

FIRST QUARTER 2006

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Neil L. Jordan
Chief Executive Officer



Thomas L. Antesberger
Chairman of the Board

April 28, 2006

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, 2006. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2005 annual report of the Association.

The Association obtains funding from AgFirst Farm Credit Bank (the Bank). Shareholder investment and the Association could be 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, or writing Jay Wise, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. 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. The Association prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the Association's fiscal yearend.

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 \$529,582 or 82.60 percent of the loan portfolio as of March 31, 2006. Farm size varies and many of the Association's borrowers have diversified operations. These factors, along with non-farm income somewhat reduces the level of commodity concentration risk.

Gross loan volume of the Association as of March 31, 2006 was \$641,109, a decrease of \$502 as compared to \$641,611 at December 31, 2005. The slight decrease in loan volume is related to a decrease in production and intermediate-term

volume, which is heavily influenced by operating-type loans. Operating loans typically decrease during the first quarter of the year as borrowers pay down loan balances. Increases in processing and marketing loans offset the decrease in production and intermediate loan volume. The increase in processing and marketing loan volume is a result of increased participation purchased loan volume. Net loans outstanding at March 31, 2006 were \$638,049 as compared to \$638,572 at December 31, 2005. Net loans accounted for 95.61 percent of total assets at March 31, 2006 as compared to 94.18 percent at December 31, 2005.

There is an inherent risk in the extension of any type of credit. 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. Nonaccrual loans increased by \$26 from \$297 at December 31, 2005 to \$323 at March 31, 2006.

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 2006 the Association recognized net recoveries of \$21. The allowance for loan losses was \$3,060 at March 31, 2006 compared to \$3,039 at December 31, 2005.

The Association continues to emphasize the use of FSA guarantees to help manage capital and credit risk in the loan portfolio and to help reduce the potential for future loan losses. FSA volume outstanding as of March 31, 2006 was \$144,445 or 22.5 percent of loans.

What risk factors are on the immediate horizon? Increasing federal deficits, increasing interest rates, high energy prices, higher input costs and land values along with the potential for reductions in governmental farm support payments have the potential of having an adverse impact on future farm income and debt repayment ability. While the Association does not anticipate these factors to have a near-term adverse impact on farmers, the Association is cognizant of the potential impact and is positioning itself to manage the impact by using loan guarantees and sound lending and risk management practices.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2006 (Q1 2006) was \$4,127 for an increase of \$235 or 6 percent when compared to the net income of \$3,892 for the same period in 2005 (Q1 2005). The increase in net income was primarily due to an increase in net interest income offset by an increase in noninterest expenses.

Net interest income increased by \$534 or 11.6 percent for Q1 2006 as compared to Q1 2005. The increase was mainly due to increased loan volume and increased earnings on the Association's own funds in loans resulting from the increases in short-term interest rates over the past twelve months offset by a reduction in income from nonaccrual loans.

The Association did not record a provision for loan losses during the first three months of 2006 or 2005.

Noninterest income is comprised of loan fee income, fees for financially related services (FRS), equity in earnings from the Bank and other non-interest income. The increase in noninterest income of \$90 is primarily attributed to a \$38 increase in loan fees and \$54 increase in equity in earnings from the Bank. Loan fees increased as a result of increased participation loan activity during Q1 2006 as compared to Q1 2005. The equity in earnings from the Bank increased as a result of increase borrowing from the Bank to fund the increased loan activity.

Noninterest expense is comprised of salaries and employee benefits, occupancy and equipment expense, Insurance Fund premiums and general operating expenses. Salaries and benefits for Q1 2006 increased by \$120 when compared to Q1 2005 due primarily to increased group health insurance expenses, increased pension-related expenses and scheduled annual salary increases. During Q1 2005 the Association did not have any group health insurance expense as the premiums were funded by the liquidation of assets in the former Louisville Farm Credit Bank benefit plan (former plan). The former plan paid the Association's group health premiums through October 2005. Occupancy and equipment expenses decreased by \$13 primarily due to decreased office space and equipment maintenance related expenses. The Insurance Fund expenses increased due to increased Farm Credit System Insurance Corporation (FCSIC) premiums for Q1 2006 as compared to Q1 2005. Other operating expenses increased due to increased FSA guarantee fees paid, advertising, purchased services, travel, directors, data processing and printing and office supplies expenses.

The provision for income taxes was \$52 and \$50 for Q1 2006 and Q1 2005, respectively.

Key Results of Operations Ratios:

	3/31/06	3/31/05
Return on average assets	2.49%	2.49%
Return on average equity	14.61%	14.84%
Net interest margin	3.22%	3.05%

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 11 and 12 of the 2005 Annual Report. The total notes payable to the Bank at March 31, 2006 was \$539,554 as compared to \$554,453 at December 31, 2005. The \$14,899 or 2.69 percent decrease is primarily attributed to earnings, pay down of loan volume and the receipt of the Bank's 2005 patronage refund to the Association totaling \$5,853.

CAPITAL RESOURCES

Total members' equity increased by \$3,086 to \$114,218 at March 31, 2006 as compared to the December 31, 2005 total of \$111,132. The increase is primarily related to current year earnings offset by a reduction in Class A Preferred stock and equity adjustments made for the actual patronage refund amounts compared to the estimated amounts used in the December 31, 2005 equity balances.

At March 31, 2006, 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. As of March 31, 2006, our ratio was 19.03 percent.
- The total surplus ratio is average unallocated and allocated surplus less any deductions made in the permanent capital divided by average risk-adjusted assets. As of March 31, 2006, our ratio was 17.21 percent.
- 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. As of March 31, 2006, our ratio was 15.28 percent.

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, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited first quarter 2006 consolidated financial statements should be read in conjunction with the 2005 Annual Report to Shareholders.

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, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

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, 2006, 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 12-31-04	\$ 4,433
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	3
Balance at 3-31-05	\$ 4,436
Balance at 12-31-05	\$ 3,039
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	21
Balance at 3-31-06	\$ 3,060

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 the components of net periodic benefit (income) cost for the defined benefit retirement plan for the three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	2005
Service cost	\$ 108	\$ 89
Interest cost	125	119
Expected return on plan assets	(153)	(139)
Amortization of prior service cost	29	19
Recognized net actuarial (gain) loss	41	39
Net periodic benefit (income) cost	\$ 150	\$ 127

As of March 31, 2006, no contributions have been made to the pension plan for 2006. Actuarial projections as of the last plan measurement date (September 30, 2005) did not anticipate any contributions for 2006; 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, 2006:

	For the three months ended March 31,	
	2006	2005
Pension	\$ 150	\$ 127
Thrift/deferred compensation	49	47
Other postretirement benefits	72	110
Total	\$ 271	\$ 284