SECOND QUARTER 2003

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Chief Executive Officer

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July 29, 2003

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, for the three months and six months ended June 30, 2003. These comments should be read in conjunction with the accompanying financial statements and the 2002 Annual Report of AgFirst Farm Credit Bank and District Associations.

As of January 1, 2003, the District consisted of AgFirst, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-four Agricultural Credit Associations.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2003 was $14,061,103, an increase of $238,014 or 1.72 percent as compared to December 31, 2002, and an increase of $862,528 or 6.54 percent compared to June 30, 2002. Year-over-year growth in Association lending continued at a robust pace, but was somewhat offset by bulk sales of rural home loans to Fannie Mae and a reduced level of usage of committed credit facilities in the capital markets portfolio. The relatively modest increase compared to December 31, 2002 was due largely to a surge in lending activity around fiscal year-end, which is considered normal in the industry and largely the result of borrower tax management activities. The reduced level of usage of committed credit facilities is primarily attributed to the generally sluggish economy.

Loan volume classified as Acceptable (which includes Other Assets Especially Mentioned) as of June 30, 2003, remained relatively consistent compared to December 31, 2002 and June 30, 2002. Other Assets Especially Mentioned loan assets are considered fully collectible but have potential weaknesses. Nonaccrual loan assets for the combined District at June 30, 2003 were .73 percent of total loans outstanding as compared to .82 percent at December 31, 2002 and .80 percent at June 30, 2002. The allowance for loan losses at June 30, 2003 of $320,243, or 2.28 percent of gross loan volume, is considered by management to be adequate to absorb potential losses on existing loans. Refer to Note 2, "Allowance for Loan Losses" in the notes to the combined financial statements of this report for further information.

Liquidity and Funding Sources

As of June 30, 2003, AgFirst and all District Associations exceeded all regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled $3,159,583 or 18.34 percent of total assets at June 30, 2003, compared to $2,597,575 or 15.81 percent as of December 31, 2002. “Liquidity Coverage,” as defined in AgFirst’s liquidity policy, was 165 days.

Interest-bearing liabilities, consisting of bonds and notes, increased by $798,606, or 5.90 percent, compared to bonds and notes outstanding at December 31, 2002. Interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

Capital Resources

Total District shareholders’ equity increased $83,960 from December 31, 2002 to June 30, 2003. The increase was primarily the result of $165,354 in net income and stock issuances of $8,952, which was partially offset by retirements of surplus of $57,575, retirements of stock of $10,995, patronage distributions of $8,138, and a decrease in accumulated other comprehensive income of $4,039.

Key financial condition comparisons:

	6/30/03	**12/31/02**
Shareholders’ Equity to Assets	13.73%	13.88%
Total Liabilities to Shareholders’ Equity	6.19:1	6.10:1
Allowance for Loan Losses to Loans	2.28%	2.25%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2003 was $148,859, an increase of $14,450 or 10.75 percent compared to the three months ended June 30, 2002. Net interest income for the six months ended June 30, 2003 was $292,441, an increase of $27,541 or 10.40 percent compared to the same period ended June 30, 2002. The quarter and year-to-date increase resulted from the growth in accruing loan volume (discussed above) and AgFirst’s ability to exercise call options on debt in a favorable interest rate environment, offset somewhat by lower earnings on assets funded with net worth.

Beginning in 2001, and continuing into 2003, AgFirst executed call options on a significant volume of fixed-rate debt, replacing the called debt with lower-cost, fixed-rate debt. Although loan prepayment activity offsets a portion of the benefit achieved by calling debt, the efficiency of calling large blocks of debt results in a significant improvement in net interest margin.

Noninterest Income

Noninterest income for the three and six months ended June 30, 2003 was $16,246 and $33,846, respectively, an increase of $1,982 for the quarter, and an increase of $4,899 for year-to-date, as compared to the same periods in 2002. The three-month increase was primarily attributed to increases in loan fees of $3,464, mostly attributed to secondary mortgage market and participation loan fees, an increase in financially related service fees of $532, and $443 in income related to the District-wide captive insurance savings. These increases were offset by a decrease of $2,508 in realized gains on the sale of rural home mortgage loans sold to Fannie Mae. The year-to-date increase was due primarily to increases of $5,017 in fees related to secondary mortgage market loans and participation loans, $608 in financially related services, $309 in realized gains on rural home mortgage loan sales and $1,213 attributed to the District-wide captive insurance savings. These positive variances were partially offset by a decrease of approximately $2.2 million in interest income related to District Association federal tax settlement refunds received in the first six months of 2002.

Noninterest Expense

Noninterest expense for the three and six months ended June 30, 2003 was $78,967 and $151,907, respectively, an increase of $15,904 and $23,731, respectively, as compared to the corresponding periods in 2002. The three-month increase was primarily attributed to the increases of salaries and employee benefits related to SFAS No. 87, *"Employers' Accounting for Pension,"* of $2,509, SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other than Pensions,"* of $1,434 and salaries and other employee benefits of $1,991. In addition, increases of $3,040 in Farm Credit System Insurance Corporation (FCSIC) premiums, $3,000 in write-down of mortgage servicing rights to reflect the current market value, $2,685 in called debt expense, and $1,754 in Intra-system financial assistance expense contributed to the variance. These increases were offset by a decrease in other operating expenses of $911 related to purchased services of professional fees for projects related to District-wide reengineering of accounting processes in 2002.

The six-month increase was primarily attributed to the increases of $5,052 in expense related to SFAS No. 87, *"Employers' Accounting for Pension,"* $2,625 in expense related to SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other than Pensions,"* $3,431 in salaries and other employee benefits, $6,253 in called debt expense, $6,052 in FCSIC premium, $3,000 in write-down of mortgage servicing rights noted above, and $1,709 in Intra-system financial assistance expense. These increases were offset by the $2,988 net positive variance in net realized losses (gain) on investments (a partial result of a $3,423 write-off of the remaining principal balance of an investment in 2002) compared to recoveries of $200 recognized in 2003. In addition, the District realized a reduction of $1,536 in other operating expense related to consultant fees for District projects completed in 2002.

Provision for Income Taxes

The provision (benefit) for income taxes for the three and six months ended June 30, 2003 was $(371) and $(58), respectively. This represents a decrease in tax benefit of $823 for the quarter and a decrease in provision of $2,552 for year-to-date compared to the same periods in 2002. The decrease for the quarter would be primarily attributed to the majority of IRS tax settlement refunds received during 2002 as compared to 2003. The year-to-date variance reflects 2002 deferred tax asset write-offs of approximately $7 million, which were offset by IRS refunds of $4.1 million.

Key results of operations comparisons:

	Annualized for the six months ended 6/30/03	For the year ended 12/31/02
Return on Average Assets	2.01%	2.04%
Return on Average Shareholders' Equity	14.37%	13.28%
Net Interest Income as a Percentage of Average Earning Assets	3.54%	3.63%
Chargeoffs, Net of (Recoveries), to Average Loans	.00%	.12%

Combined Balance Sheets

(dollars in thousands)	**June 30, 2003**	**December 31, 2002**
	(unaudited)	
Assets		
Cash and cash equivalents	$ 377,619	$ 444,457
Investment securities	2,781,964	2,153,118
Loans	14,061,103	13,823,089
Less: allowance for loan losses	320,243	311,180
Net loans	13,740,860	13,511,909
Accrued interest receivable	137,538	131,638
Investments in other Farm Credit System institutions	18,733	18,736
Premises and equipment, net	81,414	77,361
Other property owned	3,453	4,828
Other assets	81,856	84,954
Total assets	$ 17,223,437	$ 16,427,001
Liabilities		
Bonds and notes	$ 14,337,142	$ 13,538,536
Accrued interest payable	32,999	43,733
Dividends and patronage refunds payable	9,010	64,180
Postretirement benefits other than pensions	73,381	67,193
Minimum pension liability	56,650	61,822
Other liabilities	123,900	145,142
Total liabilities	14,633,082	13,920,606
Commitments and contingencies		
Preferred Stock	225,839	225,839
Shareholders' Equity		
Protected borrower equity	13,144	15,486
Capital stock and participation certificates	124,882	124,541
Retained earnings		
Allocated	705,087	756,525
Unallocated	1,636,097	1,494,659
Accumulated other comprehensive income	(114,694)	(110,655)
Total shareholders' equity	2,364,516	2,280,556
Total liabilities and equity	$ 17,223,437	$ 16,427,001

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2003	For the three months ended June 30, 2002	For the six months ended June 30, 2003	For the six months ended June 30, 2002
Interest Income				
Investment securities	$ 15,369	$ 16,320	$ 31,449	$ 33,025
Loans	202,794	211,266	401,368	419,768
Total interest income	218,163	227,586	432,817	452,793
Interest Expense	69,304	93,177	140,376	187,893
Net interest income	148,859	134,409	292,441	264,900
Provision for loan losses	3,628	5,277	9,084	8,827
Net interest income after provision for loan losses	145,231	129,132	283,357	256,073
Noninterest Income				
Loan fees	10,450	6,986	21,591	16,574
Fees for financially related services	1,239	707	2,148	1,540
Gain on sale of rural home loans	2,089	4,597	4,910	4,601
Interest related to IRS refunds	51	—	67	2,315
Miscellaneous	2,417	1,974	5,130	3,917
Total noninterest income	16,246	14,264	33,846	28,947
Noninterest Expenses				
Salaries and employee benefits	42,205	36,271	83,457	72,349
Occupancy and equipment	5,628	5,568	11,372	10,894
Insurance Fund premium	4,045	1,005	8,043	1,991
Other operating expenses	13,223	14,134	26,078	27,614
Intra-System financial assistance expenses	5,447	3,693	9,306	7,597
Realized losses (gains) on investments, net	(86)	(635)	(200)	2,788
Called debt expense	5,201	2,516	10,164	3,911
Impairment of servicing assets	3,000	—	3,000	—
Miscellaneous	304	511	687	1,032
Total noninterest expenses	78,967	63,063	151,907	128,176
Income before income taxes	82,510	80,333	165,296	156,844
Provision (benefit) for income taxes	(371)	(1,194)	(58)	2,494
Net income	$ 82,881	$ 81,527	$ 165,354	$ 154,350

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2001	$225,839	$ 19,261	$ 127,271	$ 733,378	$ 1,393,592	$ 7,041	$ 2,506,382
Comprehensive income							
Net income					154,350		154,350
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						9,216	9,216
Change in fair value of derivative instruments						(6,431)	(6,431)
Total comprehensive income							157,135
Protected borrower equity retired		(2,737)					(2,737)
Capital stock/participation certificates issued/retired, net			(3,401)				(3,401)
Dividends declared/paid			45		(212)		(167)
Preferred stock dividends accrued	9,443				(9,443)		—
Preferred stock dividends paid	(9,443)						(9,443)
Patronage distribution							
Cash					(5,456)		(5,456)
Nonqualified allocated retained earnings				11	(11)		—
Retained earnings retired				(63,960)			(63,960)
Patronage distribution adjustment				2,661	(1,608)		1,053
Balance at June 30, 2002	$225,839	$ 16,524	$ 123,915	$ 672,090	$ 1,531,212	$ 9,826	$ 2,579,406
Balance at December 31, 2002	$225,839	$ 15,486	$ 124,541	$ 756,525	$ 1,494,659	$(110,655)	$ 2,506,395
Comprehensive income							
Net income					165,354		165,354
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(847)	(847)
Change in fair value of derivative instruments						(3,192)	(3,192)
Total comprehensive income							161,315
Protected borrower equity retired		(2,342)					(2,342)
Capital stock/participation certificates issued/retired, net			299				299
Dividends declared/paid			42		(198)		(156)
Preferred stock dividends accrued	9,443				(9,443)		—
Preferred stock dividends paid	(9,443)						(9,443)
Patronage distribution							
Cash					(6,366)		(6,366)
Retained earnings retired				(57,575)			(57,575)
Patronage distribution adjustment				6,137	(7,909)		(1,772)
Balance at June 30, 2003	$225,839	$ 13,144	$ 124,882	$ 705,087	$ 1,636,097	$(114,694)	$ 2,590,355

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2003	2002
Cash flows from operating activities:		
Net income	$ 165,354	$ 154,350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	6,336	5,957
Provision for loan losses	9,084	8,827
(Gains) losses on other property owned, net	(207)	(292)
Realized (gains) losses on investments, net	(200)	2,788
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(5,900)	(8,860)
(Increase) decrease in investments in other Farm Credit System institutions	3	(479)
(Increase) decrease in other assets	3,098	16,752
Increase (decrease) in accrued interest payable	(10,734)	(3,787)
Increase (decrease) in other liabilities	(20,735)	(31,358)
Total adjustments	(19,255)	(10,452)
Net cash provided by (used in) operating activities	146,099	143,898
Cash flows from investing activities:		
Investment securities purchased	(2,292,399)	(1,088,140)
Investment securities sold or matured	1,662,906	1,175,998
Net (increase) decrease in loans	(241,134)	(323,919)
Purchase of premises and equipment, net	(10,389)	(7,018)
Proceeds from sale of other property owned	5,190	2,551
Net cash provided by (used in) investing activities	(875,826)	(240,528)
Cash flows from financing activities:		
Bonds and notes issued	31,463,028	24,022,415
Bonds and notes retired	(30,667,614)	(23,717,635)
Protected borrower equity retired	(2,342)	(2,737)
Capital stock and participation certificates issued/retired, net	299	(3,401)
Patronage refunds and dividends paid	(63,464)	(67,231)
Dividends paid on preferred stock	(9,443)	(9,443)
Retained earnings retired	(57,575)	(63,960)
Net cash provided by (used in) financing activities	662,889	158,008
Net increase (decrease) in cash and cash equivalents	(66,838)	61,378
Cash and cash equivalents, beginning of period	444,457	339,541
Cash and cash equivalents, end of period	$ 377,619	$ 400,919
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 383	$ 999
Loans transferred to other property owned	3,482	2,824
Patronage refund and dividends payable	15,965	15,066
Accrued dividends on preferred stock	9,443	9,443
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ (2,005)	$ (1,144)
Increase (decrease) in bonds and notes	4,038	(9,332)
Decrease (increase) in other assets	(3,872)	9,704
Increase (decrease) in other liabilities	(1,199)	(249)
Supplemental information:		
Interest paid	$ 151,110	$ 191,680
Taxes paid, net	1,257	(6,796)

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

Notes to the Combined Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst) and the accounts of the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, and reflect the investments in and allocated earnings of the service organizations in which AgFirst has a partial ownership interest. All significant transactions and balances among AgFirst and the District Associations have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the combined Bank as of and for the year ended December 31, 2002, are contained in the 2002 Annual Report to Stockholders. These unaudited second quarter 2003 financial statements should be read in conjunction with the 2002 Annual Report to Stockholders.

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"* (SFAS No. 150 or the Statement). The Statement requires that certain instruments having characteristics of both liabilities and equity be classified as liabilities effective July 1, 2003. The Statement is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issue date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted.

Prior to the implementation of SFAS No. 150, the mandatorily redeemable preferred stock issued by AgFirst in May 2001 in the amount of $225 million (225,000 shares) was classified as mezzanine equity (between the liability section and the equity section of the financial statement of position) and was considered to be a component of capital for certain regulatory ratios. The dividends accrued and paid on the preferred stock were charged directly to unallocated surplus. Effective July 1, 2003, the preferred stock will be reclassified as a liability and dividends will be recorded in interest expense prospectively. However, it will continue to be treated as a component of capital in the Bank's regulatory ratios.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with accounting principles generally accepted in the United States of America (GAAP). The results for the six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003.

The District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of June 30, 2003, the allowances for losses are 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 12-31-01	$ 301,615
Provision for loan losses	8,827
Loans (charged off), net of recoveries	(1,408)
Balance at 6-30-02	$ 309,034
Balance at 12-31-02	$ 311,180
Provision for loan losses	9,084
Loans (charged off), net of recoveries	(21)
Balance at 6-30-03	$ 320,243

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are contingently liable for the Systemwide obligations of the System banks. The total consolidated Systemwide debt securities of the System were $92.2 billion at June 30, 2003.

Actions are pending against AgFirst and certain District Associations in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the combined financial position of AgFirst and District Associations.

NOTE 4 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst follows:

Balance Sheet Data

	6/30/03	12/31/02 *(Audited)*
Cash and investment securities	$ 3,143,135	$ 2,512,937
Loans	12,174,897	12,008,041
Less: allowance for loan losses	33,852	31,155
Net loans	12,141,045	11,976,886
Other assets	203,569	211,367
Total assets	$ 15,487,749	$ 14,701,190
Bonds and notes	$ 14,337,143	$ 13,538,536
Other liabilities	85,026	179,970
Total liabilities	14,422,169	13,718,506
Preferred stock	225,839	225,839
Capital stock and participation certificates	249,083	249,444
Retained earnings	614,969	527,673
Accumulated other comprehensive income (loss)	(24,311)	(20,272)
Total shareholders' equity	839,741	756,845
Total liabilities and equity	$ 15,487,749	$ 14,701,190

Statement of Income Data

	For the three months ended June 30,		For the six months ended June 30,	
	2003	2002	2003	2002
Interest income	$ 134,842	$ 156,273	$ 272,210	$ 312,087
Interest expense	69,279	93,169	140,327	187,875
Net interest income	65,563	63,104	131,883	124,212
Provision for loan losses	—	1,000	2,500	2,000
Net interest income after provision for loan losses	65,563	62,104	129,383	122,212
Noninterest income (expense), net	(19,981)	(10,961)	(32,644)	(27,609)
Net income	$ 45,582	$ 51,143	$ 96,739	$ 94,603