

FIRST QUARTER 2005

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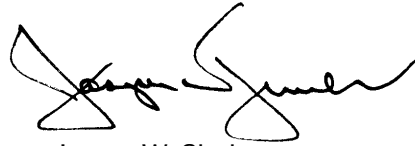
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Jasper W. Shuler
Chief Executive Officer



Dale W. Player
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 Pee Dee Farm Credit ACA, (Association) for the period 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.

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 in our region, including tobacco, poultry, swine and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity. Approximately one third of the portfolio has significant outside income to diversify dependence on agriculture. Further, approximately nine percent of the primarily agriculture portfolio carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of March 31, 2005, was \$262,820, an increase of \$17,780 as compared to \$245,040 at December 31, 2004. Net loans outstanding at March 31, 2005, were \$261,818 as compared to \$244,040 at December 31, 2004. The Association has investment securities that are classified as held to maturity in the amount of \$14,279 at March 31, 2005 compared to \$12,553 at December 31, 2004. Net loans and security investments accounted for 96.40 percent of total assets at March 31, 2005, as compared to 95.39 percent of total assets at December 31, 2004.

The increase in gross and net loan volume during the reporting period is attributed primarily to the seasonal lending upswing. The Association continues to review and engage in participation opportunities, as well as customer opportunities within the territory.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$469 at December 31, 2004, to \$308 at March 31, 2005. This decrease is primarily the result of diligence on the part of Association staff and because of the higher than normal percentage of guaranteed loans. Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2005, was \$1,002, compared to \$1,000 at December 31, 2004, and was considered by management to be adequate to cover possible losses.

Geographic Distribution of Loans by State at March 31, 2005:

| | <u>Percentage</u> |
|----------------|-------------------|
| South Carolina | 65.31 % |
| Arizona | .31 |
| Arkansas | .37 |
| California | 1.03 |
| Colorado | .55 |
| Florida | 14.46 |
| Georgia | 10.66 |
| Kansas | .16 |
| Kentucky | .25 |
| Maryland | .05 |
| New York | .38 |
| North Carolina | 2.03 |
| Oregon | .08 |
| Pennsylvania | 1.04 |
| Tennessee | 1.20 |
| Texas | 1.95 |
| Virginia | .10 |
| Wisconsin | .07 |
| | <u>100.00 %</u> |

Distribution of Loans by Loan Type at March 31, 2005:

| | <u>Percentage</u> | |
|--|-------------------|---------|
| Agricultural Production: | | |
| Cash grains | 1.87% | |
| Tobacco | 7.94 | |
| Livestock | 5.79 | |
| Cotton | 3.02 | |
| Poultry | 9.65 | |
| General row crops | 1.54 | |
| Forestry | 9.83 | |
| Other commodities | 1.23 | |
| | <hr/> | 40.87% |
| Agricultural real estate mortgage | 23.98 | |
| Rural home | 3.54 | |
| Notes receivable sales contracts/PMIMs | 1.66 | |
| Basic processing | 15.74 | |
| Farm-related business | 2.77 | |
| Nonaccruals | .12 | |
| Participations purchased | 36.27 | |
| Participations sold | (24.95) | |
| | <hr/> | 100.00% |

RESULTS OF OPERATIONS***For the three months ended March 31, 2005***

Net income for the three months ended March 31, 2005, totaled \$1,480, as compared to \$957 for the same period in 2004. Net interest income increased \$353, for the three months ended March 31, 2005, as compared to the same period in 2004.

At March 31, 2005, interest income on accruing loans increased \$642 compared to \$3,123 at March 31, 2004. Nonaccrual income was \$149 for the three months ended March 31, 2005, as compared to \$22 for the same period in 2004. Interest income on investment securities was \$183 for the three months ended March 31, 2005 while there was not any for the same period in 2004. Interest expense increased \$599 for the three months ended March 31, 2005, as compared to the comparable period of 2004. Noninterest income for the three months ended March 31, 2005, totaled \$874, as compared to \$715 for the same period of 2004, an increase of \$159. Noninterest expense for the three months ended March 31, 2005, decreased \$17 compared to the same period of 2004.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2005, was \$239,445 as compared to \$222,656 at December 31, 2004. The increase during the period is primarily attributed to increased loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2005, increased to \$40,539 from the December 31, 2004, total of \$39,114. The increase is primarily attributed to the increase in retained earnings in excess of the reduction of capital stock, participation certificates and revolved equities.

Total capital stock and participation certificates were \$1,728 on March 31, 2005, compared to \$1,756 on December 31, 2004. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business, new loans being capitalized at new lower regulatory levels, and the annual retirement of B stock.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2005, the Association's total surplus ratio and core surplus ratio were 15.22 percent and 12.32 percent, respectively, and the permanent capital ratio was 15.73 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Pee Dee Farm Credit, ACA
Consolidated Balance Sheets

| <i>(dollars in thousands)</i> | March 31, 2005 | December 31, 2004 |
|--|---------------------------|------------------------------|
| | <i>(unaudited)</i> | |
| Assets | | |
| Cash | \$ — | \$ 7 |
| Investment securities | 14,279 | 12,553 |
| Loans | 262,820 | 245,040 |
| Less: allowance for loan losses | 1,002 | 1,000 |
| Net loans | 261,818 | 244,040 |
| Accrued interest receivable | 2,962 | 2,438 |
| Investment in other Farm Credit institutions | 3,673 | 3,645 |
| Premises and equipment, net | 556 | 610 |
| Other assets | 3,121 | 5,698 |
| Total assets | \$ 286,409 | \$ 268,991 |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 239,445 | \$ 222,656 |
| Accrued interest payable | 816 | 723 |
| Patronage refund payable | 112 | 1,675 |
| Other liabilities | 5,497 | 4,823 |
| Total liabilities | 245,870 | 229,877 |
| Commitments and contingencies | | |
| Members' Equity | | |
| Protected borrower equity | 535 | 584 |
| Capital stock and participation certificates | 1,193 | 1,172 |
| Retained earnings | | |
| Allocated | 22,452 | 22,225 |
| Unallocated | 16,359 | 15,133 |
| Total members' equity | 40,539 | 39,114 |
| Total liabilities and members' equity | \$ 286,409 | \$ 268,991 |

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

Pee Dee Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

| <i>(dollars in thousands)</i> | For the three months ended March 31, | |
|--|---|-------------|
| | 2005 | 2004 |
| Interest Income | | |
| Loans | \$ 3,914 | \$ 3,145 |
| Other | 183 | — |
| Total Interest Income | 4,097 | 3,145 |
| Interest Expense | | |
| Notes payable to AgFirst Farm Credit Bank | 2,254 | 1,655 |
| Net interest income | 1,843 | 1,490 |
| Provision for (reversal of) loan losses | — | — |
| Net interest income after provision for (reversal of) loan losses | 1,843 | 1,490 |
| Noninterest Income | | |
| Loan fees | 308 | 240 |
| Fees for financially related services | 9 | 13 |
| Equity in earnings of other Farm Credit institutions | 475 | 410 |
| Other noninterest income | 82 | 52 |
| Total noninterest income | 874 | 715 |
| Noninterest Expense | | |
| Salaries and employee benefits | 800 | 868 |
| Occupancy and equipment | 83 | 68 |
| Insurance Fund premium | 24 | 55 |
| Other operating expenses | 318 | 251 |
| Total noninterest expense | 1,225 | 1,242 |
| Income before income taxes | 1,492 | 963 |
| Provision (benefit) for income taxes | 12 | 6 |
| Net income | \$ 1,480 | \$ 957 |

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

Pee Dee Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

| | Protected Borrower Capital | Capital Stock and Participation Certificates | Retained Earnings | | Accumulated Other Comprehensive Income | Total Members' Equity |
|--|----------------------------------|---|-------------------|-------------|---|-----------------------------|
| | | | Allocated | Unallocated | | |
| Balance at December 31, 2003 | \$ 701 | \$ 1,155 | \$ 16,653 | \$ 14,618 | \$ (2,480) | \$ 30,647 |
| Net income | | | | 957 | | 957 |
| Protected borrower equity retired | (75) | | | | | (75) |
| Capital stock/participation certificates issued | | 18 | | | | 18 |
| Capital stock/participation certificates retired | | (26) | | | | (26) |
| Retained earnings retired | | | (3) | | | (3) |
| Distribution adjustment | | | 82 | (134) | | (52) |
| Balance at March 31, 2004 | \$ 626 | \$ 1,147 | \$ 16,732 | \$ 15,441 | \$ (2,480) | \$ 31,466 |
| Balance at December 31, 2004 | \$ 584 | \$ 1,172 | \$ 22,225 | \$ 15,133 | \$ — | \$ 39,114 |
| Net income | | | | 1,480 | | 1,480 |
| Protected borrower equity retired | (49) | | | | | (49) |
| Capital stock/participation certificates issued | | 48 | | | | 48 |
| Capital stock/participation certificates retired | | (27) | | | | (27) |
| Retained earnings retired | | | (7) | | | (7) |
| Distribution adjustment | | | 234 | (254) | | (20) |
| Balance at March 31, 2005 | \$ 535 | \$ 1,193 | \$ 22,452 | \$ 16,359 | \$ — | \$ 40,539 |

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

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 Pee Dee Farm Credit, ACA (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.

Investment Securities: The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association's investments are classified as held to maturity and accordingly have been reported at amortized cost.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or permanent. In the event of permanent impairment, the cost basis of the investment would be written down to its fair value, and the realized loss would be included in current earnings.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

| | |
|---|-----------------|
| Balance at 12-31-03 | \$ 5,446 |
| (Reversal of) provision for loan losses | — |
| Recoveries, net of loans charged off | — |
| | <u>\$ 5,446</u> |
| Balance at 3-31-04 | <u>\$ 5,446</u> |
| Balance at 12-31-04 | \$ 1,000 |
| (Reversal of) provision for loan losses | — |
| Recoveries, net of loans charged off | 2 |
| | <u>\$ 1,002</u> |
| Balance at 3-31-05 | <u>\$ 1,002</u> |

As discussed in the 2004 Annual Report, the Association recorded a loan loss reversal of \$4,413 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 Districtwide defined benefit retirement plan. The costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times each institution's salary expense as a percentage of the District's salary expense. The Association also participates in Districtwide Thrift and other postretirement benefit plans.

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 | \$ 97 | \$ 113 |
| Thrift/deferred compensation | 14 | 14 |
| Other postretirement benefits | 119 | 144 |
| | <u>\$ 230</u> | <u>\$ 271</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.