

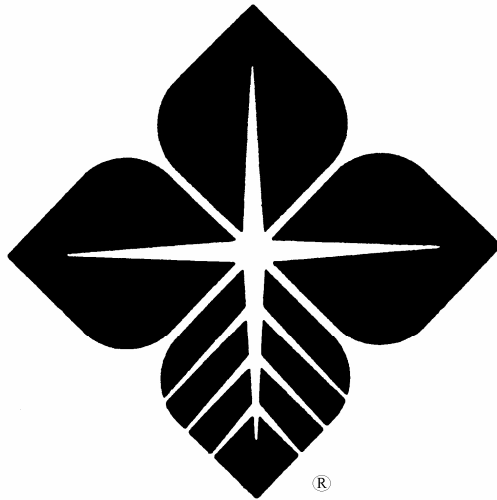
**2005  
ANNUAL REPORT**

**IDAHO AGRICULTURAL  
CREDIT ASSOCIATION**

and its wholly owned subsidiaries

**Idaho AgCredit, FLCA  
Idaho AgCredit, PCA**

*“Agriculture’s Premier Lender”*



*A part of the Farm Credit System*

IDAHO AGRICULTURAL CREDIT ASSOCIATION

2005 ANNUAL REPORT

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**IDAHO AGRICULTURAL CREDIT ASSOCIATION**  
**December 31, 2005**

**REPORT OF MANAGEMENT**

The financial statements of the Idaho Agricultural Credit Association (the Association) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles, and in the opinion of management, fairly present the financial condition of the Association.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are properly authorized and recorded. The systems have been designed to provide the information to facilitate the recognition of costs in relation to benefits derived. To monitor compliance, the Association's Internal Auditor, the U.S. AgBank, Farm Credit Bank of Wichita, Kansas (FCB), and an independent accounting firm perform reviews of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate.

The 2005 financial statements of Idaho Agricultural Credit Association were audited by Galusha, Higgins & Galusha, P.C. independent accountants. A copy of their report letter is presented later in this report.

The activities of the Association are also reviewed by the Farm Credit Administration (FCA), and certain actions of the Association are subject to approval by the FCB. Certain actions of the FCB are also subject to FCA approval.

The Annual Report of the FCB is available upon request. In the opinion of management, the financial statements herein fairly present the financial condition and results of operations of the Association.

The undersigned hereby certify that this report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of his/her knowledge and belief, dated this 15<sup>th</sup> day of February, 2006.

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Arnold Seeley, President &  
Chief Executive Officer

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Raymond G. Parks, Blackfoot  
Chairman of the Board

---

Colleen Adams, Secretary  
Treasurer & Chief Financial Officer

---

Mark R. Ricks, Felt  
Vice Chairman of the Board

---

Kenneth S. Black, Burley  
Director

---

K. Gregory Nickell, Blackfoot  
Director

---

W. Brock Driscoll, Aberdeen  
Director

---

Twain S. Hayden, Arbon  
Director

---

Keith S. Hinckley, Blackfoot  
Director

**IDAHO AGRICULTURAL CREDIT ASSOCIATION**  
**December 31, 2005**

**AUDIT COMMITTEE REPORT**

The Audit Committee (Committee) is composed of the entire Board of Directors of Idaho Agricultural Credit Association (Association). In 2005, twelve Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside accountants, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. In addition, the Committee approved the appointment of Galusha, Higgins & Galusha, PC (GH&G) as the Association's independent accountant for 2005. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for the Association's internal controls and the preparation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America. GH&G is responsible for performing an independent audit of the Association's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the audited combined financial statements for the year ended December 31, 2005 (the "Audited Financial Statements") with management and GH&G. The Committee also reviews with GH&G the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees), and both GH&G and the Association's internal auditor directly provide reports on significant matters to the Committee.

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

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's Annual Report to Stockholders for the year ended December 31, 2005.

Raymond G. Parks  
Chairman of the Audit Committee

Mark R. Ricks  
Kenneth S. Black  
W. Brock Driscoll

Twain S. Hayden  
Keith S. Hinckley  
K. Gregory Nickell

**IDAHO AGRICULTURAL CREDIT ASSOCIATION**  
**FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**  
(Dollars in thousands)

	December 31,				
	2005	2004	2003	2002	2001
<b>Balance Sheet Data</b>					
Loans	\$ 125,541	\$ 130,164	\$ 123,133	\$ 111,654	\$ 105,880
Less: allowance for loan losses	387	390	2,594	2,571	2,471
Net loans	<u>125,154</u>	<u>129,774</u>	<u>120,539</u>	<u>109,083</u>	<u>103,409</u>
Cash and investment securities	546	438	529	39	2,390
Accrued interest receivable	2,695	2,417	2,216	2,244	2,783
Investment in the District Farm					
Credit Bank	9,139	8,853	8,596	9,065	8,873
Other assets	952	865	1,382	1,647	1,570
<b>Total assets</b>	<u>\$ 138,486</u>	<u>\$ 142,347</u>	<u>\$ 133,262</u>	<u>\$ 122,078</u>	<u>\$ 119,025</u>
Obligations with maturities of one year or less	\$ 82,500	\$ 88,997	\$ 87,371	\$ 83,053	\$ 84,337
Obligations with maturities greater than one year	26,238	23,688	20,470	15,043	10,410
<b>Total liabilities</b>	<u>108,738</u>	<u>112,685</u>	<u>107,841</u>	<u>98,096</u>	<u>94,747</u>
<b>Members' equity</b>					
At-risk equity:					
Capital stock and participation certificates	241	2,614	2,427	2,197	3,182
Unallocated retained earnings	29,984	27,411	23,342	22,214	21,096
Accumulated other comprehensive loss	(477)	(363)	(348)	(429)	
<b>Total members' equity</b>	<u>29,748</u>	<u>29,662</u>	<u>25,421</u>	<u>23,982</u>	<u>24,278</u>
<b>Total liabilities and members' equity</b>	<u>\$ 138,486</u>	<u>\$ 142,347</u>	<u>\$ 133,262</u>	<u>\$ 122,078</u>	<u>\$ 119,025</u>
<b>Statement of Income Data</b>					
	For the Year Ended December 31,				
	2005	2004	2003	2002	2001
Net interest income	\$ 4,448	\$ 4,204	\$ 3,781	\$ 3,667	\$ 3,784
Patronage distributions from U.S. AgBank, FCB	621	386	192	215	256
Provision for (reversal of) loan losses	(16)	(2,207)	20	100	170
Noninterest expense, net	(2,349)	(2,226)	(2,699)	(2,637)	(2,523)
Provision for income taxes	(163)	(502)	(126)	(26)	(173)
<b>Net income</b>	<u>\$ 2,573</u>	<u>\$ 4,069</u>	<u>\$ 1,128</u>	<u>\$ 1,119</u>	<u>\$ 1,174</u>

**IDAHO AGRICULTURAL CREDIT ASSOCIATION**  
**FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**  
**-Continued-**

	December 31,				
	2005	2004	2003	2002	2001
<b>Key Financial Ratios</b>					
<b>For the year ended:</b>					
Return on average assets	<b>1.91%</b>	3.05%	0.91%	0.97%	1.00%
Return on average members' equity	<b>9.01%</b>	15.15%	4.63%	4.58%	4.94%
Net interest income as a percentage of average earning assets	<b>3.66%</b>	3.50%	3.40%	3.62%	3.73%
Net charge-offs (recoveries) as a percentage of average loans	<b>(.011%)</b>	(.002%)	(.003%)	0%	(.002%)
<b>At year end:</b>					
Members' equity as a percentage of total assets	<b>21.48%</b>	20.84%	19.08%	19.64%	20.40%
Debt as a ratio to members' equity	<b>3.66 to 1</b>	3.80 to 1	4.24 to 1	4.09 to 1	3.90 to 1
Allowance for loan losses as a percentage of loans	<b>0.31%</b>	0.30%	2.11%	2.30%	2.33%
Permanent capital ratio (rolling quarter average)	<b>21.56%</b>	19.22%	17.77%	19.36%	19.52%
Total surplus ratio	<b>21.36%</b>	17.18%	15.84%	17.35%	16.57%
Core surplus ratio	<b>16.64%</b>	12.89%	11.32%	11.37%	10.71%

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Dollars in thousands)

**INTRODUCTION**

The following discussion summarizes the financial position and results of operations of Idaho Agricultural Credit Association for the year ended December 31, 2005. Comparisons to prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that are reasonably likely to impact our financial condition and results of operation. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. We have reclassified certain amounts in prior years' financial statements to conform to current financial statement information. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Litigation
- Governance
- Customer Privacy

Our annual reports to shareholders are available on our website, [www.idahoagcredit.com](http://www.idahoagcredit.com), or our annual and quarterly reports may be obtained free of charge by calling (208) 785-1510 or by sending your request in writing to P.O.Box 985, Blackfoot, ID 83221. Annual reports are available approximately 90 days after year end and quarterly reports are available approximately 45 days after the calendar quarter end.

**BUSINESS OVERVIEW**

**Farm Credit System Structure and Mission**

We are one of the more than 96 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for almost 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products, and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration (FCA), which is an independent federal regulator.

**Our Structure and Focus**

As a cooperative, we are owned by the members we serve. The territory served extends across a diverse agricultural region of 24 counties in south and east Idaho and two counties in Wyoming. Refer to Note 1 of the accompanying financial statements for the counties in our territory. We make production and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses. Additionally, we provide other related services to our borrowers.

Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we can provide to our borrowers.

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

(Dollars in thousands)

-Continued-

We obtain the funding for our lending and operations from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which we are a member. AgBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the "District." We are materially affected by AgBank's financial condition and results of operations. The AgBank Annual Report to Shareholders, the AgBank District Annual Report to Shareholders and the AgBank and AgBank District's quarterly reports are available on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by contacting the AgBank Administrative office, 245 North Waco, P.O. Box 2940, Wichita, Kansas 67201-2940, or by calling (800) 322-9880. Annual reports are available approximately 90 days after year end and quarterly reports are available approximately 45 days after the calendar quarter end.

Effective October 1, 2003, the former Farm Credit Bank of Wichita (Wichita Bank) and the former Western Farm Credit Bank (Western Bank) merged to form AgBank. Prior to the merger, the banks had been jointly managed since January 1, 2002. The Western Bank provided our funding prior to October 1, 2003 and AgBank has been providing our funding since the merger.

### **FORWARD-LOOKING INFORMATION**

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-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 AND ESTIMATES**

Our financial statements are reported in conformity with accounting principles generally accepted in the United States of America. We consider our significant accounting policies to be 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. These policies are considered critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The following is a summary of certain critical policies.

#### **Allowance for Loan Losses**

The allowance for loan losses is our best estimate of the amount of probable losses inherent in our 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. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers 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.

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

(Dollars in thousands)

-Continued-

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, geographic, industry and other factors.

Changes in the factors we consider 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 results of operations.

**Valuation Methodologies**

We apply various valuation methodologies to certain assets and liabilities that often involve a significant degree of judgment. We utilize significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these are the valuation of impaired loans and pension and other postretirement benefit obligations. These valuations require the use of various assumptions, including, among others, discount rates, return on assets, repayment rates, cash flows, default rates, cost of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on our results of operations.

**ECONOMIC OVERVIEW**

During 2005, economic conditions in our region were positively affected by continuing favorable cattle prices and a continuing increase in real estate values. The potato acreage was reduced by a significant percentage and the after-harvest potato market regained profitability and is expected to remain profitable throughout the marketing season for the 2005 potato crop. While the drought which has been present for the last several years continued, both surface and ground water were generally sufficient to irrigate the crops to maturity. Hurricane Katrina, in the Gulf Coast Region, had an adverse impact on the sugar cane acreage in that area and a resultant increase in sugar beet prices to our growers is expected. The hurricane also had an adverse effect on energy and related items and fuel and fertilizer costs increased due to the hurricane and other factors, namely the turmoil in the Middle-east.

Prime interest rates increased eight times during the year from 5 ¼% January 1<sup>st</sup> to 7 ¼% at year-end. Variable interest rates generally followed the prime rate. Long term interest rates did not increase in proportion to short term rates. The Association generally passed these interest rate increases on to borrowers who had prime-based and/or variable interest rate loans.

Loan volume remained relatively constant over the year but 2005 net income increased due to the following:

- The Association received more interest income from its own loanable funds due to increased interest rates.
- The patronage allocations from AgBank were greater due to their increased earnings.
- The Association paid less income tax due to the Allowance for Loan Loss reduction in 2004 and the offsetting \$470 to the Deferred Tax Asset Account.

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

(Dollars in thousands)

-Continued-

**LOAN PORTFOLIO**

Total loan volume was \$125,541 at December 31, 2005, a decrease of \$4,622, or 3.6%, from loans at December 31, 2004 of \$130,164, and an increase of \$2,408, or 2.0%, from loans at December 31, 2003, of \$123,133. The decrease in loans from 2004 was due to the retirement of \$2,389 of borrower stock on January 1, 2005, and \$2,233 from loan repayments. The types of loans outstanding at December 31 are reflected in the following table.

	2005		2004		2003	
	Volume	Percent of Total	Volume	Percent of Total	Volume	Percent of Total
Production agriculture:						
Real estate mortgage	\$ 54,852	43.7%	\$ 57,619	44.3%	\$ 53,736	43.6%
Production & intermediate-term	56,823	45.3%	57,020	43.8%	55,742	45.3%
Agribusiness:						
Processing & marketing	547	.4%	2,006	1.5%	1,616	1.3%
Farm related business	577	.5%	626	.5%	60	.1%
Sales contracts	359	.3%	394	.3%	271	.2%
Participations purchased	12,383	9.8%	12,499	9.6%	11,709	9.5%
<b>Total</b>	<b>\$125,541</b>	<b>100.0%</b>	<b>\$130,164</b>	<b>100.0%</b>	<b>\$123,133</b>	<b>100.0%</b>

The Association currently has no communication, energy, aquatic, water/waste disposal, international, rural residential real estate, lease receivable loans and no loans to cooperatives.

In 2005, real estate mortgage volume decreased 4.8% compared to 2004 loan volume primarily due to \$1,180 member stock retirements and \$1,587 loan repayments. These loans are used to finance the long-term needs of agricultural producers and have maturities ranging from five years to 40 years. Rural residential mortgage loans are also made to non-farm rural homeowners. By law, real estate mortgage loans must be secured by first liens and may be made only in amounts up to 85 percent of the original appraised value of the property or up to 97 percent of appraised value if guaranteed by certain state, federal, or other governmental agencies. Refer to Note 5 of the Notes to the Financial Statements for more detail.

In 2005, production and intermediate-term loan volume decreased 0.3% compared to 2004 loan volume primarily due to the net effect between member stock reductions of \$1,209 and \$1,012 in increased loan volume. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans are most often written for a period of time that matches the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are typically used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 2 to 15 years with most loans not exceeding 10 years.

In 2005, processing & marketing loan volume decreased by 72.7% compared to 2004 loan volume primarily due to earlier than usual, seasonal repayments and member stock retirement. Farm related business loan volume decreased by 7.8% compared to 2004 loan volume primarily due to earlier than usual, seasonal repayments and member stock retirement. The 8.9% decrease in sales contracts and the .9% decrease in participations purchased over 2004 loan volume are a direct result of repayments. (These two types of loans do not carry stock.)

Participations purchased represent approximately 18.3% of real estate mortgage volume and 0% production and intermediate-term volume as of December 31, 2005.

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

(Dollars in thousands)

-Continued-

**Loan Portfolio Diversification**

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by participations purchased and sold, geographic locations served and commodities financed, as illustrated in the following three tables.

We purchase participation interests in loans from other System and non-System entities to generate additional earnings and in some cases diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with lending limits we have established. The volume of participations purchased and sold as of December 31 follows.

	2005	2004	2003
Participations purchased	\$ 12,383	\$ 12,499	\$ 11,709
Participations sold	\$ 17,262	\$ 15,710	\$ 12,560

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loans outside our territory. These participations purchased are included in "Other" in the following table.

County (in Idaho unless denoted Wyoming)	2005	2004	2003
Bannock	13	12	32
Bear Lake	206	160	139
Bingham	34,553	34,802	33,766
Blaine	63	87	76
Bonneville	3,536	4,243	4,704
Butte	2,282	2,389	2,152
Camas	40	41	33
Caribou	4,945	3,878	3,410
Cassia	2,844	3,615	3,564
Clark	123	0	1
Custer	1,968	2,376	1,949
Franklin	0	0	5
Fremont	14,138	13,944	12,427
Gooding	571	611	931
Jefferson	9,401	7,772	7,964
Jerome	4,687	4,642	4,019
Lemhi	409	460	463
Lincoln	1,258	1,509	867
Madison	12,138	12,854	12,525
Minidoka	1,742	1,779	685
Power	10,971	15,161	13,992
Teton	5,989	5,805	5,825
Twin Falls	1,280	1,367	1,117
Lincoln & Teton Counties, Wyoming	0	157	777
Other	12,383	12,499	11,709
Totals	\$ 125,541	\$ 130,164	\$ 123,133

Bingham County has a large concentration of potatoes and sugar beets, which require extensive capital. Fremont and Madison counties also have a large concentration of potato acreage. Power county has large concentrations of potatoes, grain and sugar beet acreages.

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

(Dollars in thousands)

-Continued-

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. The following table shows the primary agricultural commodities produced by our borrowers based on Standard Industrial Codes (SIC) as of December 31.

	<b>2005</b>	2004	2003
Potatoes	<b>31.2%</b>	33%	33%
Grain (wheat, malt and feed barley)	<b>20.3%</b>	20%	19%
Beef cattle	<b>8.0%</b>	8%	10%
Milk and dairy cattle	<b>9.2%</b>	9%	7%
Sugar beets	<b>6.6%</b>	7%	7%
Other	<b>24.70%</b>	23%	24%
<b>Total</b>	<b>100%</b>	100%	100%

Our loan portfolio contains a concentration of potato and grain producers. Repayment ability of our borrowers is closely related to the production and the profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by the industry economics. Diversification is also achieved from loans to rural residents and part-time farmers which typically derive most earnings from nonagricultural sources, and are less subject to agricultural cycles. These borrowers would be more affected by the strength of the general economy. The percentage of loan volume derived from nonagricultural sources for the years 2005, 2004 and 2003 is insignificant. While management is committed to maintaining sound credit quality, future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted and the magnitude and duration of the impact. Additionally, approximately 80% of our loan volume is attributable to 68 borrowers.

**Credit Commitments**

The following table summarizes the maturity distribution of unfunded credit commitments at December 31, 2005.

	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Commitments to extend credit	\$11,450	\$ 5,694	\$ 1,235	\$ 763	\$19,142
Standby letters of credit					0
Commercial and other letters of credit					0
<b>Total commitments</b>	<b>\$11,450</b>	<b>\$ 5,694</b>	<b>\$ 1,235</b>	<b>\$ 763</b>	<b>\$19,142</b>

These commitments are expected to be drawn upon over a period of time and represent future cash requirements. 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. 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 our credit evaluation of the borrower. No material losses are anticipated as a result of these transactions.

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

(Dollars in thousands)

-Continued-

**High Risk Assets**

High risk loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are often referred to as impaired loans. High risk assets consist of impaired loans plus other property owned. Year-end comparative information by loan type regarding high risk asset volume including related accrued interest receivable follows.

	2005	2004	2003
<b>Nonaccrual loans:</b>			
Production agriculture:			
Real estate mortgage loans	\$ 1,515	\$ 1,598	\$ 1,537
Production & intermediate-term loans	841	1,201	1,086
<b>Total nonaccrual loans</b>	<b>2,356</b>	2,799	2,623
<b>Accruing restructured loans</b>	<b>0</b>	0	0
<b>Accruing loans 90 days past due</b>	<b>0</b>	0	0
<b>Total impaired loans</b>	<b>2,356</b>	2,799	2,623
<b>Other property owned</b>	<b>0</b>	0	0
<b>Total high risk assets</b>	<b>\$ 2,356</b>	\$ 2,799	\$ 2,623
Nonaccrual loans to total loans	1.88%	2.15%	2.13%
Impaired loan to total loans	1.88%	2.15%	2.13%
High risk assets to total loans	1.88%	2.15%	2.13%
High risk assets to total members' equity	7.92%	9.44%	10.32%

No loans were classified as restructured, or 90 days past due still accruing interest, and there was no other property owned for the years presented.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Net nonaccrual volume decreased \$443 compared with December 31, 2004 due to reductions as a result of repayments. At December 31, 2005, 11 loans with a book value were nonaccrual of which two borrowers' balances comprise 52% of the total nonaccrual volume.

The following table provides additional information on nonaccrual loans as of December 31.

	2005	2004	2003
Nonaccrual loans current as to principal and interest	\$ 544	\$ 891	\$ 152
Cash basis nonaccrual loans	\$ 0	\$ 0	\$ 0
Restructured loans in nonaccrual status	\$ 0	\$ 0	\$ 0

For the years presented, there were neither cash basis nonaccrual loans nor restructured loans in nonaccrual status.

Total high risk assets decreased \$443, or 15.8%, to \$2,356 compared with year-end 2004. High risk asset volume is anticipated to decrease in the future due to collection of nonaccrual accounts. We have no loans 90 days past due and still accruing interest.

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

(Dollars in thousands)

-Continued-

**Credit Quality**

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – 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.
- Loss – Assets are considered uncollectible.

During 2005, overall credit quality improved. Loans classified as “Acceptable” or “OAEM” as a percentage of total loans and accrued interest receivable were 97.64% at December 31, 2005 and 95.85% at December 31, 2004. Loans delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased and remained at a low level of nearly zero percent at December 31, 2005, compared with zero percent at December 31, 2004. The following table shows loans and related accrued interest for the credit quality under the UCS at December 31.

	<b>2005</b>	2004	2003
Acceptable	<b>93.98%</b>	90.42%	93.35%
OAEM	<b>3.66%</b>	5.43%	2.82%
Substandard	<b>2.14%</b>	3.94%	3.79%
Doubtful	<b>0.22%</b>	0.21%	0.04%
Loss	<b>0.00%</b>	0.00%	0.00%
Total	<b>100.00%</b>	100.00%	100.00%

No loans were classified as Loss for the years presented.

A large, adversely classified loan complex paid off in 2005 which improved substandard credit quality percentages.

**Allowance for Loan Losses**

The allowance for loan losses decreased \$3 from \$390 at December 31, 2004, to \$387 at December 31, 2005. The decrease was determined based on assessments of probable losses in our loan portfolio taking into account the refinement of allowance for loan loss methodologies per FCA guidance. The factors impacting the decline in allowance were the loan loss reversals totaling \$16 and net recoveries of \$13. Overall, charge-off activity remains very low relative to the size of our loan portfolio. The following table presents the activity in the allowance for loan losses.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Dollars in thousands)

-Continued-

	2005	2004	2003
Balance at beginning of the year	\$ 390	\$ 2,594	\$ 2,570
Charge-offs:			
Production agriculture:			
Real estate mortgage	0	0	0
Production & intermediate-term	0	(10)	(10)
Agribusiness:			
Processing & marketing	0	0	0
Farm related business	0	0	0
Sales Contracts	0	0	0
Participations Purchased	0	0	0
Total charge-offs	\$ 0	\$ (10)	\$ (10)
Recoveries:			
Production agriculture:			
Real estate mortgage	0	0	0
Production and intermediate-term	13	12	14
Agribusiness:			
Processing & marketing	0	0	0
Farm related business	0	0	0
Sales Contracts	0	0	0
Participations Purchased	0	0	0
Total recoveries	\$ 13	\$ 12	\$ 14
Net charge-offs/(recoveries)	\$ (13)	\$ (2)	\$ (4)
(Loan loss reversal)/Provision for loan losses	(16)	(2)	20
Nonrecurring loan loss reversal	0	(2,204)	
Balance at December 31	\$ 387	\$ 390	\$ 2,594
Net charge-offs/(recoveries) to average net loans	(0.011)%	(0.002)%	(0.003)%

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

	2005	2004	2003
Production agriculture:			
Real estate mortgage	\$ 38	\$ 40	\$ 880
Production & intermediate-term	349	350	1,714
Agribusiness:			
Processing & marketing	0	0	0
Farm related business	0	0	0
Sales Contracts	0	0	0
Participations Purchased	0	0	0
Total	\$ 387	\$ 390	\$ 2,594

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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-Continued-

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

	<b>2005</b>	2004	2003
Allowance as a percentage of:			
Loans	<b>0.31%</b>	0.30%	2.11%
Total impaired loans	<b>16.44%</b>	13.93%	98.89%
Nonaccrual loans	<b>16.44%</b>	13.93%	98.89%

The financial positions of our borrowers have generally strengthened during the past decade as net cash income in agriculture has been at a favorable level due, in part, to direct federal government payments and steady increases in land values over the period. With borrowers' strengthened financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio has remained healthy.

During 2004, we completed our study to further refine the allowance for loan losses methodology. We took into account recently issued guidance by FCA as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines. As a result of this study and the resulting refinements in methodology, we recorded a \$2,204 reversal of the allowance for loan losses during the fourth quarter of 2004.

Our allowance for loan losses methodology was adjusted and revised in the late 1980s to take into account the credit losses experienced in the mid-to-late 1980s, as a result of unusually adverse economic factors affecting American agriculture. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s. This resulted in conservative estimates of the allowance for loan losses. Our allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses, the methodology used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. Our conservative approach to calculating the allowance for loan losses was supported by FCA in its role as a "safety and soundness" regulator.

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

The refinement in methodology resulted in calculated allowances for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised levels of allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. We considered changes in the following when adjusting the historical charge-offs experience:

- credit risk classifications,
- collateral values,
- risk concentrations,
- weather related conditions, and
- economic conditions.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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While the loan loss reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of our risk bearing capacity, generally referred to as "risk funds" (permanent capital plus the allowance for loan losses). Risk funds totaled \$26,989 at December 31, 2005 (21.5% of loans), as compared with \$26,849 at December 31, 2004 (20.6% of loans) and \$25,243 at December 31, 2003 (20.5% of loans).

**Young, Beginning and Small Farmers and Ranchers Program**

We are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Our YBS Mission Statement: "To reliably, consistently and constructively serve the credit and related needs of young, beginning, small and minority farmers and ranchers through specifically designed credit programs and services. When necessary, private or governmental guarantees will be used to expand the number of young, beginning and small farmers and ranchers that the Association serves." YBS farmers and ranchers are defined as:

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

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (comparisons based on borrower numbers) as of December 31. The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2002 USDA Agricultural Census, which is the most current data available.

	<b>2005</b>	2004	2003	USDA
Young	<b>21.88%</b>	22.58%	21.41%	6.65%
Beginning	<b>15.24%</b>	14.96%	13.52%	29.61%
Small	<b>40.72%</b>	43.99%	47.89%	88.82%

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

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

Status report on above goals:

- The Association continues to offer hail insurance and credit life insurance products to meet the needs of YBS farmers and ranchers.

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

(Dollars in thousands)

-Continued-

- The Association has maintained an excellent relationship with the Farm Service Agency (FSA). We presently have 12.3% of our portfolio under FSA guarantees. This program has proven to be very effective in allowing the Association to serve YBS farmers and ranchers.
- Association representatives met with FFA and college classes and supplied FFA manuals at a discounted cost and supports youth through the purchase of livestock at county and state fairs.
- The Association has arranged scholarship programs totaling \$9,000 per year with the University of Idaho, Utah State University and BYU-Idaho.
- The Association has approved special loan underwriting standards for lending to YBS borrowers.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress.

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

The Association met its *loan activity* goals by number in all three YBS categories. It met its *volume* goal in the small category. We met all of our *number* and *volume* goals to first time borrowers. Our *percentage* goals by *number* and *volume* were all met with the exception of the *number* goal on small loans, which came in just under the goal. The *demographic* goals were exceeded slightly for beginning farmers and ranchers but were missed slightly on young and small farmers and ranchers.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

### **CREDIT RISK MANAGEMENT**

Credit risk arises from the failure of a borrower to meet contractual obligations that result in a financial loss to the lender. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures. Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the term of the notes and loan agreement. Processes are established for information gathering, balance sheet and income statement verification, loan analysis credit approvals, disbursements of proceeds and subsequent loan servicing actions.

By regulation, we cannot have loan commitments to one borrower for more than 25 percent of our permanent capital. Delegations from AgBank further limit loan commitments to our borrowers to 15 percent of permanent capital, except for certain loans grandfathered at the time of the District merger. Within these limits, we have set our own lending limit to manage loan concentration. Lending limits are established for individual loan size, commodity and special lending programs.

We have established internal lending delegations to control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise of the credit staff. Larger and more complex loans are typically approved by our loan committee.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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A method for managing concentration is through the use of participation programs with other System and non-System institutions. We currently have no loans participated with non-System institutions. Buying and selling loan volume within and outside the System can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. We have further diversified concentrations in agricultural production by developing rural residence, part-time farmer and agribusiness portfolios. Rural resident and part-time farmers usually derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of our lending is first mortgage real estate lending. Production and intermediate-term lending accounts for most of the remaining volume and is also typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified evaluator. Certain appraisals must be performed by individuals with a state certification or license.

We began implementing a Combined System Risk Model (Model) in 2004. The Model is a two dimensional risk rating system that measures each loan's probability of default and loss given default. The Model may be utilized in loan and portfolio management processes to include allowance for loan loss estimates as it provides more risk granularity, particularly related to acceptable loans under the Uniform Classification System (UCS). This Model may also serve as the basis for future economic capital modeling.

**RESULTS OF OPERATIONS**

**Earnings Summary**

In 2005, we recorded net income of \$2,573, compared with \$4,069 in 2004, and \$1,128 in 2003. The decrease in net income of \$1,496 in 2005, compared with 2004, followed an increase of \$2,941 in 2004, compared with 2003. The decrease in net income was primarily due to the loan loss reversal of \$2,227 recorded in 2004 due to the methodology change discussed previously. The decrease was partially offset by an increase in AgBank patronage.

The following table presents the changes in the significant components of net income.

	<b>2005 vs. 2004</b>	2004 vs. 2003
<b>Net income, prior year</b>	<b>\$ 4,069</b>	\$ 1,128
Changes from prior year:		
Increased/(Decreased) interest income	<b>1,450</b>	846
(Increased)/Decreased interest expense	<b>(1,206)</b>	(423)
Increased/(Decreased) net interest income	<b>244</b>	423
(Increased)/Decreased loan loss reversal	<b>(2,191)</b>	2,227
Increased/(Decreased) noninterest income	<b>93</b>	300
(Increased)/Decreased noninterest expense	<b>19</b>	367
(Increased)/Decreased provision for income taxes	<b>339</b>	(376)
Total (decrease)/increase in net income	<b>(1,496)</b>	2,941
<b>Net income, current year</b>	<b>\$ 2,573</b>	\$ 4,069

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Dollars in thousands)

-Continued-

As a result of decreased earnings in 2005 primarily related to the loan loss reversal recorded in 2004, return on average assets decreased to 1.91% from 3.05% in 2004 and return on average shareholders' equity decreased to 9.01% from 15.15% in 2004.

**Net Interest Income**

Net interest income for 2005 was \$4,448 compared with \$4,204 for 2004 and \$3,781 for 2003. The table below provides an analysis of the individual components of the change in net interest income during 2005 and 2004.

	<b>2005 vs. 2004</b>	2004 vs. 2003
<b>Net interest income, prior year</b>	<b>\$ 4,204</b>	\$ 3,781
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned and paid	<b>140</b>	(162)
Interest credits on investment in AgBank	<b>0</b>	0
Volume of accruing assets/interest bearing liabilities	<b>(473)</b>	135
Interest income on nonaccrual loans	<b>577</b>	450
Increase/(Decrease) in net interest income	<b>244</b>	423
<b>Net interest income, current year</b>	<b>\$ 4,448</b>	\$ 4,204

The following table illustrates the relationship among the average interest rates on loans and debt cost, interest rate spread and net interest margin.

	<b>For the Year Ended December 31</b>		
	<b>2005</b>	2004	2003
Net interest margin	<b>3.66%</b>	3.50%	3.40%
Interest rate on:			
Average loan volume	<b>6.78%</b>	5.63%	5.58%
Average debt	<b>4.06%</b>	2.87%	2.66%
Interest rate spread	<b>2.72%</b>	2.76%	2.92%

The net interest margin increased 16 basis points from last year while the interest rate spread decreased four basis points. As the cost of funds increased to the Association, the return on its own loanable funds also increased, offsetting a portion of the increased rates on average debt. Over the past year, rates increased eight times which corresponded with the increase in national prime rates.

**Provision for Loan Losses/(Loan Loss Reversals)**

The allowance for loan losses is increased through a provision for loan losses and decreased through loan loss reversals. We make a determination whether an increase in our allowance for loan losses is necessary based on our assessment of the probable losses in our loan portfolio. We recorded a net loan loss reversal of \$16 for the year ended December 31, 2005, compared with loan loss reversals of \$2,207 in 2004 and provision for loan losses of \$20 in 2003. The net loan loss reversal recorded during 2005 was primarily due to improved credit quality and a decreased risk exposure on certain loans. As discussed in the Loan Portfolio section, Allowance for Loan Losses, we recorded a one-time adjustment of \$2,205 in 2004 due to the refinement of our allowance for loan losses methodology as required under guidance issued by the FCA.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Dollars in thousands)

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**Noninterest Income**

For the year ended December 31, 2005, we recorded noninterest income of \$682, compared with \$589 in 2004. Patronage distributions from AgBank are our primary source of noninterest income. The components of the patronage from AgBank are reflected in the following table.

	2005	2004	2003
Cash patronage	\$ 334	\$ 130	\$ 98
Stock patronage	287	256	94
Stock allocation	-	-	
<b>Total patronage from AgBank</b>	<b>\$ 621</b>	<b>\$ 386</b>	<b>\$ 192</b>

Noninterest income also includes loan fees, financially related services income and captive insurance receivables. Loan fees in 2005 were \$24, a decrease of \$9, from \$33 in 2004.

**Noninterest Expense**

Noninterest expense for the year ended December 31, 2005, decreased \$19, or 0.8%, to \$2,410 compared with \$2,429 in 2004. Significant components of noninterest expense are compared in the following table.

	2005	2004	2003	<b>Percent of Change</b>	
				<b>2005/2004</b>	<b>2004/2003</b>
Salaries & employee benefits	\$ 1,744	\$ 1,702	\$ 1,830	<b>2.5%</b>	(7.0)%
Occupancy & equipment	83	83	123	<b>(0.1)%</b>	(32.7)%
Farm Credit Insurance Fund premium	63	58	128	<b>8.9%</b>	(54.6)%
Supervisory & examination costs	60	58	57	<b>3.3%</b>	2.5%
Financial Assistance Corporation					
Debt assessment	31	66	145	<b>(53.4)%</b>	(54.3)%
Data processing services	32	139	200	<b>(76.6)%</b>	(30.6)%
Other	397	323	313	<b>22.8%</b>	3.1%
<b>Total noninterest expense</b>	<b>\$ 2,410</b>	<b>\$ 2,429</b>	<b>\$ 2,796</b>	<b>(0.8)%</b>	(13.1)%

For the year ended December 31, 2005, operating expense decreased \$19, or 0.8%, compared to the year ended December 31, 2004, primarily due to decreased data processing services. The Association has developed its own in-house loan accounting program which includes certain other data processing functions. The Financial Assistance Corporation assessment decreased \$35 from 2004 to 2005 primarily due to the debt to the Financial Assistance Corporation maturing in June 2005. Note 14 of the Notes to Financial Statements provides more details related to the Financial Assistance Corporation.

**Provision for income taxes**

Provision for income taxes for 2005 decreased \$339 compared with 2004 primarily due to a decrease in the taxable earnings of the Idaho AgCredit, PCA.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Dollars in thousands)

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**LIQUIDITY**

Liquidity is necessary to meet our financial obligations in an orderly manner. Obligations that require liquidity include paying our note with AgBank, funding loans and other commitments and funding of operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. We anticipate liquidity levels will be adequate to meet our obligations.

**Funding Sources**

Our primary source of liquidity is the ability to obtain funds for operations through a borrowing relationship with AgBank. The note payable to AgBank is collateralized by a pledge to AgBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA). The GFA is subject to renewal at its expiration date of April 30, 2008 in accordance with normal business practices. The annual average principal balances of the note payable to AgBank were \$103,931 in 2005, \$104,887 in 2004 and \$97,457 in 2003.

**Interest Rate Risk**

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with AgBank and allows for loans to be match-funded with AgBank. Borrowings from AgBank match the pricing, maturity, and option characteristics of our loans to borrowers. AgBank manages interest rate risk through the direct loan pricing and asset/liability management processes. Although AgBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk from the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess funds with AgBank at a fixed rate as a part of AgBank's Earnings Stabilization Management Program (ESMP). This enables us to stabilize earnings without significantly increasing our overall interest rate risk position.

The weighted average remaining term of our funds committed to the ESMP program in total is limited to a maximum of 2.5 years. The balance of the ESMP commitments and the average interest rate as of December 31, 2005 in the various maturities follow:

	<b>Balance</b>	<b>Average Rate</b>
Maturing in 1 year or less	\$ 0	
Maturing in 1 to 3 years	4,000	3.53%
Maturing in over 3 years	4,500	3.50%
Total	\$ 8,500	3.51%

We plan to continue to fund lending operations through the utilization of a borrowing relationship with AgBank, retained earnings from current and prior years and from borrower stock investment. AgBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Banks' Funding Corporation. These funds are available through various AgBank loan products, provided our loan with AgBank is in good standing under the GFA. Therefore, our continued liquidity is directly dependent upon the Farm Credit System's ability to sell debt securities at competitive rates and our maintaining a sound financial position and borrowing relationship with AgBank. Our direct loan, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Dollars in thousands)

-Continued-

**Funds Management**

We offer variable, fixed, adjustable, prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by AgBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

**CAPITAL RESOURCES**

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investment in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture.

Over the past several years, we have built capital through net income earned and retained. Shareholders' equity at December 31, 2005 totaled \$29,748, compared with \$29,662 at December 31, 2004 and \$25,421 at December 31, 2003. Capital includes stock purchased by our borrowers and retained earnings accumulated through net income. Our capital position is reflected in the following ratio comparisons:

	<b>2005</b>	2004	2003
Debt to shareholders' equity	<b>3.66:1</b>	3.80:1	4.24:1
Shareholders' equity as a percent of loans	<b>23.70%</b>	22.79%	20.65%
Shareholders' equity as a percent of assets	<b>21.48%</b>	20.84%	19.08%

Debt to shareholders' equity decreased and shareholders' equity as a percent of loans and of total assets increased from 2004 to 2005 primarily due to the loan loss reversal recorded during 2004.

- There are no material commitments to purchase capital assets.
- There are no material trends or changes in the mix and cost of debt and capital resources.
- There are no material favorable or unfavorable trends in capital resources.
- There are no trends, commitments, contingencies or events that are reasonably likely to have a material adverse effect upon the adequacy of available risk funds.

**Retained Earnings**

Our retained earnings increased \$2,573 to \$29,984 at December 31, 2005 from \$27,411 at December 31, 2004. The increase was a result of \$2,573 net income.

**Patronage Program**

We do not generally pay cash dividends and we do not have a patronage program to distribute our available net earnings to our shareholders.

**Stock**

Our total stock and participation certificates decreased \$2,373 to \$241 at December 31, 2005, from \$2,614 at December 31, 2004. The decrease was due to \$2,737 of stock retirements, partially offset by \$364 issuances. We require a stock or participation certificate investment for each borrower, with the exception of Sales Contracts and

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Dollars in thousands)

-Continued-

Participations Purchased. The current initial investment requirement is the lesser of one thousand dollars or 2.0% of the amount of the borrower's total loans, which is the minimum required by law.

**Capital Plan and Regulatory Requirements**

Our Board of Directors establishes a formal capital adequacy plan that addresses capital targets in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. Regulations require the plan consider the following factors in determining optimal capital levels:

- asset quality and the adequacy of the allowance for loan losses to absorb potential losses 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 our customer base; and
- other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow.

	<b>2005</b>	2004	2003	Regulatory Minimum
Permanent capital ratio	<b>21.56%</b>	19.22%	17.77%	7.00%
Total surplus ratio	<b>21.36%</b>	17.18%	15.84%	7.00%
Core surplus ratio	<b>16.64%</b>	12.89%	11.32%	3.50%

Capital ratios increased during 2005 due to the loan loss reversal recorded during fourth quarter of 2004. As of December 31, 2005, we exceeded the regulatory minimum and are expected to do so throughout 2006. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2005, we have exceeded our goal.

**LITIGATION**

Legal actions are pending against the Association in which claims for money damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, would not be material in relation to the financial position of the Association.

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

(Dollars in thousands)

-Continued-

**GOVERNANCE**

**Board Oversight & Director Independence**

We are governed by a seven member board that oversees the management of our Association. Of these directors six are elected by the stockholders and one is appointed by the elected directors. The Board of Directors represents the interests of our stockholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, compensates and evaluates the chief executive officer;
- establishes the strategic plan and annual operating plans and budget;
- advises management on significant issues we face; and,
- oversees the financial reporting process, communications with stockholders and our legal and regulatory compliance.

All directors must exercise sound judgment in deciding matters. All our directors are independent from the perspective that none of our management or staff serve as Board members. However, we are a financial service cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers of affiliated Associations, have a vested interest in ensuring our Association remains strong and successful. However, in some situations, our lending relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

**Audit Committee**

The Audit Committee is responsible for assisting the Board in monitoring the integrity of financial statements, compliance with applicable legal and FCA requirements and selecting, directing and reviewing the work of independent auditors. The audit committee consists of the entire seven member board and meets once a month.

**Other Governance**

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We have implemented the following actions:

- a system for the receipt and treatment of whistleblower complaints,
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer
- open lines of communication between the independent auditors, management, and the Audit Committee,
- “plain English” disclosures,
- officer certification of accuracy and completeness of the financial statements, and
- information disclosure through our website.

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

(Dollars in thousands)

-Continued-

**CUSTOMER PRIVACY**

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

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors and Stockholders  
Idaho Agricultural Credit Association

We have audited the accompanying consolidated balance sheets of Idaho Agricultural Credit Association, a federally chartered institution, (the Association) as of December 31, 2005, 2004, and 2003, and the related statements of income, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Idaho Agricultural Credit Association as of December 31, 2005, 2004, and 2003, and the results of their operation and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GALUSHA, HIGGINS & GALUSHA, P.C.  
Certified Public Accountants

Idaho Falls, Idaho  
February 9, 2006

**Idaho Agricultural Credit Association**  
**CONSOLIDATED BALANCE SHEET**

	December 31,		
	2005	2004	2003
<b>ASSETS</b>			
Loans	\$ 125,541,243	\$ 130,163,558	\$ 123,133,386
<i>Less</i> : allowance for loan losses	<u>387,308</u>	<u>389,832</u>	<u>2,594,345</u>
Net loans	<u>125,153,935</u>	129,773,726	120,539,041
Cash	546,176	437,772	529,253
Accrued interest receivable	2,695,126	2,417,024	2,216,340
Investment in U.S. AgBank, FCB	9,139,210	8,852,700	8,596,015
Premises and equipment, net	243,032	209,711	264,247
Deferred tax assets	469,400	470,500	929,000
Other assets	<u>239,039</u>	<u>185,700</u>	<u>188,238</u>
<b>Total assets</b>	<u><u>\$ 138,485,918</u></u>	<u><u>\$ 142,347,133</u></u>	<u><u>\$ 133,262,134</u></u>
<b>LIABILITIES</b>			
Notes payable to U.S. AgBank, FCB	\$ 105,831,599	\$ 110,720,370	\$ 105,601,783
Advance conditional payments (funds held)	1,149,656	515,025	835,522
Accrued interest payable	358,806	242,863	202,428
Pension liability	1,043,825	834,277	764,737
Other liabilities	<u>354,223</u>	<u>372,806</u>	<u>436,579</u>
<b>Total liabilities</b>	<u>108,738,109</u>	<u>112,685,341</u>	<u>107,841,049</u>
<b>Commitments and contingencies</b>			
<b>MEMBERS' EQUITY</b>			
At-risk equity:			
Capital stock and participation certificates	240,920	2,614,070	2,427,200
Unallocated retained earnings	29,984,038	27,411,057	23,342,285
Accumulated other comprehensive loss	<u>(477,149)</u>	<u>(363,335)</u>	<u>(348,400)</u>
<b>Total members' equity</b>	<u>29,747,809</u>	<u>29,661,792</u>	<u>25,421,085</u>
<b>Total liabilities and members' equity</b>	<u><u>\$ 138,485,918</u></u>	<u><u>\$ 142,347,133</u></u>	<u><u>\$ 133,262,134</u></u>

The accompanying notes are an integral part of these financial statements

**Idaho Agricultural Credit Association**  
**CONSOLIDATED STATEMENT OF INCOME**

	For the Year Ended December 31,		
	2005	2004	2003
<b>INTEREST INCOME</b>			
Loans	\$ <b>8,668,544</b>	\$ 7,218,682	\$ 6,373,222
<b>INTEREST EXPENSE</b>			
Notes payable to U.S. AgBank, FCB	<b>4,195,299</b>	3,010,427	2,588,650
Advance conditional payments	<b>25,521</b>	4,270	3,271
<b>Total interest expense</b>	<b>4,220,820</b>	3,014,697	2,591,921
Net interest income	<b>4,447,724</b>	4,203,985	3,781,301
Provision for (reversal of) loan losses	<b>(16,461)</b>	(2,207,077)	20,000
Net interest income after provision for (reversal of) loan losses	<b>4,464,185</b>	6,411,062	3,761,301
<b>NONINTEREST INCOME</b>			
Patronage distribution from U.S. AgBank, FCB	<b>620,808</b>	386,459	191,870
Loan fees	<b>23,691</b>	32,936	41,465
Financially related services income	<b>24,341</b>	42,532	30,676
Other noninterest income	<b>12,847</b>	126,738	24,448
<b>Total noninterest income</b>	<b>681,687</b>	588,665	288,459
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	<b>1,744,217</b>	1,701,710	1,829,641
Occupancy and equipment	<b>82,712</b>	82,824	123,063
Farm Credit Insurance Fund premium	<b>63,255</b>	58,071	127,919
Financial Assistance Corporation debt assessment	<b>30,867</b>	66,254	145,039
Supervisory and examination costs	<b>60,251</b>	58,330	56,904
Data processing services	<b>32,400</b>	138,736	200,000
Other noninterest expense	<b>396,111</b>	322,654	312,934
<b>Total noninterest expense</b>	<b>2,409,813</b>	2,428,579	2,795,500
Income before income taxes	<b>2,736,059</b>	4,571,148	1,254,260
Provision for income taxes	<b>(163,078)</b>	(502,376)	(126,524)
<b>Net income</b>	<b>\$ 2,572,981</b>	\$ 4,068,772	\$ 1,127,736

The accompanying notes are an integral part of these financial statements

**Idaho Agricultural Credit Association**  
**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**

	At-risk Equity			Total Members' Equity
	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	
Balance at December 31, 2002	\$ 2,196,720	\$ 22,214,549	\$ (429,200)	\$ 23,982,069
Comprehensive income				
Net income for 2003		1,127,736		1,127,736
Minimum pension liability adjustment, net of taxes			80,800	80,800
Total comprehensive income				<u>1,208,536</u>
Capital stock and participation certificates issued	3,040,890			3,040,890
Capital stock and participation certificates retired	<u>(2,810,410)</u>			<u>(2,810,410)</u>
Balance at December 31, 2003	<u>\$ 2,427,200</u>	<u>\$ 23,342,285</u>	<u>\$ (348,400)</u>	<u>\$ 25,421,085</u>
Comprehensive income				
Net income for 2004		4,068,772		4,068,772
Minimum pension liability adjustment, net of taxes			(14,935)	(14,935)
Total comprehensive income				<u>4,053,837</u>
Capital stock and participation certificates issued	2,255,535			2,255,535
Capital stock and participation certificates retired	<u>(2,068,665)</u>			<u>(2,068,665)</u>
Balance at December 31, 2004	<u>\$ 2,614,070</u>	<u>\$ 27,411,057</u>	<u>\$ (363,335)</u>	<u>\$ 29,661,792</u>
Comprehensive income				
Net income for 2005		2,572,981		2,572,981
Minimum pension liability adjustment, net of taxes			(113,814)	(113,814)
Total comprehensive income				<u>2,459,167</u>
Capital stock and participation certificates issued	364,120			364,120
Capital stock and participation certificates retired	<u>(2,737,270)</u>			<u>(2,737,270)</u>
Balance at December 31, 2005	<u>\$ 240,920</u>	<u>\$ 29,984,038</u>	<u>\$ (477,149)</u>	<u>\$ 29,747,809</u>

The accompanying notes are an integral part of these financial statements

**Idaho Agricultural Credit Association**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the Year Ended December 31,		
	2005	2004	2003
<b>INCREASE (DECREASE) IN CASH</b>			
Cash flows from operating activities:			
Interest and loan origination fees received	\$ 8,414,133	\$ 7,050,934	\$ 6,442,894
Financially related service fees and other income	45,369	59,359	55,275
Interest paid	(4,104,877)	(2,974,262)	(3,314,507)
Operating and other expenses paid	(2,323,240)	(2,374,041)	(2,561,950)
Income taxes paid, net	(167,312)	(49,210)	82,841
Net cash provided by (used in) operating activities	<u>1,864,073</u>	<u>1,712,780</u>	<u>704,553</u>
Cash flows from investing activities:			
(Increase) decrease in loans, net	4,622,315	(7,040,075)	(11,489,517)
Patronage distribution from U.S. AgBank, FCB	334,298	129,774	
Recoveries of loans charged off	13,937	12,467	13,646
Acquisition of premises and equipment	(102,258)	(39,419)	(58,805)
Proceeds from sales of premises and equipment	3,329	148,032	7,611
Net cash provided by (used in) investing activities	<u>4,871,621</u>	<u>(6,789,221)</u>	<u>(11,527,065)</u>
Cash flows from financing activities:			
Net draws on (repayment of) notes payable to U.S. AgBank, FCB	(4,888,771)	5,118,587	10,602,718
Increase (decrease) in advance conditional payments, net	634,631	(320,497)	(180,725)
Issuance of capital stock and participation certificates	364,120	2,255,535	3,040,890
Retirement of capital stock and participation certificates	(2,737,270)	(2,068,665)	(2,810,410)
Other, net	0	0	660,695
Net cash provided by (used in) financing activities	<u>(6,627,290)</u>	<u>4,984,960</u>	<u>11,313,168</u>
Net increase (decrease) in cash	108,404	(91,481)	490,656
Cash at beginning of year	<u>437,772</u>	<u>529,253</u>	<u>38,597</u>
Cash at end of year	<u>\$ 546,176</u>	<u>\$ 437,772</u>	<u>\$ 529,253</u>

The accompanying notes are an integral part of these financial statements

**Idaho Agricultural Credit Association**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**-Continued-**

	For the Year Ended December 31,		
	2005	2004	2003
<b>RECONCILIATION OF NET INCOME</b>			
<b>TO NET CASH FROM OPERATING</b>			
<b>ACTIVITIES</b>			
Net income	\$ <b>2,572,981</b>	\$ 4,068,772	\$ 1,127,736
Accumulated other comprehensive income (loss)	<b>(113,814)</b>	(14,935)	80,800
Adjustments to reconcile comprehensive income to net cash provided by (used in) operating activities:			
Provision for (reversal of) loan losses	<b>(16,461)</b>	(2,207,077)	20,000
Depreciation and amortization	<b>57,427</b>	55,834	58,979
Net (gain)/loss on sales of premises and equipment	<b>8,181</b>	(109,911)	151
Patronage distribution from U.S. AgBank, FCB	<b>(620,808)</b>	(386,459)	(191,870)
(Increase) decrease in accrued interest receivable	<b>(278,102)</b>	(200,684)	28,207
(Increase) decrease in deferred tax assets	<b>1,100</b>	458,500	23,172
(Increase) decrease in other assets	<b>(53,339)</b>	2,538	234,365
Increase (decrease) in accrued interest payable	<b>115,943</b>	40,435	(722,586)
Increase (decrease) in pension liability	<b>209,548</b>	69,540	(41,211)
Increase (decrease) in other liabilities	<b>(18,583)</b>	(63,773)	86,810
	<b>1,864,073</b>	1,712,780	704,553
Net cash provided by (used in) operating activities	<b>\$ 1,864,073</b>	\$ 1,712,780	\$ 704,553

**SUPPLEMENTAL SCHEDULE OF  
NONCASH INVESTING AND  
FINANCING ACTIVITIES**

Decrease in loans and allowance for loan losses from charge-offs	\$ <b>0</b>	\$ 9,903	\$ 9,991
Financed sales of other property owned	<b>0</b>	0	0
Loans transferred to other property owned	<b>0</b>	0	0

The accompanying notes are an integral part of these financial statements

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND OPERATIONS**

- A. **Organization:** Idaho Agricultural Credit Association and its subsidiaries Idaho AgCredit, PCA and Idaho AgCredit, FLCA, (collectively called “the Association”) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the following territory: in the state of Idaho, all of Bannock, Bear Lake, Blaine, Bingham, Bonneville, Butte, Camas, Caribou, Cassia, Clark, Custer, Franklin, Fremont, Gooding, Jefferson, Jerome, Lemhi, Lincoln, Madison, Minidoka, Oneida, Power, Teton, and Twin Falls Counties; and that part of Owyhee County commencing at the southwest corner of Twin Falls County, Idaho, thence west along the north boundary line of the state of Nevada, to the southwest corner of Section Thirty-four, Township Sixteen South, Range Seven East, Boise Meridian, thence north to the northwest corner of Section Three, Township Ten South, Range Seven East, Boise Meridian, thence east to the boundary line of Twin Falls County, Idaho, thence south to the point of beginning; and in the state of Wyoming, all of Teton County and that portion of Lincoln County north of the forty-second parallel.

The Association is a lending institution of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2005, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and more than 96 associations.

U.S. AgBank, FCB (AgBank) and its related associations and AgVantis, Inc.(AgVantis) are collectively referred to as the “District.” AgBank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to AgBank and certain associations. On December 31, 2005, the District consisted of AgBank, 26 Agricultural Credit Association (ACA) parent companies, which each have two wholly-owned subsidiaries, (a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA)), three FLCAs and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The activities of the associations are examined by the FCA, and certain actions by the associations are subject to the prior approval of the FCA and/or AgBank.

Effective October 1, 2003, the former Farm Credit Bank of Wichita (Wichita Bank) and the former Western Farm Credit Bank (Western Bank) merged to form AgBank. The banks were jointly managed from January 1, 2002 to September 30, 2003, and doing business as AgBank. The Western Bank provided funding to the Association prior to the merger.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 1 - ORGANIZATION AND OPERATIONS - CONTINUED**

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected stock at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as two percent of the aggregate insured obligations (Systemwide debt obligations) or such other percentage of the aggregate amount as the Insurance Corporation in its sole discretion determines is actuarially sound to maintain in the Insurance Fund taking into account the risk of insuring outstanding insured obligations. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. AgBank passes this premium expense through to the Association based on the Association’s annual average loan volume.

- B. **Consolidation:** Effective July 1, 2002, Idaho AgCredit, PCA and Idaho AgCredit, FLCA were formed and became wholly owned subsidiaries of the Idaho Agricultural Credit Association when it was formed as an ACA parent entity. The consolidation was approved by the previous associations’ boards of directors and shareholders, AgBank, and FCA.

The consolidation has been accounted for on a historical cost basis with the associations combined at their respective book values. Accordingly, the accompanying financial statements for all years presented have been restated to include the accounts and results of operations of the FLCA and PCA as if the consolidation had been in effect for all periods presented. The Association succeeded to all the rights and obligations of the consolidating associations pursuant to the consolidation plans adopted by the boards of directors of the FLCA and the PCA. Prior to the consolidation, the accounting practices used by the associations were comparable. On the effective date of the consolidation, each outstanding share of borrower stock of the FLCA and the PCA was exchanged for a share of a similar class of equity of the ACA.

- C. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association also serves as an intermediary in offering credit life insurance, crop hail and fire insurance and multi-peril crop insurance, as well as a lease placement program.

The Association’s financial condition may be impacted by factors affecting AgBank. Certain District expenses are allocated to the associations. Based on this fact, disclosure of certain accounting policies related to these costs is included in the District’s Annual Report. The AgBank District Annual Report to Shareholders (District’s Annual Report) is available on its web site, [www.usagbank.com](http://www.usagbank.com); or upon request, Association shareholders will be provided with a copy of the District’s Annual Report, which includes the combined financial statements of AgBank, AgVantis, and its related associations. The District’s Annual Report discusses the material aspects of the District’s financial condition, changes in financial condition and results of operations. In addition, the District’s Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 1 - ORGANIZATION AND OPERATIONS – CONTINUED**

The lending and financial services offered by AgBank are described in Note 1 of the District's Annual Report.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain amounts in prior years' financial statements have been reclassified to conform to the current financial statement presentation. Loan type information discussed in Note 5 was changed beginning with year-end 2004 to provide more granular information. Significant estimates are discussed in these footnotes as applicable. Actual results may differ from these estimates.

The consolidated financial statements include the accounts of Idaho Agricultural Credit Association and its wholly owned subsidiaries, Idaho AgCredit, PCA and Idaho AgCredit, FLCA. All significant inter-company transactions have been eliminated in consolidation.

- A. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest (if accrued in the current year) is reversed and (if accrued in prior years) is included in the recorded investment asset balance or charged against the allowance for loan losses.

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

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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

- B. **Cash:** Cash, as included in the financial statements, represents cash on hand and on deposits at banks.
- C. **Investment in AgBank:** The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 6.25% of average direct loan volume, net of excess investment, subject to phase-in provisions. The phase-in of the 6.25% required investment over a three-year period began in 2003 since the Association had less permanent capital on October 1, 2003, due to the AgBank merger. The Association's required investment in AgBank, at December 31, 2005, was 6.07%, and will change to 6.25% on October 1, 2006. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock.
- D. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation 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 expense and improvements are capitalized.
- E. **Other Assets and Other Liabilities:** Other assets are comprised primarily of income tax refunds receivable, accounts receivable, and prepaid expenses. Significant components of other liabilities primarily include accounts payable, accrued annual leave and bonus payable, and in prior periods, Financial Assistance Corporation liabilities.
- F. **Advance Conditional Payments (Funds Held):** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received on short-and intermediate-term loans are recorded in the consolidated balance sheet as liabilities and represent borrower payments in excess of the related loan balance or amounts to which the borrower has unrestricted access. A limited amount of funds, reserved for future loan repayments and placed in trust fund accounts, is permitted on long-term loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.
- G. **Employee Benefit Plans:** The employees of the Association may be eligible to participate in either the Eleventh District defined benefit and/or the defined contribution retirement plans. All Association employees are covered under one of the plans.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

The defined benefit plan is a non-contributory plan. The “Projected Unit Credit” actuarial method is used for financial reporting purposes and the “Entry Age Normal Cost” actuarial method is used for funding purposes. Benefits are based on employee eligible earnings and years of service. The defined benefit plan was closed to new participants beginning January 1, 1998. As a result of the unfunded status of the underlying plan, the Association recorded a minimum liability, an intangible asset relating to unrecognized prior service cost and other comprehensive income (loss).

The District’s defined contribution plan has two components. First, employees who do not participate in the defined benefit plan may participate in the Money Purchase Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee’s salary. Second, all District employees may participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998 are eligible to participate only in the defined contribution plan. All defined contribution plan costs are expensed in the same period that participants earn contributions.

The Association provides certain health and life insurance benefits to eligible current and retired employees through participation in the District-wide plan. Substantially all employees of the Association may become eligible for those benefits if they reach normal retirement age while working for the Association.

- H. **Income Taxes:** As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly-owned PCA subsidiary. The ACA, which is the holding company, along with the PCA subsidiary, is subject to federal income tax. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries have been eliminated in consolidation.

The Idaho State Tax Commission made a declaratory ruling for Northwest Farm Credit Services ACA, indicating that it was not subject to Idaho income taxes. The ruling was based on Idaho Code Sec. 63-3025B. The Association is not subject to State of Idaho income taxes based on the above statute and declaratory ruling. No state income tax provision has been made.

Deferred income taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management’s estimate, that they will not be realized.

At December 31, 2005, deferred income taxes have not been provided by the Association on approximately \$7,344,200 of pre-1993 patronage distributions from AgBank. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management’s intent is to permanently invest these undistributed earnings in AgBank, thereby indefinitely postponing their conversion to cash.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

The Association has not provided deferred income taxes on amounts allocated to the Association, which relate to the Western Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Deferred taxes have not been provided on approximately \$1,795,025 of patronage refunds distributed to the taxable PCA by the Bank after December 31, 1992. Additionally, deferred income taxes have not been provided on the Western Bank's post-1992 unallocated earnings. AgBank currently has no plans to distribute the Western Bank unallocated earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

- I. **Patronage Distribution from AgBank:** Patronage distributions are made by AgBank the month following quarter-end. The Association records patronage distributions from AgBank upon receipt of the distribution.
- J. **Other Comprehensive Income/(Loss):** Other comprehensive income/(loss) refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of members' equity but are excluded from net income. The Association records other comprehensive income/(loss) based on the actuarially determined fair market value of the retirement plan assets.

**NOTE 3 – CASH**

At December 31, 2005, 2004, and 2003, the carrying amount of the Association's deposits was \$546,176, \$437,772, and \$529,253 and the bank balance was \$1,578,463, \$500,246, and \$1,066,810, respectively. At December 31, 2005, 2004, and 2003, \$100,000, \$100,000, and \$100,000 of the bank balance was covered by federal depository insurance, and \$1,478,463, \$400,246, and \$966,810 was uninsured and uncollateralized, respectively.

**NOTE 4 – REFINEMENT OF THE ALLOWANCE FOR LOAN LOSSES METHODOLOGIES**

During 2004, the Association conducted a study to further refine its allowance for loan losses methodology taking into account recently issued guidance by FCA, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines.

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

While conservative in estimating the allowance for loan losses, the methodology used by the Association resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. The reserves provided in the mid-to-late 1980s had, in effect, remained part of the allowance for loan losses. The Association's conservative approach to calculating the allowance for loan losses was supported by FCA in its role as a "safety and soundness" regulator.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 4 – REFINEMENT OF THE ALLOWANCE FOR LOAN LOSSES METHODOLOGIES - CONTINUED**

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

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

While the \$2.2 million loan loss reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of the risk bearing capacity of the Association, generally referred to as "risk funds" (permanent capital plus the allowance for loan losses), which totaled \$26.99 million at December 31, 2005 (21.5% of loans), \$26.85 million at December 31, 2004 (20.6% of loans), and \$25.24 million at December 31, 2003 (20.5% of loans).

**NOTE 5 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows:

	<b>2005</b>	December 31,	
		2004	2003
Production Agriculture:			
Real estate mortgage	\$ 54,851,739	\$ 57,619,159	\$ 53,735,685
Production and intermediate-term	56,822,709	57,020,004	55,741,841
Agribusiness:			
Commercial processing and marketing	187,447	1,598,881	1,168,913
Mortgage processing and marketing	359,125	406,837	447,012
Commercial farm related business	577,026	625,753	60,399
Commercial sales contracts	0	13,710	23,478
Mortgage sales contracts	359,623	380,645	247,128
Participations purchased	12,383,574	12,498,569	11,708,930
 Total loans	 \$ 125,541,243	 \$ 130,163,558	 \$ 123,133,386

The Association currently has no rural home, aquatic, communication, energy, water/waste disposal, rural residential real estate, international, or lease receivable loans.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 5 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table (dollars in thousands). While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Commodity	December 31,					
	2005		2004		2003	
	Amount	%	Amount	%	Amount	%
Potatoes	\$ 39,169	31%	\$ 42,564	33%	\$ 40,388	33%
Grain (wheat, malt and feed barley)	25,485	20%	26,684	20%	23,395	19%
Beef cattle	10,043	8%	10,673	8%	11,821	10%
Milk and dairy cattle	11,550	9%	11,324	9%	8,496	7%
Sugar beets	8,286	7%	9,111	7%	9,112	7%
Other	31,008	25%	29,808	23%	29,921	24%
Total	<u>\$ 125,541</u>	<u>100%</u>	<u>\$ 130,164</u>	<u>100%</u>	<u>\$ 123,133</u>	<u>100%</u>

The Association's three largest loans and loan complexes comprise approximately 11.7% of year end volume. The loans are well collateralized with chattel and real estate security and are diversified in livestock, sugar beets, potatoes and grain.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on policies set by the board and management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland, machinery and equipment and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

The following table presents information relating to impaired loans including accrued interest, if any:

	December 31,		
	2005	2004	2003
Nonaccrual loans:			
Current as to principal and interest	\$ 544,358	\$ 891,002	\$ 151,556
90 days or more past due	1,812,135	1,907,921	2,471,841
Total nonaccrual loans	<u>2,356,493</u>	<u>2,798,923</u>	<u>2,623,397</u>
Impaired accrual loans:	0	0	0
Total impaired loans	<u>\$ 2,356,493</u>	<u>\$ 2,798,923</u>	<u>\$ 2,623,397</u>

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 5 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED**

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2005.

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

	For the Year Ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest income recognized on nonaccrual loans	\$ <b>576,801</b>	\$ 450,145	\$ 167,850
Interest income on impaired accrual loans	<b>0</b>	0	0
Interest income recognized on impaired loans	<u>\$ <b>576,801</b></u>	<u>\$ 450,145</u>	<u>\$ 167,850</u>
Average impaired loans	<u>\$ <b>2,257,937</b></u>	<u>\$ 2,638,653</u>	<u>\$ 2,291,409</u>

The following table presents information concerning impaired loans:

	December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Impaired loans with related allowance	\$ <b>279,773</b>	\$ 673,825	\$ 235,802
Impaired loans with no related allowance	<b>2,076,720</b>	2,125,098	2,387,595
Total impaired loans	<u>\$ <b>2,356,493</b></u>	<u>\$ 2,798,923</u>	<u>\$ 2,623,397</u>
Allowance on impaired loans	<u>\$ <b>279,773</b></u>	<u>\$ 275,871</u>	<u>\$ 51,000</u>

There were no loans classified as accruing restructured or accruing loans 90 days or more past due for the years presented. Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows:

	For the Year Ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest income which would have been recognized under the original loan terms	\$ <b>366,623</b>	\$ 376,335	\$ 379,064
Less: interest income recognized	<b>576,801</b>	450,145	167,850
Foregone (additional nonaccrual) interest income	<u><b>(210,178)</b></u>	<u>\$ (73,810)</u>	<u>\$ 211,214</u>

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

	For the Year Ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ <b>389,832</b>	\$ 2,594,345	\$ 2,570,690
Provision for (reversal of) loan losses	<b>(16,461)</b>	(2,562)	20,000
Nonrecurring provision reversal for loan losses	<b>0</b>	(2,204,515)	0
Production and intermediate-term charge-offs	<b>0</b>	(9,903)	(9,991)
Production and intermediate-term recoveries	<b>13,937</b>	12,467	13,646
Balance at end of year	<u><b>387,308</b></u>	<u>389,832</u>	<u>2,594,345</u>

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 5 - LOANS AND ALLOWANCE FOR LOAN LOSSES - CONTINUED**

Ratio of net charge-offs/(recoveries) to average loans  
outstanding during the period (.011)% (.002)% (.003)%

As previously discussed in Note 4, the nonrecurring provision reversal for loan losses resulted from the refinement of the Association's allowance for loan losses methodology. A breakdown of the allowance for loan losses follows:

	December 31,					
	2005		2004		2003	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Production Agricultural:						
Real estate mortgage	\$ 37,990	10%	\$ 39,990	10%	\$ 880,000	34%
Production and intermediate term	<u>349,318</u>	<u>90%</u>	<u>349,842</u>	<u>90%</u>	<u>1,714,345</u>	<u>66%</u>
Total	<u>\$ 387,308</u>	<u>100%</u>	<u>\$ 389,832</u>	<u>100%</u>	<u>\$2,594,345</u>	<u>100%</u>

To mitigate the risk of loan losses, the Association may enter into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default, (typically four months past due), subject to certain conditions. The Association had no loans under long-term standby commitments for the years presented.

**NOTE 6 - INVESTMENT IN AGBANK**

The Association's investment in AgBank may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock. Effective October 1, 2003, AgBank converted all shares of class B, AR and AR-P Stock to AgBank class A Stock. Subject to a phase-in rule, the Association is required to maintain an investment in AgBank equities equal to 6.25% of average direct loan volume, net of excess investment. The Association's initial required investment percent was reduced to prevent the Association from experiencing a reduction in its permanent capital ratio solely as a result of the bank merger. Therefore, a phase-in of the 6.25% required investment began over a three-year period beginning in 2003. The Association's required investment in AgBank, at December 31, 2005, was 6.07%, and will change to 6.25% on October 1, 2006. The investment in AgBank will be adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances. If needed to meet capital adequacy requirements, AgBank may require the Association to purchase at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve-month period.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 7 - PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following:

	December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 53,610	\$ 53,610	\$ 70,110
Buildings and improvements	513,814	493,479	587,129
Furniture and equipment	408,784	405,407	386,315
Automobiles	163,675	138,072	173,448
	<u>1,139,883</u>	<u>1,090,568</u>	<u>1,217,002</u>
Less: accumulated depreciation	896,851	880,857	952,755
Total	<u>\$ 243,032</u>	<u>\$ 209,711</u>	<u>\$ 264,247</u>

**NOTE 8 – OTHER PROPERTY OWNED**

The Association had no net investment in other property owned at December 31, 2005, 2004, and 2003. There was also no gain (loss) on other property owned during the years presented.

**NOTE 9 - NOTES PAYABLE TO AGBANK**

The Association's indebtedness to AgBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to AgBank and is governed by a General Financing Agreement (GFA), which provides a \$125 million line-of-credit. The GFA is subject to renewal at its expiration date of April 30, 2008 in accordance with normal business practice. All borrower loans are match-funded with AgBank. Payments and disbursements are made on the note payable to AgBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The weighted average interest rate was 4.85% for the year ended December 31, 2005. The Association has the opportunity to commit funds with AgBank in the Earnings Stabilization Management Program (ESMP) at a fixed rate for a specified timeframe. Such amounts eligible for this fixed rate program are limited to 50% of the Association's members' equity.

These committed funds as of December 31 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Committed funds	\$ 8,500,000	\$ 8,500,000	\$ 4,000,000
Average rates	3.52%	3.52%	3.53%

Under the Farm Credit Act, the Association is obligated to borrow only from AgBank, unless AgBank gives approval to borrow elsewhere. AgBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2005, the Association's notes payable are within the specified limitations.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 10 - MEMBERS' EQUITY**

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

- A. **Capital Stock and Participation Certificates:** In accordance with the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00% of the amount of the loan to 10.00% of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. As of December 31, 2004, the required investment was two percent of the loan amount. Effective January 1, 2005, the Association changed the stock requirement to the lesser of one thousand dollars or 2.00% at the borrower level.

The borrower acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

- B. **Regulatory Capitalization Requirements and Restrictions:** The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00% of risk-adjusted assets and off-balance-sheet commitments. Failure to meet this requirement can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.00% and of core surplus (generally unallocated surplus) as a percentage of risk-adjusted assets of 3.50%. The Association's permanent capital, core surplus, and total surplus ratios at December 31, 2005, were 21.63%, 16.64%, and 21.36%, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

- C. **Description of Equities:** Each owner of class C capital stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

At December 31, 2005, the Association had the following classes of equity outstanding, all at par value of \$5.00 per share/unit.

<u>Class</u>	<u>Number of Shares</u>	<u>Voting</u>	<u>Protected</u>
A - common stock	3	no	no
C - common stock	47,567	yes	no
F - participation certificates	614	no	no

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 10 - MEMBERS' EQUITY - CONTINUED**

The Association has the authority to issue other classes of stock as listed below, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

<u>Class</u>	<u>Number of Shares</u>	<u>Voting</u>	<u>Protected</u>
C - preferred stock	0	no	no
D - stock	0	no	yes
E - participation certificates	0	no	yes
Assistance preferred stock	0	no	no

The Board has not approved a program for issuing class C-preferred stock, even though the Association is authorized to do so by its bylaw amendments.

Losses that result in impairment of capital stock and participation certificates will be allocated to the classes of equity described above on a pro-rata basis. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities. Any assets remaining after such distribution will be shared prorata by all stock and certificate holders of record immediately before the liquidation distribution.

- D. **Dividends:** The Association generally does not pay cash dividends. Amounts not distributed in cash are held as unallocated retained earnings
- E. **Other Comprehensive Income/(Loss):** The Association reports other comprehensive income/(loss) in its Statement of Changes in Members' Equity. As more fully discussed in Note 13, other comprehensive loss results from a minimum pension liability adjustment of \$(640,749), \$(489,705), and \$(466,580) net of tax of \$163,600, \$126,370, and \$118,180 for the years ended December 31, 2005, 2004, and 2003, respectively, as a result of the funded status of the underlying plan. There were no other items affecting comprehensive income or loss for the year ended December 31, 2005.

**NOTE 11 - PATRONAGE DISTRIBUTIONS FROM AGBANK**

The patronage distribution from AgBank follows:

	<u>2005</u>	<u>2004</u>
Cash	\$ <u>334,298</u>	\$ 129,774
Stock	<u>286,510</u>	<u>256,685</u>
Total	\$ <u><u>620,808</u></u>	\$ <u><u>386,459</u></u>

For the year ended December 31, 2003, AgBank declared patronage refunds of \$24.6 million, which were allocated to each association in the merged AgBank, based upon each association's 2003 net average direct loan principal balance. The Association recorded its portion of the refunds by recognizing noninterest income of \$191,870, which was comprised of 18,769 shares of AgBank stock and a reduction of its FLCA note payable to AgBank of \$98,025.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 12 - INCOME TAXES**

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

	For the Year Ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current federal tax provision	\$ <b>124,748</b>	\$ 35,686	\$ 128,344
Deferred federal tax provision (benefit)	<b>38,330</b>	466,690	(1,820)
Provision for income taxes	<u>\$ <b>163,078</b></u>	<u>\$ 502,376</u>	<u>\$ 126,524</u>

The provision for/(benefit from) income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	For the Year Ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal tax at statutory rate	\$ <b>930,260</b>	\$ 1,554,190	\$ 426,448
Effect of non-taxable FLCA subsidiary	<b>(669,378)</b>	(936,193)	(293,710)
AgBank stock patronage income	<b>(97,413)</b>	(87,273)	(31,907)
Other, net	<b>(391)</b>	(28,348)	25,693
Provision for income taxes	<u>\$ <b>163,078</b></u>	<u>\$ 502,376</u>	<u>\$ 126,524</u>

Deferred tax assets and liabilities result from the following at:

	December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Gross deferred tax asset:			
Allowance for loan losses	\$ <b>118,700</b>	\$ 118,900	\$ 582,900
Nonaccrual loan interest	<b>101,400</b>	155,700	211,700
Pension expense	<b>266,500</b>	204,600	175,500
Post-retirement benefits			
Other than pensions	<b>36,900</b>	35,700	35,000
Other	<b>2,400</b>	4,700	5,800
Gross deferred tax asset	<u><b>525,900</b></u>	<u>519,600</u>	<u>1,010,900</u>
Deferred tax asset valuation allowance	<u><b>(26,000)</b></u>	<u>(26,000)</u>	<u>(58,800)</u>
	<u><b>499,900</b></u>	<u>493,600</u>	<u>952,100</u>
Gross deferred tax liability:			
Premises and equipment	<b>(30,500)</b>	(23,100)	(21,400)
Other			(1,700)
Gross deferred tax liability	<u><b>(30,500)</b></u>	<u>(23,100)</u>	<u>(23,100)</u>
Net deferred tax asset	<u>\$ <b>469,400</b></u>	<u>\$ 470,500</u>	<u>\$ 929,000</u>

The Association recorded a valuation allowance of \$26,000 during 2005, \$26,000 during 2004, and \$58,800 during 2003. The Association will continue to evaluate the realizability of these assets and adjust the valuation allowance accordingly.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 12 – INCOME TAXES - CONTINUED**

Deferred taxes arise principally from differences in the methods of reporting nonpatronage-related income and certain other expenses for tax and financial statement purposes. Taxes are not provided for temporary differences arising from patronage activities allocated to patrons in the form of patronage dividends.

**NOTE 13 - EMPLOYEE BENEFIT PLANS**

The Association participates in the Eleventh Farm Credit District Employees' Retirement Plan (the Plan). The assets, liabilities and costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs (or credits if applicable) are allocated by multiplying the participating entities' net pension expense (credit if applicable) by the Association's prior year salary expense as a percentage of the participating entities' prior year salary expense. Pension expense included in salaries and employee benefits expense was \$171,261 in 2005, \$133,542 in 2004, and \$207,946 in 2003. Additional financial information for the Plan may be found in the District's Annual Report.

At December 31, 2005, 2004, and 2003, the Accumulated Benefit Obligation (ABO) of the District's defined benefit plan exceeded the fair value of plan assets. In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions", the recognition of a minimum liability in the amount of the difference between the ABO and fair value of plan assets is required. In conjunction with the minimum liability, the Association records other comprehensive loss, and an intangible asset, which is included in other assets. The amounts recorded at December 31 follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Minimum pension liability	\$ <b>640,749</b>	\$ 531,094	\$ 538,522
Other comprehensive income/(loss)	\$ <b>(477,149)</b>	\$ (363,335)	\$ (348,400)
Intangible asset	\$ <b>0</b>	\$ 41,389	\$ 71,942
Pension funding	\$ <b>71,368</b>	\$ 59,917	\$ 112,678

The Association also participates in the Farm Credit Consolidated Benefit Plan – 401(k) and Employer Contribution Plan, a defined contribution excess benefit plan with two components. The Salary Deferral Plan component of the defined contribution plan requires the Association to match 100% of participants pre-tax and/or post-tax contributions for the first two percentage of compensation, and 50% of participants' pre-tax and/or post-tax contributions for the next four percentage of compensation. In the Money Purchase Plan component, the Association provides a monthly contribution based on a defined percentage of the employee's compensation, currently 5%. Employer contributions charged to expense were \$88,037 for 2005, \$75,227 for 2004, and \$86,135 for 2003.

The Eleventh District has a contributory plan providing certain benefits (primarily healthcare) to eligible current and retired employees. The Association's charges to this plan are an allocation of the District charges based on the Association's proportional share of total District active employees and totaled \$122,281, \$143,775, and \$129,399 for the years ended December 31, 2005, 2004, and 2003, respectively.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 14 - INTRA-SYSTEM FINANCIAL ASSISTANCE AND INSURANCE FUND**

The Financial Assistance Corporation (FAC) was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the FAC's issuance of \$1.261 billion of 15-year U.S. Treasury-guaranteed debt. The interest rates on these issuances ranged from 8.80% to 9.45%. The repayment of this debt and related interest was the responsibility of System Banks. AgBank's expenses relating to the obligation to repay principal and interest were apportioned among AgBank and its associations based on each institution's proportion of District accruing loan volume. In June 2005, the last outstanding Financial Assistance Corporation debt of \$325 million matured and was redeemed. The expense allocated to the Association was \$30,867, \$66,254, and \$145,039 in 2005, 2004, and 2003, respectively.

As explained in Note 1, each System bank is required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding. AgBank, in turn, assesses the Association for insurance premiums based on the average annual principal outstanding of accrual and nonaccrual loans of the Association. The assessment to the Association was \$63,255, \$58,071, and \$127,919 in 2005, 2004, and 2003, respectively. At December 31, 2005, the assets in the Insurance Fund aggregated \$2.062 billion. However, due to the other authorized uses of the Insurance Fund, there is no assurance that Fund assets will be available or sufficient to ensure the payment of principal of, or interest on, insured debt securities in the event of a default by any System bank having primary liability thereon.

**NOTE 15 - RELATED PARTY TRANSACTIONS**

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

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Total loans to such persons at December 31, 2005, amounted to \$20.99 million. During 2005, \$25.14 million of new loans were made and repayments totaled \$22.36 million. In the opinion of management, none of these loans outstanding at December 31, 2005, involved more than a normal risk of collectability.

**NOTE 16 - REGULATORY ENFORCEMENT MATTERS**

There are no regulatory enforcement actions in effect for the Association.

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2005, \$19.14 million of commitments to extend credit were outstanding.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES - CONTINUED**

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

In addition, actions are pending against the Association in which claims for money damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, would not be material in relation to the financial position of the Association.

**NOTE 18 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2005, 2004, and 2003. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows (\$ in thousands):

	December 31,					
	2005		2004		2003	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<b>Financial assets:</b>						
Loans, net of allowance	\$ 125,154	\$ 123,914	\$ 129,774	\$ 130,364	\$ 120,539	\$ 121,546
Cash	\$ 546	\$ 546	\$ 438	\$ 438	\$ 529	\$ 529
<b>Financial liabilities:</b>						
Notes payable to AgBank	\$ 105,832	\$ 101,814	\$ 110,720	\$ 109,270	\$ 105,602	\$ 105,087
Advance conditional payments (funds held)	\$ 1,150	\$ 1,150	\$ 515	\$ 515	\$ 836	\$ 836
<b>Unrecognized financial instruments:</b>						
Commitments to extend credit		\$ 19,142		\$ 26,674		\$ 33,280

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 18 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED**

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

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

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

Fair value of loans in a nonaccrual status that are current as to principal and interest and non-current nonaccrual loans that are adequately collateralized (acquisition of the collateral is not anticipated) is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For the remainder of 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 the net realizable value.

The carrying value of accrued interest approximates its fair value.

- B. **Cash:** The carrying value is a reasonable estimate of fair value.
- C. **Investment in AgBank:** Estimating the fair value of the Association's investment in AgBank is not practicable because the stock is not traded. As described in Note 6, the investment is a requirement of borrowing from AgBank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 1.85% of the issued stock of AgBank as of December 31, 2005. As of that date, AgBank's assets totaled \$18.17 billion and members' equity totaled \$992 million. AgBank's earnings were \$82.7 million during 2005.
- D. **Notes Payable to AgBank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets), which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on notes payable.
- E. **Advance Conditional Payments (Funds Held):** The carrying value is a reasonable estimate of fair value as all funds held fluctuate with changes in market rates.
- F. **Commitments to Extend Credit:** The fair value of off-balance-sheet commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the creditworthiness of the counter-parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

**Idaho Agricultural Credit Association**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**-Continued-**

**NOTE 19 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Quarterly results of operations for the years ended December 31, 2005, 2004, and 2003 follow (in thousands):

	<b>2005</b>				
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
Net interest income	\$ 1,203	\$ 1,032	\$ 1,079	\$ 1,134	\$ 4,448
Provision of loan losses/ (loan loss reversal)	30	(24)	(11)	(11)	(16)
Noninterest expense, net	<u>(487)</u>	<u>(434)</u>	<u>(459)</u>	<u>(511)</u>	<u>(1,891)</u>
Net income/(loss)	<u>\$ 686</u>	<u>\$ 622</u>	<u>\$ 631</u>	<u>\$ 634</u>	<u>\$ 2,573</u>
	<b>2004</b>				
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
Net interest income	\$ 1,206	\$ 918	\$ 1,138	\$ 942	\$ 4,204
Provision of loan losses/ (loan loss reversal)	25	30	30	(2,292)	(2,207)
Noninterest expense, net	<u>(580)</u>	<u>(528)</u>	<u>(464)</u>	<u>(770)</u>	<u>(2,342)</u>
Net income/(loss)	<u>\$ 601</u>	<u>\$ 360</u>	<u>\$ 644</u>	<u>\$ 2,464</u>	<u>\$ 4,069</u>
	<b>2003</b>				
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
Net interest income	\$ 820	\$ 873	\$ 1,079	\$ 1,009	\$ 3,781
Provision of loan losses/ (loan loss reversal)	10	10	0	0	20
Noninterest expense, net	<u>(676)</u>	<u>(678)</u>	<u>(615)</u>	<u>(664)</u>	<u>(2,633)</u>
Net income/(loss)	<u>\$ 134</u>	<u>\$ 185</u>	<u>\$ 464</u>	<u>\$ 345</u>	<u>\$ 1,128</u>

**Idaho Agricultural Credit Association**  
**DISCLOSURE INFORMATION REQUIRED BY**  
**FARM CREDIT ADMINISTRATION REGULATIONS**

Description of Business

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

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

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
American Falls	Building	Owned
Blackfoot	Building	Owned
Rexburg	Building	Owned

Legal Proceedings and Enforcement Actions

Legal actions are pending against the Association in which claims for money damages are asserted. Based on current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, would not be material in relation to the financial position of the Association.

Description of Capital Structure

Order of retirement of stock: Losses that result in impairment of capital stock and participation certificates will be allocated to the classes of equity described in Note 10 as follows:

First, to the holders of class C preferred stock until an amount equal to the aggregate par value of all shares of said Stock then issued and outstanding has been distributed to such holders;

Second, to the holders of class A common stock, class C common stock and Participation Certificates, pro-rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders;

Third, to the holders of class D stock until an amount equal to the aggregate par value of all shares of said Stock then issued and outstanding has been distributed to such holders;

Fourth, to the holders of Assistance Preferred Stock until an amount equal to the aggregate par value of all shares of said Stock then issued and outstanding has been distributed to such holders; and

**Idaho Agricultural Credit Association**  
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**-Continued-**

Fifth, any remaining assets of the Association after such distributions shall be distributed to the holders of class A, class C common stock and Participation Certificates, pro-rata, in proportion to the number of shares or units of each such class of Stock issued and outstanding immediately prior to the liquidation distribution.

The Association presently has outstanding only class A common stock, class C common stock and class F Participation Certificates, which are all at risk. All distributions to the holders of any class of stock or participation certificate shall be made pro-rata in proportion to the number of shares or units of such class of stock or participation certificate held by such holders.

The Association is currently not prohibited from retiring capital stock and presently foresees no realistic situation why retirement would be prohibited in the future.

Additional information required to be disclosed in this section is incorporated herein by reference from the consolidated financial statements, Note 10 – Members' Equity, included in this Annual Report to shareholders.

Description of Liabilities

Contingent liabilities of the Association required to be disclosed in this section are incorporated herein by reference from the consolidated financial statements, Note 14 – Intra-System Financial Assistance and Insurance Fund and Note 17 - Commitments and Contingencies, included in this Annual Report to shareholders.

Selected Financial Data

The selected financial data for the five years ended December 31, 2005, required to be disclosed in this section is incorporated herein by reference from the Five-Year Summary of Selected Financial Data, included in this Annual Report to shareholders.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations which appears in this Annual Report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

Directors and Senior Officers

The following represents certain information regarding the directors and senior officers of the reporting entity:

Senior Officers:

Arnold Seeley, President and Chief Executive Officer since 1986. Previously served as Senior Vice President. Has been employed by the Association since June 1965.

Daniel P. Allred, Senior Vice President and Senior Lending Officer since 1986. Previously served as Assistant Vice President and Branch Manager. Has been employed by the Association since April 1977, but within the Farm Credit System since June 1975.

Gregory G. Rose, Vice President and Branch Manager since July 2000. Previously served as Assistant Vice President and Branch Manager. Has been employed by the Association since November 1989.

Colleen Adams, Secretary, Treasurer and Chief Financial Officer since 1992. Previously served as Operations Officer and Assistant Secretary, and Assistant Treasurer. Has been employed by the Association since August 1969.

**Idaho Agricultural Credit Association**  
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**-Continued-**

Jim Chase, Assistant Vice President and Data Systems Administrator since January 2005. Previously served as Assistant Vice President and Assistant Branch Manager. Has been employed by the Association since January 1991.

Marc Fannesbeck, Assistant Vice President and Branch Manager since April 1998. Previously served as Branch Manager. Has been employed by the Association since January 1994.

R. Bart Brown, Assistant Vice President and Branch Manager since January 2002. Previously served as Branch Manager. Has been employed by the Association since January 1996.

Board of Directors:

Raymond G. Parks, Chairman, Blackfoot, Idaho. Term expires in 2008. Engaged in farming. Past district Congressman in the Idaho House of Representatives. Does not serve on any other board or commission.

Mark R. Ricks, Vice Chairman, Felt, Idaho. Term expires in 2006. Engaged in farming. Serves as director on the Fremont-Madison Irrigation District board and the Family Farm Alliance board.

Kenneth S. Black, Burley, Idaho. Term expires in 2008. Engaged in ranching and cattle feeding. Serves on the Burley FFA Advisory Committee.

Keith S. Hinckley, Blackfoot, Idaho. Term expires in 2007. Retired Executive Vice President of Basic American Foods and serves on the Executive Committee of the Idaho Falls Higher Education Advisory Council.

K. Gregory Nickell, Blackfoot, Idaho. Term expires in 2006. Engaged in farming. Presently serves as a director on the Potato Growers of Idaho board.

W. Brock Driscoll, Aberdeen, Idaho. Term expires in 2007. Engaged in farming. Does not serve on any other board or commission.

Twain S. Hayden, Arbon, Idaho. Term expires in 2007. Engaged in farming. Serves on the Arbon School District Board.

Compensation of Directors and Senior Officers

Association board members were paid \$200 per day honoraria in 2005, plus travel expenses, for attendance at board meetings and for their participation in other official business of Idaho Agricultural Credit Association. Total compensation paid to this group during 2005 was \$37,912, which included \$21,600 for honoraria and \$16,312 for expense reimbursement.

The Association Travel Policy allows reimbursements for travel, subsistence and other related expenses to directors and senior officers. Reimbursements for lodging, commercial travel, and other subsistence, with the exception of meals, requires receipts for actual costs. A copy of this policy is available to shareholders of the Association upon request. Honoraria is set each year at the Organizational Meeting of the Board of Directors. The aggregate amount of reimbursements for travel, subsistence and other related expenses, with the exception of honoraria, for all directors as a group for each of the last three fiscal years is as follows:

2005 -	\$16,312
2004 -	\$10,133
2003 -	\$ 6,410

**Idaho Agricultural Credit Association**  
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**FARM CREDIT ADMINISTRATION REGULATIONS**  
**-Continued-**

Honoraria for each director is provided as follows:

Idaho ACA Board Member	Number of Days Served at Board Meetings	Number of Days Served in Other Official Acts	Total Honoraria Paid in 2005
Raymond G. Parks, Chairman	13	8	\$ 4,200
Mark R. Ricks, Vice Chairman	11	0	2,200
Kenneth S. Black	13	3	3,200
W. Brock Driscoll	10	3	2,600
Twain S. Hayden	12	3	3,000
Keith S. Hinckley	12	4	3,200
K. Gregory Nickell	13	3	3,200
Total			<u>\$ 21,600</u>

Transactions with Senior Officers and Directors

There were no transactions other than loans to directors. The reporting entity's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from the consolidated financial statements, Note 15 - Related Party Transactions, included in this Annual Report to shareholders.

Senior Officer Compensation

Summary Compensation Table:

No. in Group	Year	Annual				Other*	Total
		Salary	Bonus/Incentive	Deferred/Perquisites	Other*		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	
5 Sr. Officers	2005	431,875	59,369	19,650	17,024	527,918	
	2004	410,289	41,195	21,835	14,130	487,449	
	2003	401,823	51,224	21,574	13,902	488,523	

\*Other includes auto use fringe benefit and group term life insurance benefit.

Column (d): The Board has approved employee incentive plans which include all employees, and which are predicated on the Association reaching certain goals established by the Board each year.

Employee incentive plans may be approved by the Board for all eligible employees. A separate CEO incentive plan may also be approved by the Board. The specific goals outlined in employee incentive plans are based on the Association achieving a .75% ROA and subject to the incentive plan payout not causing the ROA to fall below the .75%. Incentives are shared 25% equally among eligible employees, and 75% pro-rata based on salary actually paid during the year. The amount of the incentive for 2005 was calculated based on each dollar of increased average outstanding accrual loan volume (excluding sales contracts) over the prior year, on each dollar of average new member volume and for any increase in premiums collected over the prior year for credit life insurance, crop hail insurance and multiple peril crop insurance. The Board determined in its November 2005 meeting that the Association would meet its goals and approved a December 2005 payout of 5% to eligible employees. A separate CEO incentive plan is set by the Board with different or similar goals.

**Idaho Agricultural Credit Association**  
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**-Continued-**

Payments are made only if goals are met, and payment of the incentive would not cause the Association earnings to fall short of the goal. If the Board can determine, prior to yearend, that goals will be met, it can approve a partial payout of the incentive, with the remaining amount payable after yearend figures can be affirmed.

Column (e): Each eligible employee, on the first day of employment, is entitled to participate in the Association deferred compensation plan in which the employee may make pre-tax or post-tax contributions in multiples of 1% to 16% of annual salary (excluding overtime and lump sum payouts of annual leave, but including bonuses) into the Farm Credit Consolidated Retirement Savings Plan. If the employee chooses to participate, the Association will match as indicated in the following table.

Add together the employee's current pre-tax and post-tax contribution rates.  
Call the sum K01. Using K01, calculate the match amounts as follows:

If K01 = 0, then no match  
If K01 = 1%, then eligible wages \* 1% = Match amount  
If K01 = 2%, then eligible wages \* 2% = Match amount  
If K01 = 3%, then eligible wages \* 2.5% = Match amount  
If K01 = 4%, then eligible wages \* 3% = Match amount  
If K01 = 5%, then eligible wages \* 3.5% = Match amount  
If K01 >= 6%, then eligible wages \* 4% = Match amount

Employees vest at a rate of 25% per year and become fully vested in the Farm Credit Consolidated Retirement Savings Plan after four years of eligible service.

Disclosure of the total compensation paid during the last fiscal year to any senior officer or to any other employee included in the aggregate whose compensation exceeds \$50,000 is available to shareholders upon request.

Involvement in Certain Legal Proceedings

There were no matters, which came to the attention of management or the Board of Directors regarding involvement of current directors, or senior officers in specified legal proceedings, which are required to be disclosed in this section.

Financial Statements

The financial statements, together with the report thereon of Galusha, Higgins & Galusha, P.C. dated February 9, 2006, and the Report of Management appearing within this Annual Report to shareholders, are incorporated herein by reference.

Relationship with Independent Public Accountants

There has been no change in independent public accountants or no material disagreements on any matters of accounting principle or financial statement disclosure during the period.

Borrower Privacy

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

**Idaho Agricultural Credit Association**  
**DISCLOSURE INFORMATION REQUIRED BY**  
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**-Continued-**

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

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

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

U.S. AgBank, FCB Financial Data

The shareholders' investment in the Association is materially affected by the financial condition and the results of operation of the U.S. AgBank, FCB. Upon request, stockholders of the Association will be provided with a District Annual Report, which includes the combined financial statements of the Bank and its related Associations.

To obtain a copy of the 2005 U.S. AgBank, FCB's Annual Report or any of its Quarterly Reports, free of charge, please contact U.S. AgBank, FCB, Administrative Office, 245 North Waco, P.O. Box 2940, Wichita, Kansas 67201-2940; or call toll free (800) 322-9880.

A copy of the Association's interim Quarterly Reports are available at any of the Association's branch offices or its headquarters office located at 188 West Judicial, Blackfoot, Idaho. To obtain a copy by mail, free of charge, please call any Association branch office or the Association's headquarters office at (208) 785-1510 or (800) 686-8910, or write to the Association at P.O. Box 985, Blackfoot, Idaho 83221. Copies of Quarterly Reports are available 45 days after each quarter end. Association Annual Reports are available, free of charge, 90 days after year end and are mailed to all shareholders. To obtain an additional Annual Report, free of charge, telephone (208) 785-1510 or (800) 686-8910.

**Idaho Agricultural Credit Association  
DISCLOSURE INFORMATION REQUIRED BY  
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-Continued-**

**Idaho Agricultural Credit Association  
SCHEDULE OF DIRECTORS, OFFICERS, AND STAFF**

**BOARD OF DIRECTORS**

Raymond G. Parks, Chairman..... Blackfoot	K. Gregory Nickell..... Blackfoot
Mark R. Ricks, V.Chairman..... Felt	W. Brock Driscoll ..... Aberdeen
Kenneth S. Black.....Burley	Keith S. Hinckley..... Blackfoot
Twain S. Hayden ..... Arbon	

**OFFICERS**

Arnold Seeley..... President & CEO	Dan Allred ..... Senior Vice President & CCO
Colleen Adams .....Secretary, Treasurer & CFO	R. Bart Brown..... Asst. Vice President
Greg Rose .....Vice President	Marc Fannesbeck..... Asst. Vice President
Jim Chase..... Asst. Vice President	

**STAFF**

Headquarters - Blackfoot

Nelson C. Cooper..... Internal Auditor  
 Jim Chase.....Data Systems Administrator  
 Ryan Funk.....Computer Programmer  
 Brenda Nauman..... Operations Assistant  
 Diane Eatinger..... Operations Assistant

Rexburg Branch

Marc Fannesbeck ..... Branch Manager  
 Doug Eck ..... Loan Officer  
 Kirk Powell ..... Loan Officer  
 Sean Zaugg ..... Loan Officer  
 Carrie Mackert ..... Operations Assistant  
 Tina Morton ..... Operations Assistant

Blackfoot Branch

Greg Rose ..... Branch Manager  
 Kory Murdock ..... Loan Officer  
 Leslie Stephens ..... Operations Assistant

American Falls Branch

R. Bart Brown..... Branch Manager  
 Stan Taysom ..... Loan Officer  
 R. Scott Lish ..... Loan Officer  
 Dustin Carter..... Loan Officer  
 Maxine Olson ..... Operations Assistant  
 Kim Dean ..... Operations Assistant