

THIRD QUARTER 2005

Management's Discussion and Analysis of
Financial Condition and Results of Operations.....2

Consolidated Financial Statements

Consolidated Balance Sheets.....6

Consolidated Statements of Income.....7

Consolidated Statements of Changes in Members' Equity.....8

Notes to the Consolidated Financial Statements.....9



Neil L. Jordan
Chief Executive Officer



Thomas L. Antesberger
Chairman of the Board

October 28, 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 nine months ended September 30, 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 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.

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 \$532,497 or 83.4 percent of the loan portfolio as of September 30, 2005. The following table shows the Association's portfolio composition by loan type as of the dates shown:

	9/30/05	12/31/04	\$ Change	% Change
Long-term farm mortgage	\$332,260	\$316,159	\$ 16,101	5.1%
Production and intermediate-term	250,192	239,252	10,940	4.6%
Rural home	49,162	45,605	3,557	7.8%
Farm related business	10,027	9,466	561	5.9%
Processing and marketing	826	1,624	(798)	-49.1%
Leases	1,314	1,759	(445)	-25.3%
Nonaccruals	341	2,629	(2,288)	-87.0%
Participations purchased	2,438	12,495	(10,057)	-80.5%
Less: participations sold	(8,050)	(7,575)	(475)	6.3%
Total	\$638,510	\$621,414	\$ 17,096	2.8%

During the reporting period the Association experienced an increase in long-term farm mortgage (LT), production and intermediate-term (production), farm related business and rural home (RHL) loans. These increases were offset by decreases in processing and marketing, leases, nonaccrual and participation purchased volume. An increase in participations sold, a negative change in the previous table,

reduces the Association's loans on the balance sheet. The production volume, which is heavily influenced by operating-type loans, typically increases during the second and third quarters of the year as borrowers use their loans to pay crop input expenses. Favorable 2004 farm earnings improved borrower liquidity allowing borrowers to pay down debt and reduce the amount of current operating credit needed. The increased LT volume is a result of an increase in land available for sale, increasing land values and the concerted effort of the Association's staff to earn the business from those who need to borrow funds for land purchases. RHL volume continues to increase as a result of the Association's increased focus in making loans to this segment of the market to enhance the Association's earnings and thereby increasing the value returned to its stockholders. Leases decreased as a result of scheduled payments and reduced new lease activity resulting from recent tax law provisions concerning depreciation. Nonaccrual loans decreased due to collections made on several large loans in nonaccrual status and several transfers back to accrual status based on corrective action and improved loan performance. Participations purchased volume decreased primarily due to the pay-off of several large participation loans and decreased purchasing activity by the Association attributed to low net income margins on new participation offerings. 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:

	9/30/05	12/31/04
Participations Purchased		
- FCS Institutions	\$ 2,438	\$ 4,946
Participations Purchased		
- Non-FCS Institutions	-	7,549
Participations Sold	(8,050)	(7,575)
Total	\$ (5,612)	\$ 4,920

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. The following table represents risk asset information:

As of:	9/30/05	12/31/04
Loans:		
Accruing restructured	\$ 364	\$ 375
Past due 90 days or more and still accruing interest	-	-
Nonaccrual	341	2,629
Total high risk loans	\$ 705	\$ 3,004
Nonaccrual loans to total loans	0.1%	0.4%
High-risk loans to total assets	0.1%	0.5%

Farmers in the Association's territory experienced quite a number of adversities during the 2005 growing season. With exceptional early spring weather, crops were planted earlier than normal. Cold, wet, snowy weather after planting resulted in stand damage and substantial additional replanting time and expense. Hot and dry conditions during June and early July threatened a significant decrease in crop yields. Mid to late summer could be defined as, "the year of the hurricane." Hurricane Dennis brought substantial amounts of much needed rain to the area. While some of our farmers will still experience below average yields due to dry conditions, in general, a majority of the farmers in our territory should have average crop yields.

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 nine months of 2005 the Association recognized net recoveries of \$6.

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 September 30, 2005 was \$149,849 or 23.5% percent of the Association's loan portfolio. The following table presents allowance for loan loss information:

As of:	9-30-05	12-31-04
Allowance for loan losses	\$ 4,439	\$ 4,433
Provision for (reversal of) loan losses	—	(6,618)
Net charge-offs/(recoveries)	(6)	(9)
Allowance for loan losses to loans	0.70%	0.71%
Allowance for loan losses to nonaccrual loans	1301.76%	168.62%
Allowance for loan losses to impaired loans	629.65%	147.57%
Net charge-offs/(recoveries) to average loans	(.001)%	(.002)%

We review the credit quality of the loan portfolio on an on-going basis as part of the Association's risk management practices. The following table presents selected statistics related to the credit quality of loans, including accrued interest, as of the dates shown.

	9-30-05	12-31-04
Acceptable & OAEM	99.11%	98.70%
Substandard	0.89	1.27
Doubtful	—	0.03
Loss	—	—
	100.00%	100.00%

What risk factors are on the immediate horizon? Increasing federal deficits, interest rates, oil prices, 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 September 30, 2005 (Q3 2005) was \$4,110 for an increase of \$497 or 13.8 percent when compared to the net income of \$3,613 for the same period in 2004 (Q3 2004). Net income for the nine months ended September 30, 2005 was \$11,959 for an increase of \$2,127 or 21.6 percent when compared to the net income of \$9,832 for the same period in 2004.

The major components of the changes in net income for the three and nine months ended September 30, 2005 compared to September 30, 2004 are presented below:

Changes in Net Income:

	For the three months ending September 30 2005 vs 2004	For the nine months ending September 30 2005 vs 2004
Increase (decrease) in net income due to:		
Net interest income	\$ 809	\$ 2,238
Provision for loan losses	—	—
Loan fees	54	106
Financially related services	(128)	(152)
Equity earnings of AgFirst Farm Credit Bank	34	96
Other noninterest income	(5)	(14)
Salaries and employee benefits	(30)	29
Occupancy and equipment	(16)	(12)
Insurance Fund premium	(149)	6
Other operating expenses	(29)	(88)
Provision for income taxes	(43)	(82)
Total change in net income	\$ 497	\$ 2,127

Net interest income was \$4,941 and \$4,132 for the three months ending September 30, 2005 and September 30, 2004, respectively. Net interest income was \$14,315 and \$12,077 for the nine months ending September 30, 2005 and September 30, 2004, respectively. The following table quantifies changes in the net interest income for these periods for 2005 compared to 2004:

Changes in Net Interest Income:

	For the three months ending September 30 2005 - 2004	For the nine months ending September 30 2005 - 2004
Created by changes in:		
Volume	\$ 194	\$ 584
Rate	587	1,560
Loan purchase discount	19	66
Nonaccrual loan income	9	28
Total change in net interest income	\$ 809	\$ 2,238

The \$587 and \$1,560 increases 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 nine months of 2004 and the significant increase in the general short-term interest rate market over the last year. The re-pricing activities and the lower general market interest rates in 2003 and 2004 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 current increasing interest rate environment may bring additional competition for loans, as Association borrowers evaluate variable rate loans indexed to the more market oriented and responsive LIBOR index as compared to the (lagging) prime rate index.

The Association did not record a provision for loan losses during the third quarter or the first nine months of 2005 or 2004.

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 changes in these areas are previously listed in the changes in net income table. Loan fee income increased during Q3 2005 when compared to Q3 2004 due to increased home loan secondary market origination fees, loan servicing fees, origination fees and loan participation fees. Loan fees increased for the first nine months of 2005 when compared to the same period in 2004 for the same reasons. FRS income decreased in Q3 2005 when compared to Q3 2004 due to lower multi-peril insurance, appraisal and credit life experience refund income. FRS income for the first nine months of 2005 was lower for the same reasons. The reduced multi-peril income is due to the receipt of a significant portion of the 2004 income during Q3 2004 while the similar payment for 2005 is anticipated to be in Q4 2005. The increase in the equity in earnings of the Bank is a result of the increase in the Association's average note payable to the Bank. Miscellaneous income decreased for the first nine months of 2005 by \$15 when compared to the same period of 2004 due to lower Captive Insurance income.

Noninterest expense is comprised of salaries and employee benefits, occupancy and equipment expense, Insurance Fund premiums and general operating expenses. Salaries and benefits for Q3 2005 increased when compared to Q3 2004 due primarily to scheduled annual salary increases and increased retirement expenses. When comparing salaries and benefits expense for YTD 2005 to YTD 2004, the decrease is related to lower Association group health insurance expenses as the premiums were funded by the use of assets in the former Louisville Farm Credit Bank benefit plan (former plan). It is estimated that the former plan will pay the premiums through October 2005. When comparing occupancy and equipment expense for both the three-month and nine month periods ending September 30, 2005, the increases are primarily a result of increased maintenance expenses. The Farm Credit System Insurance Corporation (FCSIC) premiums were lower for the first nine months 2005 when compared to the same period of 2004 due to lower average premiums in 2005 when compared to 2004. The FCSIC premium increased during Q3 2005 when compared to Q3 2004. Other operating expenses increased due to increased FSA guarantee fees paid, purchased services, travel, directors and printing and office supplies expenses offset by reduced data processing costs.

The provision for income taxes was \$99 and \$216 for Q3 and the first nine months of 2005, respectively as compared to \$56 and \$134 for the same respective periods of 2004.

Key Results of Operations Ratios:

	9/30/05	12/31/04	9/30/04
Return on average assets	2.50%	3.62%	2.17%
Return on average equity	14.76%	23.60%	14.07%
Net interest margin	3.10%	2.74%	2.73%

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 September 30, 2005 was \$547,444 as compared to \$538,674 at December 31, 2004. The \$8,770 or 1.63 percent increase is primarily attributed to the increase in loan volume as described in the Loan Portfolio section, the payment of the cash portion of the 2004 patronage of \$2,371 paid in March and the payment of the revolvment of the qualified allocated equities of \$4,451 paid in September. These increases were offset by the pay down of the participation loan volume discussed 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.

	9/30/05	12/31/04	\$ Change	% Change
Class A Preferred Stock	\$ 6,664	\$ 8,180	\$ (1,516)	-18.53%
C Stock and				
Participation Certificates	4,342	4,282	60	1.40
Qualified Surplus Allocated	9,046	13,652	(4,606)	-33.74
Nonqualified Surplus Retained	18,543	18,436	107	0.58
Nonqualified Surplus Allocated	9,746	9,755	(9)	-0.09
Unallocated Retained Earnings	60,464	48,815	11,649	23.86
Total change in net income	\$108,805	\$103,120	\$ 5,685	5.51%

The increase in unallocated retained earnings was generated through net income less dividends on Class A preferred stock (Class A Stock) of \$172 and a \$138 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. In September 2005 the Association revolved \$4,596 of qualified allocated equity. The revolvment included \$1,962 and \$2,634 of qualified allocated equities from the patronage refunds made in 1999 and 2000, respectively.

At September 30, 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:

	9/30/05	12/31/04	9/30/04
Permanent Capital Ratio	18.70%	16.24%	16.40%
Total Surplus Ratio	16.54%	13.81%	13.94%
Core Surplus Ratio	14.03%	11.62%	11.97%

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

Ag Credit Agricultural Credit Association
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
Assets		
Cash	\$ 2,279	\$ 5,772
Loans	638,510	621,414
Less: allowance for loan losses	4,439	4,433
Net loans	634,071	616,981
Accrued interest receivable	17,686	11,435
Investment in other Farm Credit institutions	7,557	7,557
Premises and equipment, net	1,597	1,592
Other assets	4,499	7,527
Total assets	<u>\$ 667,689</u>	<u>\$ 650,864</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 547,444	\$ 538,674
Accrued interest payable	2,017	1,680
Patronage refund payable	126	2,503
Other liabilities	9,297	4,887
Total liabilities	<u>558,884</u>	<u>547,744</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	11,006	12,462
Retained earnings		
Allocated	37,335	41,843
Unallocated	60,464	48,815
Total members' equity	<u>108,805</u>	<u>103,120</u>
Total liabilities and members' equity	<u>\$ 667,689</u>	<u>\$ 650,864</u>

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 September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
Interest Income				
Loans	\$ 10,897	\$ 8,706	\$ 30,756	\$ 24,883
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,956	4,574	16,441	12,806
Net interest income	4,941	4,132	14,315	12,077
Provision for (reversal of) loan losses	—	—	—	—
Net interest income after provision for (reversal of) loan losses	4,941	4,132	14,315	12,077
Noninterest Income				
Loan fees	126	72	380	274
Fees for financially related services	23	151	138	290
Equity in earnings of other Farm Credit institutions	1,030	996	2,976	2,880
Gains (losses) on other property owned, net	—	1	—	(1)
Other noninterest income	2	6	29	44
Total noninterest income	1,181	1,226	3,523	3,487
Noninterest Expense				
Salaries and employee benefits	1,221	1,191	3,795	3,824
Occupancy and equipment	104	88	340	328
Insurance Fund premium	88	(61)	191	197
Other operating expenses	500	471	1,337	1,249
Total noninterest expense	1,913	1,689	5,663	5,598
Income before income taxes	4,209	3,669	12,175	9,966
Provision (benefit) for income taxes	99	56	216	134
Net income	\$ 4,110	\$ 3,613	\$ 11,959	\$ 9,832

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			9,832	9,832
Capital stock/participation certificates issued	4,737			4,737
Capital stock/participation certificates retired	(3,821)			(3,821)
Dividends declared/paid		74	(213)	(139)
Retained earnings retired		(4,056)		(4,056)
Distribution adjustment		280	(225)	55
Balance at September 30, 2004	<u>\$ 13,186</u>	<u>\$ 29,801</u>	<u>\$ 51,055</u>	<u>\$ 94,042</u>
Balance at December 31, 2004	\$ 12,462	\$ 41,843	\$ 48,815	\$ 103,120
Net income			11,959	11,959
Capital stock/participation certificates issued	1,452			1,452
Capital stock/participation certificates retired	(2,908)			(2,908)
Stock dividends declared/paid			(172)	(172)
Retained earnings retired		(4,644)		(4,644)
Distribution adjustment		136	(138)	(2)
Balance at September 30, 2005	<u>\$ 11,006</u>	<u>\$ 37,335</u>	<u>\$ 60,464</u>	<u>\$ 108,805</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 Shareholders. These unaudited third quarter 2005 consolidated financial statements should be read in conjunction with the 2004 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 nine months ended September 30, 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 September 30, 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>(40)</u>
Balance at 9-30-04	<u>\$ 11,002</u>
Balance at 12-31-04	\$ 4,433
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>6</u>
Balance at 9-30-05	<u>\$ 4,439</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 nine months ended September 30, 2005:

	For the nine months ended September 30,	
	2005	2004
Service cost	\$ 268	\$ 275
Interest cost	357	293
Expected return on plan assets	(418)	(349)
Amortization of prior service cost	59	59
Recognized net actuarial (gain) loss	<u>116</u>	<u>52</u>
Net periodic benefit (income) cost	<u>\$ 382</u>	<u>\$ 330</u>

The Association had not previously anticipated making a contribution in 2005 to the defined benefit retirement plan based upon actuarial projections as of the last plan measurement date (September 30, 2004). However, due to market conditions affecting discount rates and return on plan assets, current actuarial projections indicated that a contribution was needed to meet the expected accumulated benefit obligation at September 30, 2005. During the third quarter of 2005, the Association contributed \$225 to the defined benefit retirement plan. The Association does not anticipate making additional contributions for the remainder of 2005.

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 nine months ended September 30, 2005:

	For the nine months ended September 30,	
	2005	2004
Pension	\$ 382	\$ 330
Thrift/deferred compensation	143	136
Other postretirement benefits	<u>328</u>	<u>347</u>
Total	<u>\$ 853</u>	<u>\$ 813</u>