

FIRST QUARTER 2005

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Neil L. Jordan
Chief Executive Officer



Thomas L. Antesberger
Chairman of the Board

April 29, 2005

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Ag Credit, Agricultural Credit Association (Association) for the three months ended March 31, 2005. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2004 annual report of the Association.

The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected by the financial condition and results of operations of the Bank. Copies of the AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, www.agfirst.com or may be obtained at no charge by calling 1-800-845-1745, extension 378. Copies of the Association's quarterly and annual reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 123, or writing Alice M. Beers, Treasurer at Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including general cash grain crops, livestock, and horticultural products. These commodities totaled approximately \$493,289 or 82.9 percent of the loan portfolio as of March 31, 2005. The following table shows the Association's portfolio composition by loan type as of the dates shown:

	3/31/05	12/31/04	\$ Change	% Change
Long-term farm mortgage	\$ 315,554	\$ 316,159	\$ (605)	-0.2%
Production and intermediate-term	226,208	239,252	(13,044)	-5.5
Rural home	47,337	45,605	1,732	3.8
Farm related business	10,491	9,466	1,025	10.8
Processing and marketing	914	1,624	(710)	-43.7
Leases	1,554	1,759	(205)	-11.7
Nonaccrual loans	413	2,629	(2,216)	-84.3
Participations purchased	1,989	12,495	(10,506)	-84.1
Less: participations sold	(9,732)	(7,575)	(2,157)	28.5
Total	\$ 594,728	\$ 621,414	\$ (26,686)	-4.3%

During the reporting period the Association did experience a decrease in long-term farm mortgage, production and intermediate-term (production), processing and marketing, leases, nonaccrual and participation purchased volume. Rural home loan, farm related business and participation sold volume increased during the reporting period. An increase in

participations sold reduces the Association's loans on the balance sheet. The production volume, which is heavily influenced by operating-type loans, typically decreases during the first quarter of the year as borrowers pay down loan balances. Strong 2004 farm earnings improved borrower liquidity allowing borrowers to pay down debt and reduce the amount of current operating credit needed. Leases decreased as a result of scheduled payments. Nonaccrual loans decreased due to collections made on several large loans in nonaccrual status during the first quarter of 2005. Participations purchased volume decreased primarily due to the pay off of several large participation loans. Participations sold increased due to the increased borrowing of a large commercial account whose total borrowings exceeded the Association's hold position. The following table shows selected participation loan information:

	3/31/05	12/31/04
Participations Purchased		
- FCS Institutions	\$ 1,989	\$ 4,946
Participations Purchased		
- Non-FCS Institutions	-	7,549
Participations Sold	(9,732)	(7,575)
Total	\$ (7,743)	\$ 4,920

There is an inherent risk in the extension of any type of credit. We review the credit quality of the loan portfolio on an on-going basis as part of the Association's risk management practices. There are no significant potential credit risks identified within the loan portfolio that could adversely impact the performance of the portfolio in the near future. Portfolio credit quality remains strong and credit administration is satisfactory. The following table represents risk asset information:

As of:	3/31/05	12/31/04
Loans:		
Accruing restructured	\$ 380	\$ 375
Past due 90 days or more and still accruing interest	-	-
Nonaccrual	413	2,629
Total high risk loans	\$ 793	\$ 3,004
Nonaccrual loans to total loans	0.1%	0.4%
High-risk loans to total assets	0.1%	0.5%

The Association continues to emphasize the use of FSA guarantees to help manage credit risk in the loan portfolio and to help reduce the potential for future loan losses. FSA volume outstanding as of March 31, 2005 was \$116,256 or 19.55 percent of the Association's loan portfolio.

Association management maintains an allowance for loan losses sufficient to cover the possible losses in the loan portfolio based on current and expected future conditions. During the first three months of 2005 the Association recognized net recoveries of \$3. Please refer to Note 2 Allowance For Loan Losses in the Notes to the Consolidated Financial Statements of this quarterly report for additional information on the allowance for loan losses. The following table presents selected allowance for loan loss information:

As of:	3-31-05	12-31-04
Allowance for loan losses	\$ 4,436	\$ 4,433
Provision for (reversal of) loan losses	—	(6,618)
Net charge-offs/(recoveries)	(3)	(9)
Allowance for loan losses to loans	0.75%	0.71%
Allowance for loan losses to nonaccrual loans	1,074.09%	168.62%
Allowance for loan losses to impaired loans	559.39%	147.57%
Net charge-offs/(recoveries) to average loans	—%	(.002)%

During 2004, the Association completed its study to further refine the allowance for loan losses methodology taking into account recently issued guidance by the FCA, the System's regulator, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council. As a result of this study and the resulting refinements in methodology, during the fourth quarter of 2004, the Association recorded a \$6,618 reversal of the allowance for loan losses. Please refer to the Management's Discussion & Analysis of Financial Condition and Results of Operations and to Note 3 Refinement of the Allowance for Loan Losses Methodology in the 2004 Annual Report for more detailed description of the change in the allowance for loan losses and the allowance for loan losses methodology.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2005 (Q1 2005) was \$3,892 for an increase of \$925 or 31.2 percent when compared to the net income of \$2,967 for the same period in 2004 (Q1 2004).

The major components of the changes in net income for the three months ended March 31, 2005 compared to March 31, 2004 are presented below:

Changes in Net Income

	For the three months ending March 31, 2005-2004
Increase (decrease) in net income:	
Net interest income	\$ 726
Provision for loan losses	—
Loan fees	20
Financially related services	39
Equity earnings of AgFirst Farm Credit Bank	27
Other noninterest income	20
Salaries and employee benefits	44
Occupancy and equipment	2
Insurance Fund premiums	79
Other operating expenses	(21)
Provision for income taxes	(11)
Total change in net income	<u>\$ 925</u>

Net interest income was \$4,589 and \$3,863 for the three months ending March 31, 2005 and March 31, 2004, respectively. The following table quantifies changes in the net interest income for this period for 2005 compared to 2004:

Changes in Net Interest Income

	For the three months ending March 31, 2005-2004
Created by changes in:	
Volume	\$ 189
Rate	399
Loan purchase discount	(6)
Nonaccrual loan income	144
Total change in net interest income	<u>\$ 726</u>

The \$399 increase related to rate resulted in part from significant loan re-pricing activities experienced primarily over the course of the last nine months of 2003 and first six months of 2004. The re-pricing activities and the lower general market interest rates allowed Association staff to reduce the members' borrowing costs on fixed rate loans while also reducing the Association's borrowing cost on these loans. This re-pricing activity increased earnings spreads on loans. In addition, the Association has been able to add new volume at competitive earnings spreads resulting in increased income to the Association. Increasing market interest rates are also increasing net interest income by generating increased earnings on the Association's own funds in loans.

The Association did not record a provision for loan losses during Q1 2005 or Q1 2004.

Noninterest income is comprised of loan fee income, fees for financially related services (FRS), equity in earnings from AgFirst Farm Credit Bank (the Bank) and other non-interest income. The changes in these areas are previously listed in the changes in net income table. Loan fee income increased during Q1 2005 when compared to Q1 2004 due to increased loan servicing fees, origination fees, participation fees and home loan secondary market origination fees. FRS income increased due to increased income from multi-peril insurance and appraisal services. The equity in earnings of the Bank is based on the Association's average note payable to the Bank. The YTD average note payable to the Bank was \$512,517 and \$495,157 as of March 31, 2005 and 2004, respectively, resulting in higher earnings for Q1 2005 versus Q1 2004.

Noninterest expense is comprised of salaries and employee benefits, occupancy and equipment expense, Insurance Fund premiums and general operating expenses. When comparing Q1 2005 to Q1 2004, salaries and benefits decreased due primarily to lower group health insurance premiums offset by scheduled annual salary increases and increased retirement expenses. Please refer to Note 3 Employee Benefit Plans in the Notes to the Consolidated Financial Statements of this quarterly report for additional information on employee benefits. The Farm Credit System Insurance Corporation (FCSIC) decreased premiums rates for Q1 2005 when compared to Q1 2004. Other operating expenses increased due to increased FSA guarantee fees paid and increased supervisory fees offset by reduced data processing costs.

The provision for income taxes was \$50 for Q1 2005 as compared to \$39 at the same time in 2004.

Key Results of Operations Ratios:

	3/31/05	12/31/04	3/31/04
Return on average assets	2.49%	3.62%	2.00%
Return on average equity	14.84%	23.60%	13.11%
Net interest margin	3.05%	2.74%	2.67%

The changes in these ratios are directly related to the changes in income discussed in the Results of Operations section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Capital Resources section.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement (GFA) utilizes the Association’s credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. Additional information on the GFA and the funding process is found on pages 10 and 11 of the 2004 Annual Report. The total notes payable to the Bank at March 31, 2005 was \$500,693 as compared to \$538,674 at December 31, 2004. The \$37,981 or 7.05 percent decrease is primarily attributed to the pay down of loan volume as described in the Loan Portfolio section and the receipt of the Bank’s 2004 patronage refund to the Association totaling \$5,810.

CAPITAL RESOURCES

The following table shows the changes in components of the Association’s members’ equity.

	3/31/05	12/31/04	\$ Change	% Change
Class A Preferred Stock	\$ 7,938	\$ 8,180	\$ (242)	-2.96%
C Stock and Participation Certificates	4,279	4,282	(3)	-0.07
Qualified Surplus Allocated	13,650	13,652	(2)	-0.01
Nonqualified Surplus Retained	18,543	18,436	107	0.58
Nonqualified Surplus Allocated	9,751	9,755	(4)	-0.04
Unallocated Retained Earnings	52,510	48,815	3,695	7.57
Total change in net income	\$ 106,671	\$ 103,120	\$ 3,551	3.44%

The increase in unallocated retained earnings was generated through net income less dividends on Class A preferred stock (Class A Stock) of \$60 and a \$137 adjustment for the actual 2004 patronage increase over the estimated amount reflected in the 2004 annual report. The reduction in Class A Stock resulted from member requested stock retirements. The Association is limiting the purchase of additional Class A Stock.

At March 31, 2005, the Association’s permanent capital ratio, total surplus ratio and core surplus ratio exceeded the regulatory minimum requirements of 7 percent, 7 percent and 3.5 percent, respectively. These ratios are calculated in accordance with Farm Credit Administration (FCA) regulations and are defined below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets.
- The total surplus ratio is average unallocated and allocated surplus less any deductions made in the permanent capital divided by average risk-adjusted assets.
- The core surplus ratio is average unallocated surplus and eligible allocated surplus less the Association’s average investment in the Bank divided by average risk-adjusted assets.

The actual ratios are shown in the chart below:

Regulatory Capital Ratios

	3/31/05	12/31/04	3/31/04
Permanent Capital Ratio	18.34%	16.24%	16.02%
Total Surplus Ratio	16.02%	13.81%	13.43%
Core Surplus Ratio	13.83%	11.62%	12.30%

The increase in the ratios is related to an increase in average guaranteed loan volume, rural home volume and risk-adjusted capital along with a reduction in loan volume as described above.

Ag Credit Agricultural Credit Association
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2005	December 31, 2004
	<i>(unaudited)</i>	
Assets		
Cash	\$ 3,551	\$ 5,772
Loans	594,728	621,414
Less: allowance for loan losses	4,436	4,433
Net loans	590,292	616,981
Accrued interest receivable	10,942	11,435
Investment in other Farm Credit institutions	7,557	7,557
Premises and equipment, net	1,564	1,592
Other assets	2,656	7,527
Total assets	\$ 616,562	\$ 650,864
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 500,693	\$ 538,674
Accrued interest payable	1,715	1,680
Patronage refund payable	135	2,503
Other liabilities	7,348	4,887
Total liabilities	509,891	547,744
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	12,217	12,462
Retained earnings		
Allocated	41,944	41,843
Unallocated	52,510	48,815
Total members' equity	106,671	103,120
Total liabilities and members' equity	\$ 616,562	\$ 650,864

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

Ag Credit Agricultural Credit Association
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2005	2004
Interest Income		
Loans	\$ 9,611	\$ 7,945
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	5,022	4,082
Net interest income	4,589	3,863
Provision for (reversal of) loan losses	—	—
Net interest income after provision for (reversal of) loan losses	4,589	3,863
Noninterest Income		
Loan fees	111	91
Fees for financially related services	96	57
Equity in earnings of other Farm Credit institutions	961	934
Gains (losses) on other property owned, net	—	(1)
Other noninterest income	23	4
Total noninterest income	1,191	1,085
Noninterest Expense		
Salaries and employee benefits	1,299	1,343
Occupancy and equipment	129	131
Insurance Fund premium	53	132
Other operating expenses	357	336
Total noninterest expense	1,838	1,942
Income before income taxes	3,942	3,006
Provision (benefit) for income taxes	50	39
Net income	\$ 3,892	\$ 2,967

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

Ag Credit Agricultural Credit Association
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2003	\$ 12,270	\$ 33,503	\$ 41,661	\$ 87,434
Net income			2,967	2,967
Capital stock/participation certificates issued	3,147			3,147
Capital stock/participation certificates retired	(1,037)			(1,037)
Cash dividends declared/paid			(76)	(76)
Retained earnings retired		(5)		(5)
Distribution adjustment		280	(219)	61
Balance at March 31, 2004	<u>\$ 14,380</u>	<u>\$ 33,778</u>	<u>\$ 44,333</u>	<u>\$ 92,491</u>
Balance at December 31, 2004	\$ 12,462	\$ 41,843	\$ 48,815	\$ 103,120
Net income			3,892	3,892
Capital stock/participation certificates issued	640			640
Capital stock/participation certificates retired	(885)			(885)
Cash dividends declared/paid			(60)	(60)
Retained earnings retired		(35)		(35)
Distribution adjustment		136	(137)	(1)
Balance at March 31, 2005	<u>\$ 12,217</u>	<u>\$ 41,944</u>	<u>\$ 52,510</u>	<u>\$ 106,671</u>

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

Ag Credit Agricultural Credit Association

Notes to the Consolidated Financial Statements

*(dollars in thousands, except as noted)
(unaudited)*

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Ag Credit Agricultural Credit Association (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited first quarter 2005 consolidated financial statements should be read in conjunction with the 2004 Annual Report to Stockholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles. The results for the three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

Certain amounts in prior period consolidated financial statements have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2005, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-03	\$ 11,042
(Reversal of) provision for loan losses	—
Loans (charged off), net of recoveries	<u>(2)</u>
Balance at 3-31-04	<u>\$ 11,040</u>
Balance at 12-31-04	\$ 4,433
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>3</u>
Balance at 3-31-05	<u>\$ 4,436</u>

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$6,618 in the fourth quarter of 2004 that resulted in a decrease in the allowance for loan losses.

NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association participates in a defined benefit retirement plan with three other District associations. Pension costs were determined by an actuary on a separate entity basis.

The following is a table of retirement and postretirement benefit expense for the three months ended March 31, 2005:

	For the three months ended March 31,	
	2005	2004
Service cost	\$ 89	\$ 92
Interest cost	119	98
Expected return on plan assets	(139)	(116)
Amortization of prior service cost	19	19
Recognized net actuarial (gain) loss	<u>39</u>	<u>17</u>
Net periodic benefit (income) cost	<u>\$ 127</u>	<u>\$ 110</u>

As of March 31, 2005, no contributions have been made to the pension plan for 2005. Actuarial projections as of the last plan measurement date (September 30, 2004) did not anticipate any contributions for 2005; however, market conditions could impact discount rates and return on plan assets which could change this expectation, making contributions necessary before the next plan measurement date.

The Association also participates in Districtwide thrift and other postretirement benefit plans. The other postretirement benefit plan provides certain benefits (primarily health care) to its retirees.

The following is a table of retirement and postretirement benefit expense for the three months ended March 31, 2005:

	For the three months ended March 31,	
	2005	2004
Pension	\$ 127	\$ 110
Thrift/deferred compensation	47	45
Other postretirement benefits	<u>110</u>	<u>116</u>
Total	<u>\$ 284</u>	<u>\$ 271</u>