



American AgCredit

Money for Agriculture



CELEBRATING THE PAST / EMBRACING THE FUTURE

■ **THE FARM CREDIT SYSTEM** celebrated its 90th anniversary of service on July 17, the date when President Woodrow Wilson signed the Federal Farm Loan Act in 1916.

Today, with more than \$106 billion in loans financing agriculture and its related cooperatives, rural home buyers, small community infrastructure and the export of U.S. farm commodities, the Farm Credit System is the oldest and largest financial cooperative in the nation.

Looking ahead to the future, the Farm Credit System will continue to pursue its mission to maintain the quality of life in rural America and on the farm by ensuring the availability of sound, dependable funding for a variety of financial needs. Last year, Farm Credit undertook an unprecedented system-wide initiative to fully assess the state of U.S. agriculture and rural America and to evaluate the System's ability to continue to fulfill its mission.

The key finding of HORIZONS is that changes in agriculture and rural America demand novel financial solutions and strategies for a marketplace that is more diverse, complex, and consumer-driven than ever before. Here is a brief look at what was revealed through our research:

There is tremendous diversity in size, annual revenue, ownership structure and marketing approaches, as well as in the

age, ethnicity and gender of the owners and operators of today's farms.

Farmers are diversifying their business interests both within and outside agriculture. The overwhelming majority of all farmers, but especially small-sized operations, rely on off-farm employment to stay in agriculture.

Farmers depend on a wide range of businesses that may or may not be owned by farmers, and they may or may not be located in a rural community, but all are essential to the economic viability and quality of life for farmers.

While the number of farmers, the jobs in agriculture and agriculturally related industries, and the number of counties and communities that rely on agriculture for their economic well being have all declined, the future of U.S. agriculture remains bright.

Future possibilities are expanding, not contracting.

It is becoming increasingly difficult to define a "rural" community solely by population or traditional qualities.

Regional collaboration, public-private partnerships and coalitions of investors are key to the future of many rural communities. To create new jobs, attract new

business and foster an environment for future economic development, agriculture and rural America will need to find new ways to reinvest farm real estate equity.

As skilled, experienced and innovative business owners, today's rural entrepreneurs, including farmers, ranchers and producers alike, will continue to need access to capital, essential infrastructure, and business support services for that entrepreneurial engine to continue to spur rural economic growth.

The diverse farms, rural businesses and rural communities of the 21st

Century need ongoing access to dependable, flexible and

competitive financial products and services to compete and thrive in this global and rapidly changing environment.

The institutions that make up the Farm Credit System are currently reviewing the HORIZONS findings and proposed recommendations in order to first, develop a consensus within the System about what changes are required to ensure that Farm Credit can effectively and efficiently serve rural America and second, to take action to ensure that Farm Credit is able to continue its historic mission to serve agriculture and rural America. ♦

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A MESSAGE FROM RON CARLI, PRESIDENT AND CEO



■ FINANCIAL AND OPERATING PERFORMANCE

Following on a robust first quarter, your Association's second quarter 2006 results continue to provide a concrete foundation for a successful year. Net income is up both quarter-over-quarter and year-over-year, as is loan volume. Credit quality remains outstanding, despite some weather and commodity related challenges facing our members. We are on track for a solid 2006!

■ PORTFOLIO UPDATE

As noted above, we saw increased growth in the commercial loan portfolio resulting, in part, from our customers' increased borrowings to meet higher fuel, fertilizer and other expenses. For some borrowers, credit needs were exacerbated by lower commodity prices in addition to higher costs of production.

As anticipated, heavy spring rains affected tree fruit crop production. However, early forecasts suggest that most grape crop varieties seem to have survived well, with the possible exception of some chardonnay and pinot noir grape varieties.

While beef cattle producers continue to enjoy a second year of strong prices, dairies are suffering from persistent low milk prices. Low commodity prices coupled with higher feed and production costs have resulted in some pressure on the dairy sector, which represents roughly 20% of our portfolio.

American AgCredit's account officers remain on top of the myriad of issues facing every sector of our portfolio, from environmental to economic matters, and everything in between. The Association's ability to anticipate, understand and respond to factors that affect our customers is one of the ways in which American AgCredit differentiates itself and strives to be a market leader. We understand the

stresses facing our customers, and strive to support them to the best of our abilities, within the confines in which we operate.

■ FINANCIAL RESULTS – SIX MONTHS ENDED JUNE 30, 2006

Earnings: Net income for the first half of 2006 totaled \$26.8 million, \$3.7 million or 16% higher than the same period of 2005. Increased borrowings, discussed above, boosted the second quarter's interest income.

Net interest income: Net interest income for the first six months of 2006 totaled \$40.2 million, \$5.3 million (15%) above the same period of 2005, reflective of increased market rates combined with increased borrowing in the commercial area.

Total income: Total income before operating expenses equaled \$49.8 million, \$6.4 million (15%) above the first half of 2005's result. The US AgBank patronage dividend of \$5.8 million received during the first half of 2006 was \$1.1 million above the patronage dividend received during the same period of 2005.

Operating expenses: total operating expenses equaled \$23.6 million for the first half of 2006, \$1.4 million (6%) higher than the first half of 2005's result. The increase in operating expenses was substantially less than the proportionate increase in revenues, indicating increased efficiency.

Loan volume: At June 30, 2006, total accrual loans equaled \$2,617.0 million, 4.3% (\$107.4 million) above the total accrual loans at June 30, 2005. Increased volume is noted in both commercial loans (11%) and mortgage loans (2%), and may be reflective of increased borrowing to meet rising costs associated with fuel, fertilizer, interest and other expenses, coupled with lower commodity prices.

Credit quality: At only \$7.5 million at June 30, 2006, non-accrual loans represent less than one percent of the Association's total loan volume. This represents a \$5.3 million improvement over June 30, 2005's total non-accrual loans of \$12.8 million.

Capital: The Association's capital remains strong, with the regulatory capital ratio at March 31, 2006 at 18.8% in contrast to the minimum required ratio of 7.0%.

■ FINANCIAL RESULTS – QUARTER ENDED JUNE 30, 2006

Earnings: Net income for the second quarter of 2006 totaled \$13.5 million, up \$1.7 million or 14.5% over second quarter 2005's net income of \$11.8 million.

Net interest income: Net interest income for the quarter ended June 30, 2006 was \$20.2 million, up \$2.2 million or 12% over the quarter ended June 30, 2005.

Loan volume: Net loans at June 30, 2006 totaled \$2,619.0 million, up \$59.4 million or 2.3% over March 31, 2006 net loans of \$2,559.7 million.

■ H STOCK

At June 30, 2006, \$35.0 million of H Stock was outstanding. This represents a \$42.8 million reduction in the outstanding H Stock balance from March 31, 2006 of \$77.8 million. We are hopeful that our shareholders will take advantage of the H Stock program and that additional H Stock investments will be made over upcoming months. H Stock is currently accruing quarterly dividends at the rate of 5.25% annually.

■ LOOKING FORWARD

In regards to a new location for the Stockton office, we are in negotiations for one of two sites and hope to make an announcement in the near future.

2006 is shaping up to be another good year for your Association. We continue to focus on loan growth, while maintaining our uncompromising emphasis on credit quality and our commitment to exceptional customer service. ♣

CUSTOMER EVENTS

August 30

Elko Customer Appreciation Dinner
Elko Basque Club House

October 12

Fallon Customer Appreciation Dinner
Fallon Community Center

October 16

Salinas Golf Tournament

October 23

Salinas Golf Tournament
Corral de Tierra Country Club

FINANCIAL STATEMENTS

(UNAUDITED AND IN \$000s)

STATEMENT OF CONDITION

	June 30		Dec. 31	
	2006	2005	2005	2004
ASSETS				
Loans	\$2,624,464	\$2,522,346	\$2,693,096	\$2,626,264
Less: allowance for loan losses	(5,416)	(9,809)	(6,557)	(12,164)
Net Loans	<u>2,619,048</u>	<u>2,512,537</u>	<u>2,686,539</u>	<u>2,614,100</u>
Investment in the U.S. AgBank	97,765	95,504	96,524	94,472
Investment in CoBank	9,287	9,136	9,136	8,764
Accrued interest receivable	35,896	28,981	28,264	22,811
Premises and equipment	20,510	20,531	21,132	16,671
Other Assets	6,921	4,540	4,301	7,222
Total Assets	<u>\$2,789,427</u>	<u>\$2,671,299</u>	<u>\$2,845,896</u>	<u>\$2,764,040</u>
LIABILITIES				
Note payable to U.S. AgBank	\$2,179,669	\$2,039,195	\$2,205,867	\$2,179,179
Funds Held Accounts	23,508	36,609	19,091	36,971
Accrued interest payable	9,243	6,614	8,394	5,955
Other liabilities	21,383	17,372	37,348	32,012
Total Liabilities	<u>\$2,233,803</u>	<u>\$2,099,790</u>	<u>\$2,270,700</u>	<u>\$2,254,117</u>
MEMBERS' EQUITY				
Common stock and participation certificates	\$3,220	\$3,282	\$3,279	\$3,682
Preferred stock	34,966	90,192	79,587	50,190
Unallocated retained earnings	517,438	477,965	492,459	456,051
Total Members' Equity	<u>555,624</u>	<u>571,439</u>	<u>575,325</u>	<u>509,923</u>
Total Liabilities and Members' Equity	<u>\$2,789,427</u>	<u>\$2,671,299</u>	<u>\$2,845,896</u>	<u>\$2,764,040</u>

STATEMENT OF INCOME

	For the three months ended June 30		For the six months ended June 30	
	2006	2005	2006	2005
Interest income	\$47,659	\$38,384	\$93,578	\$74,342
Interest expense	(27,438)	(20,316)	(53,413)	(34,683)
Net interest income	<u>20,221</u>	<u>18,068</u>	<u>40,165</u>	<u>39,659</u>
Other income	4,515	4,188	9,612	3,741
Reversal of Loan Loss Provision	293	673	974	2,208
Operating and other expenses	(11,317)	(10,771)	(23,622)	(22,232)
Income before taxes	13,712	12,158	27,129	23,376
Provision for income taxes	(164)	(329)	(370)	(329)
Net income	<u>\$13,548</u>	<u>\$11,829</u>	<u>\$26,759</u>	<u>\$23,047</u>



AMERICAN AgCREDIT, ACA

CENTRAL REGION

CORPORATE OFFICE
200 Concourse Boulevard
Santa Rosa, CA 95403
707/545-1200

SANTA ROSA OFFICE
200 Concourse Boulevard
Santa Rosa, CA 95403
707/545-7100

PETALUMA
1345 Redwood Way
Petaluma, CA 94954
707/793-9023

ST. HELENA
1101 Vintage Avenue
St. Helena, CA 94574
707/963-9437

UKIAH
455 E. Gobbi Street
Ukiah, CA 95482
707/462-6531

SALINAS REGION

SALINAS
924 E. Blanco Road
Salinas, CA 93901
831/424-1756

CENTRAL VALLEY REGION

LOS BANOS
515 J Street
Los Banos, CA 93635-4212
209/ 826-0320

MERCED
711 W. 19th Street
Merced, CA 95340-4606
209/ 384-1050

OAKDALE
700 N. Yosemite
Oakdale, CA 95361-2629
209/847-0353

TURLOCK
3201 W. Monte Vista Avenue
Turlock, CA 95380-3936
209/667-5101

NORTHERN REGION

EUREKA
5560 South Broadway
Eureka, CA 95503
707/445-8871

SOUTHERN CALIFORNIA REGION

INDIO
83-057 Requa Avenue
Indio, CA 92201-4631
760/342-4726

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960 Canterbury Place, Suite 210
Escondido, CA 92025
760/746-5055

ONTARIO
1910 S. Archibald Ave., Suite U-101
Ontario, CA 91761-8565
909/947-2371

RIVERSIDE
5005 Canyon Crest Drive
Riverside, CA 92507-6096
951/781-8100

STOCKTON REGION

STOCKTON
3984 Cherokee Road
Stockton, CA 95215
209/931-3770

INTERMOUNTAIN REGION

RENO
255 W. Peckham Lane
Reno, NV 89509
775/825-7282

ALTURAS
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Alturas, CA 96101
530/233-4304

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Elko, NV 89801
775/738-8496

FALLON
1440 W. Williams Avenue
Fallon, NV 89406
775/423-3136

TULELAKE
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Tulelake, CA 96134
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YREKA
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