age. These primarily include access to medical plans. Participants in these other postretirement plans pay the premiums related to the plans. Eligible compensation as defined under the final average pay defined benefit plan is the highest 60 consecutive-month average, which includes base salary and incentive compensation measured over a period of one year or less, but

excludes long-term incentive awards, expense reimbursements, taxable fringe benefits and certain other payments. Compensation in excess of the Internal Revenue Service Code limits is made up for via participation in an unfunded, non-qualified supplemental executive retirement plan. Retirement benefits are payable in the form of a single life annuity with five years certain and calculated assuming retirement at normal retirement age of 65. The plan requires five years of service to become vested. The benefit formula is 1.5% of eligible compensation up to the Social Security covered compensation plus 1.75% of eligible compensation in excess of Social Security covered compensation, all multiplied by years of service. In addition, a new unfunded executive retirement plan has been adopted for the President and CEO. The President and CEO's agreement provides for a minimum retirement benefit of 30% of eligible compensation as of December 31, 2007, increasing to a maximum of 55% of eligible compensation as of December 31, 2015, with no reduction for early retirement. In order to enhance the retention of the President and CEO, the executive retirement plan provides for an approximate 50% reduction in the target benefit level if the President and CEO voluntarily terminates employment on or before December 31, 2010. Further, the executive retirement plan provides that the maximum, total retirement benefit payable per year will not exceed $700,000, expressed as a five year certain and life annuity.

(4) The FCB of Texas CEO participates in a defined benefit retirement plan and in a supplemental executive retirement plan that restores benefits otherwise restricted by Internal Revenue Code limits in the retirement plan. Compensation, as defined in the plans, includes the sum of wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes accrued annual leave that may be paid in cash at the time of termination or transfer of employment, severance payments, retention bonuses, taxable fringe benefits and any other payments. Pension benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produces the highest average out of the last 120 months of employment (FAC 60). The benefit formula is the sum of 1.65% of FAC 60 plus 0.50% of FAC 60 in excess of Social Security covered compensation times years of service. There is an offset amount from another Farm Credit System institution for the CEO. The present value of the accumulated benefits are calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 55. The pension plan benefits are payable in the form of a 50% joint and survivor annuity with a spouse two years younger. Benefits from the supplemental plan are payable as a lump sum value with a gross-up for income taxes as the benefit is fully taxable to the recipient upon distribution from the plan.

(5) The U.S. AgBank President and CEO participates in two defined benefit pension plans: the retirement plan, a tax-qualified pension plan, and the pension restoration plan, a nonqualified plan. Additionally, he participates in a supplemental executive retirement plan and is also eligible to participate in a 401(k) defined contribution plan with an employer matching contribution. The qualified pension plan provides a 50% joint-and-survivor annuity benefit at normal retirement equal to 1.50% of the 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 all compensation up to the Internal Revenue Code limitation of $335,000 for 2007. The pension restoration plan is to provide the portion of the employee's benefit that cannot be paid from the pension plan due to the IRS limitation. Benefits payable under the pension restoration plan are offset by the benefits payable from the pension plan. The balance not paid out is credited an annual earnings rate of 8.0%. The provisions of the supplemental executive retirement plan are the same as the other plans except the final average earnings are the average of the highest 36 consecutive calendar months of compensation. Benefits payable under the supplemental executive retirement plan are offset by the benefits payable from the pension and pension restoration plans. The balance not paid out is credited an annual earnings rate of 8.0%.

(6) The Funding Corporation President and CEO participates in a final average pay defined benefit retirement plan and participates in a 401(k) retirement savings plan, which includes a matching contribution by the Funding Corporation. Additionally, he participates in a supplemental executive retirement plan. The retirement plan benefits are payable in the form of a single life annuity with five years certain and calculated assuming retirement at normal retirement age of 65. The plan requires five years of vesting service to become vested. The 2007 compensation covered by the retirement plan is subject to Internal Revenue Code limitations. The supplemental executive retirement plan ensures, among other things, that the President and CEO receives the full amount of benefits to which he would have been entitled in the absence of limits on benefit levels imposed by the Internal Revenue Code. For the President and CEO, this plan provides a potential supplemental retirement benefit based on 30% of the highest four-year average of base salary plus 25% of incentive compensation. These benefits become 100% vested upon the completion of six years of service. Additional benefits can be incrementally earned up to a maximum 50% upon completion of 10 years of service. The annual benefits payable from the supplemental executive retirement plan are offset by annual benefits payable from the retirement plan.

AUDIT COMMITTEE REPORT

The Farm Credit Administration regulations with respect to disclosure to investors in Systemwide Debt Securities require the board of directors of the Funding Corporation to establish and maintain a System Audit Committee. These regulations specify that the System Audit Committee may not consist of less than three members and at least one member must be a financial expert. A financial expert must be the chairman of the System Audit Committee. Every member must be free from any relationship that, in the opinion of the board of directors of the Funding Corporation, would interfere with the exercise of independent judgment as a System Audit Committee member. The System Audit Committee reports to the board of directors of the Funding Corporation. The charter can be found on the Funding Corporation's website at www.farmcredit-ffcb.com. The responsibilities of the System Audit Committee include:

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

The System Audit Committee has reviewed and discussed the System's 2007 combined financial statements and the System's report on internal control over financial reporting, which were prepared under the oversight of the System Audit Committee, with senior management of the Funding Corporation and the independent auditors. In addition, the System Audit Committee discussed with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 114.

The System Audit Committee has also received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, and has discussed with the independent auditors their independence.

Based on the review and discussions referred to above, the System Audit Committee recommended that the audited combined financial statements be included in the System's *Annual Information Statement — 2007.*

Arthur R. Wyatt (Chairman)
William F. Staats (Vice Chairman)
Robert M. Tetrault
Ann E. Trakimas
Robert G. Weber

AUDIT FEES

The following table sets forth the aggregate fees billed for professional services rendered for the System by its independent auditor, PricewaterhouseCoopers LLP, for the years ended December 31, 2007 and 2006:

	2007	2006
	(in thousands)	
Audit	$8,087	$7,539
Audit-related	404	137
Tax	331	204
All Other	27	32
Total	$8,849	$7,912

The *Audit* fees were for professional services rendered for the audits of System entities and the audit of the System's internal control over financial reporting.

The *Audit-related* fees were for assurance and related services related to employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations, internal control attestations, and consultations concerning financial accounting and reporting standards.

Tax fees were for services related to tax compliance, including the preparation of tax returns and claims for refunds, and tax planning and tax advice.

All Other fees were for services rendered for information technology consulting, treasury advisory services and other advisory and assistance services, which were approved by the appropriate audit committee.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2007, the Funding Corporation carried out an evaluation under the supervision and with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of the Funding Corporation's disclosure controls and procedures[1] with respect to this annual information statement. This evaluation relies upon the evaluations made by the individual Banks and the related certifications they provide to the Funding Corporation. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the reports it files or submits to the Farm Credit Administration. There have been no significant changes in the Funding Corporation's internal control over financial reporting[2] that occurred during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Funding Corporation's internal control over financial reporting.

[1] For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this annual information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

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

CERTIFICATION

I, Jamie B. Stewart, Jr., certify that:

1. I have reviewed the *Annual Information Statement — 2007* of the Farm Credit System.

2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures[1] and internal control over financial reporting[2] for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and

(d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.

Jamie B Stewart

Jamie B. Stewart, Jr.
President and CEO

Date: February 28, 2008

[1] See footnote 1 on page S-23.

[2] See footnote 2 on page S-23.

CERTIFICATION

I, H. John Marsh, Jr., certify that:

1. I have reviewed the *Annual Information Statement — 2007* of the Farm Credit System.

2. Based on my knowledge, this annual information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this annual information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this annual information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures[1] and internal control over financial reporting[2] for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this annual information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this annual information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual information statement based on such evaluation; and

(d) disclosed in this annual information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's auditors and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.

H. John Marsh Jr.

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

Date: February 28, 2008

[1] See footnote 1 on page S-23.

[2] See footnote 2 on page S-23.

INDEX TO ANNUAL INFORMATION STATEMENT

* As used herein, the references to "Notes" mean the Notes to Combined Financial Statements found on pages F-8 through F-40 of this annual information statement.

FARM CREDIT SYSTEM ENTITIES (As of January 1, 2008)

BANKS

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000

AgriBank, FCB
375 Jackson Street
St. Paul, MN 55101-1810
(651) 282-8800

CoBank, ACB
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400

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

CERTAIN OTHER ENTITIES

Farm Credit Leasing Services Corporation
600 Highway 169 South, Suite 300
Minneapolis, MN 55426-1219
(952) 417-7800

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place, Suite 1401
Jersey City, NJ 07302-3913
(201) 200-8000

FCS Building Association
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

The Farm Credit Council
50 F Street, NW
Washington, DC 20001-1530
(202) 626-8710

ASSOCIATIONS

AgFirst District

AgCarolina Financial, ACA
4000 Poole Road
Raleigh, NC 27610-2923

AgChoice Farm Credit, ACA
900 Bent Creek Blvd.
Mechanicsburg, PA 17050-1860

AgCredit ACA
610 W. Lytle Street
Fostoria, OH 44830-3422

AgGeorgia Farm Credit, ACA
826 Bellevue Avenue
Dublin, GA 31021

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458

ArborOne, ACA
2229 South Irby Street
Florence, SC 29505

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28301

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625

Central Kentucky AgCredit
640 S. Broadway, Room 108
Lexington, KY 40588

Chattanooga ACA
2826 Amnicola Highway
Chattanooga, TN 37406-5220

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111-0727

Farm Credit of Central Florida, ACA
115 S. Missouri Avenue, Suite 400
Lakeland, FL 33815

Farm Credit of North Florida, ACA
12300 U.S. Highway 441
Alachua, FL 32615

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446

Farm Credit of South Florida, ACA
11903 Southern Blvd.
Suite 200
Royal Palm Beach, FL 33411

Farm Credit of Southwest Florida, ACA
330 North Brevard Avenue
Arcadia, FL 34266-4502

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401-6711

First South Farm Credit, ACA
713 S. Pear Orchard Road, Suite 300
Ridgeland, MS 39157

Jackson Purchase ACA
328 East Broadway
Mayfield, KY 42066

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157

Puerto Rico Farm Credit, ACA
213 Domenech Avenue
Hato Rey, PR 00918

Southwest Georgia Farm Credit, ACA
117 South Donalson Street
Bainbridge, GA 39817

Valley Farm Credit, ACA
125 Prosperity Drive
Winchester, VA 22602

AgriBank District

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761

AgCountry Farm Credit Services, ACA
1900 44th Street South
Fargo, ND 58108-6020

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201

AgStar Financial Services, ACA
1921 Premier Drive
Mankato, MN 56002-4249

Badgerland Farm Credit Services, ACA
315 Broadway
Baraboo, WI 53913-0069

Delta ACA
118 E. Speedway
Dermott, AR 71638

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404

Farm Credit Services of America, ACA
5015 So 118th Street
Omaha, NE 68137

Farm Credit Services of Illinois, ACA
2101 W. Park Court
Champaign, IL 61821

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554-5501

Farm Credit Services of Mid-America, ACA
1601 UPS Drive
Louisville, KY 40232-4390

Farm Credit Services of North Dakota, ACA
3100 10th Street, SW
Minot, ND 58702-0070

Farm Credit Services of Western Arkansas, ACA
3115 West 2nd Court
Russellville, AR 72801

FCS Financial, ACA
1934 E. Miller Street
Jefferson City, MO 65101-3881

GreenStone Farm Credit Services, ACA
1760 Abbey Road
East Lansing, MI 48823

Progressive Farm Credit Services, ACA
240 North Kingshighway
Sikeston, MO 63801

United Farm Credit Services, ACA
3881 Abbott Drive
Willmar, MN 56201-1560

CoBank District

Farm Credit of Maine, ACA
615 Minot Avenue
Auburn, ME 04210

Farm Credit of Western New York, ACA
4363 Federal Drive
Batavia, NY 14020-4105

First Pioneer Farm Credit, ACA
174 South Road
Enfield, CT 06082-4414

Northwest Farm Credit Services, ACA
1700 South Assembly Street
Spokane, WA 99220

Yankee Farm Credit, ACA
289 Hurricane Lane, Suite 102
Williston, VT 05495

Texas District

AgCredit of South Texas, ACA
555 South International Boulevard
Weslaco, TX 78596

Ag New Mexico, Farm Credit Services, ACA
233 Fairway Terrace North
Clovis, NM 88101

AgriLand, Farm Credit Services
3210 W. Northwest Loop 323
Tyler, TX 75702

AgTexas Farm Credit Services
6901 Quaker Avenue, Suite 300
Lubbock, TX 79413

Capital Farm Credit, ACA
507 E. 26th Street
Bryan, TX 77803

Central Texas Farm Credit, ACA
215 W. Elm Street
Coleman, TX 76834

Federal Land Bank Association of North Alabama, FLCA
1949 St. Joseph Drive, N.W.
Cullman, AL 35055

Federal Land Bank Association of
North Mississippi, FLCA
5509 Highway 51 North
Senatobia, MS 38668

Federal Land Bank Association of South Alabama, FLCA
7602 Halcyon Summit Drive
Montgomery, AL 36117

First Ag Credit, Farm Credit Services
5715 50th Street
Lubbock, TX 79414-1613

Great Plains Ag Credit, ACA
5701 I-40 West
Amarillo, TX 79106

Heritage Land Bank, ACA
4608 Kinsey Drive, Suite 100
Tyler, TX 75703

Land Bank South
132 Riverview Drive, Suite C
Flowood, MS 39232

Legacy AgCredit, ACA
303 Connally Street
Sulphur Springs, TX 75482

Lone Star, ACA
1612 Summit Drive, Suite 300
Fort Worth, TX 76102

Louisiana Ag Credit, ACA
1564 North Hazel Street
Arcadia, LA 71001

Louisiana Federal Land Bank Association, FLCA
2413 Tower Drive
Monroe, LA 71201

Panhandle-Plains Land Bank, FLCA
5700 Southwest 45th
Amarillo, TX 79109-5204

Texas AgFinance, Farm Credit Services
545 South Highway 77
Robstown, TX 78380

Texas Land Bank, ACA
13525 Sandalwood Drive
Waco, TX 76712

U.S. AgBank District

AgPreference, ACA
3120 North Main
Altus, OK 73521

American AgCredit, ACA
200 Concourse Boulevard
Santa Rosa, CA 95403

Chisholm Trail Farm Credit, ACA
805 Chisholm Trail
Enid, OK 73703

Farm Credit of Central Oklahoma, ACA
Mission and Georgia
Anadarko, OK 73005

Farm Credit of Enid, ACA
1605 W. Owen K. Garriott Road
Enid, OK 73703

Farm Credit of Ness City, FLCA
114 West Main Street
Ness City, KS 67560

Farm Credit of New Mexico, ACA
3121 Carlisle Boulevard, N.E.
Albuquerque, NM 87110

Farm Credit of Southern Colorado, ACA
3625 Citadel Drive South
Colorado Springs, CO 80909

Farm Credit of Southwest Kansas, ACA
1606 E. Kansas Avenue
Garden City, KS 67846

Farm Credit of Western Kansas, ACA
1055 South Range Avenue
Colby, KS 67701

Farm Credit of Western Oklahoma, ACA
3302 Williams Avenue
Woodward, OK 73801

Farm Credit Services of Central Kansas, ACA
7940 W. Kellogg Drive
Wichita, KS 67209

Farm Credit Services of Colusa-Glenn, ACA
605 Jay Street
Colusa, CA 95932

Farm Credit Services of East Central Oklahoma, ACA
601 E. Kenosha Street
Broken Arrow, OK 74012

Farm Credit Services of Hawaii, ACA
2850 Pa'a Street, Suite 100
Honolulu, HI 96819

Farm Credit Services of The Mountain Plains, ACA
4505 29th Street
Greeley, CO 80634

Farm Credit Services Southwest, ACA
3003 S. Fair Lane
Tempe, AZ 85282

Farm Credit West, ACA
2929 West Main Street
Visalia, CA 93291

Federal Land Bank Association of Kingsburg, FLCA
1580 Ellis Street
Kingsburg, CA 93631

Federal Land Bank Association of Ponca City, FLCA
1909 E. Lake Road
Ponca City, OK 74604

Fresno-Madera Farm Credit, ACA
4635 West Spruce Ave.
Fresno, CA 93722

Frontier Farm Credit, ACA
2401 N. Seth Child Road
Manhattan, KS 66502

High Plains Farm Credit, ACA
605 Main Street
Larned, KS 67550

Idaho Agricultural Credit Association
188 West Judicial
Blackfoot, ID 83221

Northern California Farm Credit, ACA
3435 Silverbell Road
Chico, CA 95973

Premier Farm Credit, ACA
202 Poplar Street
Sterling, CO 80751

Sacramento Valley Farm Credit, ACA
283 Main Street
Woodland, CA 95695

Western AgCredit, ACA
10980 South Jordan Gateway
South Jordan, UT 84095

Yosemite Farm Credit, ACA
800 West Monte Vista Avenue
Turlock, CA 95382