THIRD QUARTER 2005

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F. A. Lowrey
Chief Executive Officer

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Chairman of the Board

October 28, 2005

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

(dollars in thousands, except as noted)

The following discussion reviews the consolidated financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) and its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) for the three and nine months ended September 30, 2005. These comments should be read in conjunction with the accompanying consolidated financial statements, the Notes to the Consolidated Financial Statements and the 2004 Annual Report of AgFirst Farm Credit Bank.

The operations of the Farm Credit Finance Corporation of Puerto Rico subsidiary will be discontinued effective January 1, 2006. This will have no material effect on the financial condition of AgFirst.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the nine months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's assets.

FINANCIAL CONDITION

Loan Portfolio

Loans outstanding at September 30, 2005 totaled $14.2 billion, a $1.3 billion, or 10.08 percent increase, compared to total loans outstanding at December 31, 2004, and an increase of $1.4 billion, or 10.94 percent, compared to September 30, 2004. The increases are primarily attributed to an increase in direct notes that fund Association lending. Direct lending increased $1.2 billion for the period ended September 30, 2005, compared to December 31, 2004. In addition, participation loans purchased increased $100 million, offset by an increase in participations sold of $211 million; secondary mortgage market loans increased $192 million and nonaccrual loans decreased $6 million.

The credit quality of the $12.4 billion direct note portfolio remains stable despite being impacted by an active hurricane season. No deterioration of the credit quality of AgFirst's direct notes is expected. As of September 30, 2005, twenty-two of the twenty-three direct notes, representing 98.68 percent of the portfolio, were classified acceptable. The remaining 1.32 percent was classified Other Assets Especially Mentioned (OAEM). All twenty-three of the direct notes are performing and are in compliance with the General Financing Agreement and regulatory requirements for liquidity, earnings, and capital.

The credit quality statistics for the $1.2 billion participations/syndications portfolio is shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**September 30, 2005**	**December 31, 2004**	**September 30, 2004**
Acceptable	94.07%	93.82%	92.70%
OAEM	1.97 %	2.75%	2.63%
Substandard	3.17 %	2.66%	3.81%
Doubtful	.79 %	0.77%	0.86%

AgFirst's allowance for loan losses of $13.2 million at September 30, 2005 was 0.09 percent of total loans outstanding and 1.07 percent of AgFirst's participations/syndications outstanding. By comparison, the allowance for loan losses at December 31, 2004 was $14.8 million. See Note 2, *Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

Liquidity and Funding Sources

As of September 30, 2005, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $5.0 billion, or 25.82 percent of total assets at September 30, 2005, compared to $3.7 billion, or 22.20 percent, as of December 31, 2004. Except as noted below, all investment securities were classified as being available-for-sale. At September 30, 2005, AgFirst had 187 days of liquidity coverage as defined by the Farm Credit System's common liquidity policy.

The investment securities at September 30, 2005 included $1.1 billion in investments classified as being held-to-maturity. These held-to-maturity investments were primarily Rural Housing Mortgage-backed Securities (RHMS) purchased under a mission-related investment pilot program approved by the Farm Credit Administration (FCA). This investment pilot program is intended to create more demand for rural housing loans by providing an incentive to lenders to create RHMS for sale in the secondary market. Creating demand for rural housing loans should result in more cost-effective, market priced credit to homeowners in rural America.

On July 14, 2005, the FCA Board approved a final rule which, among other things, increased minimum liquidity reserve requirements and increased eligible investment limits for System institutions. The rule became effective on October 24, 2005.

The primary source of funds for AgFirst is the issuance of Systemwide Debt securities through the Federal Farm Credit Banks Funding Corporation. At September 30, 2005, AgFirst had $17.9 billion in total debt outstanding compared to $15.4 billion at December 31, 2004. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock (MRPS) for the same periods. Total interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

Capital Resources

Total shareholders' equity increased $105 million from December 31, 2004 to September 30, 2005. This 10.25 percent net increase is primarily attributed to the increase in retained earnings related to net income of $121 million.

As of September 30, 2005, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by the Farm Credit Administration Regulations. At September 30, 2005, AgFirst's permanent capital ratio was 24.33 percent, core surplus was 14.10 percent, total surplus was 24.26 percent, and net collateral was 106.62 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended September 30, 2005 was $51.5 million compared to $53.3 million in the same period of 2004, a decrease of $1.8 million or 3.38 percent. For the nine months ended September 30, 2005, net interest income was $152.2 million compared to $162.9 million for the comparable period of 2004, a decrease of $10.7 million or 6.57 percent.

The decline in net interest income in 2005 reflects the anticipated return toward normal profitability levels following the extraordinary improvement achieved in prior periods by exercising call options. AgFirst executed call options (trend began in 2001) on a significant volume of fixed-rate debt through July 2003, replacing the called debt with lower-cost, fixed-rate debt. Loan prepayment activity somewhat offset a portion of the benefit achieved by calling debt, but the efficiency of calling large blocks of debt resulted in significant, but temporary improvement in net interest margin.

Provision for Loan Losses

The net reversal of the provision for the three and nine months ended September 30, 2005 of $1.3 million and $1.9 million, respectively, resulted from decreased exposure and payments related to loans in the Participation/Syndication portfolio.

Noninterest Income

Noninterest income decreased $579 thousand for the quarter ended September 30, 2005, compared to the same period of 2004. The 2005 quarter-to-date decrease in noninterest income was primarily the result of a $1.7 million decrease in loan fees, offset by a $643 thousand reduction in losses related to secondary mortgage operations and a $412 thousand increase in other noninterest income. The $1.7 million decrease in loan fees was primarily in net participations fee income. The decrease in losses in secondary mortgage operations was primarily due to a $1.1 million charge booked in third quarter 2004 for impairment of servicing assets compared to $453 thousand in charges against the sale of mortgage servicing assets in the third quarter 2005.

For the nine months ended September 30, 2005, noninterest income decreased $924 thousand compared to the same period of 2004. For the nine months ended September 30, 2004, a gain on the sale of Farm Credit Leasing Corporation stock in 2004 in the amount of $3.8 million contributed to the decrease, in addition to $1.8 million less loan fee income in 2005. These decreases were offset by gains on investments, which increased $330 thousand and income from secondary mortgage market operations, which increased $3.4 million, primarily due to the gain on sale of rural home loans and the gain of $1.2 million on the sale of the mortgage servicing assets.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2005 was $14.6 million, a decrease of $827 thousand as compared to the corresponding period in 2004. The quarterly reduction resulted from decreases in Intra-System financial assistance expense of $1.7 million, called debt expense of $339 thousand, and other noninterest expense of $117 thousand. Offsetting these decreases were increases of $512 thousand in the Insurance Fund premium, $229 thousand in salaries and benefits, $255 thousand in occupancy and equipment, and $354 thousand in other operating expenses.

For the nine months ended September 30, 2005, noninterest expense decreased $829 thousand. Called debt expense decreased $2.0 million, Intra-System financial assistance expense decreased $1.8 million and other noninterest expense decreased $240 thousand. Offsetting these decreases were increases of $636 thousand in salaries and benefits, $773 thousand in occupancy and equipment expense, and $1.8 million in other operating expenses.

NOTE: Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Jay Wise, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. AgFirst prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2005	December 31, 2004
	(unaudited)	(audited)
Assets		
Cash and cash equivalents	$ 437,376	$ 470,258
Investment securities	4,570,077	3,278,414
Loans	14,160,160	12,908,249
Less: allowance for loan losses	13,200	14,800
Net loans	14,146,960	12,893,449
Accrued interest receivable	67,613	50,630
Investments in other Farm Credit System institutions	66,764	66,646
Premises and equipment, net	27,188	27,920
Due from associations	14,430	30,385
Other assets	66,402	69,821
Total assets	$ 19,396,810	$ 16,887,523
Liabilities		
Bonds and notes	$ 17,867,257	$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest payable	111,814	65,854
Patronage distribution payable	—	126,689
Postretirement benefits other than pensions	14,592	13,943
Other liabilities	48,859	29,356
Total liabilities	18,267,522	15,863,227
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	224,555	226,200
Retained earnings	760,352	644,366
Accumulated other comprehensive income (loss)	(5,619)	3,730
Total shareholders' equity	1,129,288	1,024,296
Total liabilities and equity	$ 19,396,810	$ 16,887,523

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

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2005	2004	For the nine months ended September 30, 2005	2004
Interest Income				
Investment securities and other	$ 45,115	$ 19,811	$ 106,679	$ 51,355
Loans	164,803	120,400	447,996	343,017
Total interest income	209,918	140,211	554,675	394,372
Interest Expense	158,402	86,871	402,465	231,450
Net interest income	51,516	53,340	152,210	162,922
Provision for (reversal of) loan losses	(1,300)	—	(1,910)	—
Net interest income after provision for (reversal of) loan losses	52,816	53,340	154,120	162,922
Noninterest Income				
Loan fees	1,607	3,291	7,735	9,556
Realized gains (losses) on investments, net	94	44	466	136
Secondary mortgage operations income (loss)	(453)	(1,096)	1,919	(1,460)
Other noninterest income	602	190	1,911	4,723
Total noninterest income	1,850	2,429	12,031	12,955
Noninterest Expenses				
Salaries and employee benefits	6,500	6,271	19,086	18,450
Occupancy and equipment	2,525	2,270	7,650	6,877
Insurance Fund premium	303	(209)	653	638
Other operating expenses	4,671	4,317	11,952	10,124
Intra-System financial assistance expenses	(12)	1,709	3,221	5,029
Called debt expense	98	437	656	2,689
Other noninterest expense	504	621	1,468	1,708
Total noninterest expenses	14,589	15,416	44,686	45,515
Net income	$ 40,077	$ 40,353	$ 121,465	$ 130,362

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

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2003	$ 150,000	$ 229,083	$ 601,699	$ (26,250)	$ 954,532
Comprehensive income					
Net income			130,362		130,362
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				2,489	2,489
Change in fair value of derivative instruments				8,430	8,430
Total comprehensive income					141,281
Capital stock/participation certificates issued/retired, net		213			213
Preferred stock dividends paid			(5,475)		(5,475)
Balance at September 30, 2004	$ 150,000	$ 229,296	$ 726,586	$ (15,331)	$1,090,551
Balance at December 31, 2004	$ 150,000	$ 226,200	$ 644,366	$ 3,730	$1,024,296
Comprehensive income					
Net income			121,465		121,465
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				(15,515)	(15,515)
Change in fair value of derivative instruments				6,166	6,166
Total comprehensive income					112,116
Capital stock/participation certificates issued/retired, net		(1,645)			(1,645)
Perpetual preferred stock dividends paid			(5,475)		(5,475)
Cash patronage			(4)		(4)
Balance at September 30, 2005	$ 150,000	$ 224,555	$ 760,352	$ (5,619)	$1,129,288

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2005	2004
Cash flows from operating activities:		
Net income	$ 121,465	$ 130,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,740	4,527
Provision for (reversal of) loan losses	(1,910)	—
(Gains) on sale of Farm Credit Leasing Corporation stock	—	(3,757)
Realized (gains) losses on investments, net	(466)	(136)
Realized (gains) losses on derivatives, net	(66)	—
Realized (gains) losses on mortgage loans held for sale	(1,143)	(2,482)
Proceeds from sale of mortgage loans held for sale	4,259	254,035
Purchases of mortgage loans held for sale (net of principal repayment)	(198,375)	(271,300)
Contributions to defined benefit retirement plan	(4,640)	(18,904)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(16,983)	(3,483)
(Increase) decrease in investments in other Farm Credit System institutions	(118)	(118)
(Increase) decrease in due from associations	15,955	28,328
(Increase) decrease in other assets	6,934	(17,816)
Increase (decrease) in accrued interest payable	45,960	8,343
Increase (decrease) in postretirement benefits other than pensions	649	1,598
Increase (decrease) in other liabilities	(2,510)	3
Total adjustments	(147,714)	(21,162)
Net cash provided by (used in) operating activities	(26,249)	109,200
Cash flows from investing activities:		
Investment securities purchased	(2,887,485)	(3,390,204)
Investment securities sold or matured	1,580,773	2,952,753
Proceeds from sale of Farm Credit Leasing Corporation stock	—	12,834
Net (increase) decrease in loans	(1,056,388)	(387,729)
Purchase of premises and equipment, net	(4,008)	(6,178)
Net cash provided by (used in) investing activities	(2,367,108)	(818,524)
Cash flows from financing activities:		
Bonds and notes issued	29,674,004	32,591,242
Bonds and notes retired	(27,179,716)	(31,780,747)
Capital stock and participation certificates issued/retired, net	(1,645)	213
Cash distribution to shareholders	(126,693)	(92,129)
Dividends paid on perpetual preferred stock	(5,475)	(5,475)
Net cash provided by (used in) financing activities	2,360,475	713,104
Net increase (decrease) in cash and cash equivalents	(32,882)	3,780
Cash and cash equivalents, beginning of period	470,258	469,945
Cash and cash equivalents, end of period	$ 437,376	$ 473,725
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (15,515)	$ 2,489
Change in fair value of derivative instruments	6,166	8,430
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 46	$ (326)
Increase (decrease) in bonds and notes	(29,416)	(2,106)
Decrease (increase) in other assets	1,125	(540)
Increase (decrease) in other liabilities	22,014	924
Supplemental information:		
Interest paid	$ 356,505	$ 223,107

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

Notes to the Consolidated Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst) and the accounts of the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation), a wholly owned subsidiary (collectively referred to as the Bank). All significant transactions and balances among the Bank and the Finance Corporation have been eliminated in consolidation.

The significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2004, are contained in the 2004 Annual Report. These unaudited third quarter financial statements should be read in conjunction with the 2004 Annual Report.

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 accounting principles generally accepted in the United States of America (GAAP). 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.

The Bank maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2005, the allowance for losses was 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 December 31, 2003	$ 34,168
Provision for (reversal of) loan losses	—
Loans (charged off), net of recoveries	(3,870)
Balance at September 30, 2004	$ 30,298
Balance at December 31, 2004	$ 14,800
Provision for (reversal of) loan losses	(1,910)
Recoveries, net of loans charged off	310
Balance at September 30, 2005	$ 13,200

As discussed in the 2004 Annual Report, the Bank recorded loan loss reversals of $15.3 million in the fourth quarter of 2004 that resulted from a one-time change in allowance methodology.

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 jointly and severally liable for the bonds and notes of the other System banks. The total bonds and notes of the System were $108.8 billion at September 30, 2005.

There is no material litigation pending against the Bank.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The Bank 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 Bank also participates in Districtwide defined contribution thrift and other postretirement benefit plans.

The following is a table of retirement and postretirement benefit expenses for the nine months ended September 30, 2005:

	For the nine months ended September 30,	
	2005	**2004**
Pension	$ 2,711	$ 2,915
Thrift/deferred compensation	414	337
Other postretirement benefits	1,493	1,973
Total	$ 4,618	$ 5,225

The Bank had not 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 Bank contributed $4.6 million to the defined benefit retirement plan. The Bank does not anticipate making any additional contributions for the remainder of 2005.

The Bank also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the pension and deferred compensation costs above. The Bank contributed $189 thousand to these plans during the first nine months of 2005. The Bank anticipates making additional contributions of $63 thousand to these supplemental retirement and deferred compensation plans during the remainder of 2005.

NOTE 5 — AGFIRST FARM CREDIT BANK AND DISTRICT ASSOCIATIONS FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank and the District Associations follows:

Balance Sheet Data

	9/30/05 *(unaudited)*	12/31/04 *(audited)*
Cash and investment securities	$ 5,087,261	$ 3,813,829
Loans	16,125,360	14,836,278
Less: allowance for loan losses	92,969	95,419
Net loans	16,032,391	14,740,859
Other assets	539,188	440,728
Total assets	$ 21,658,840	$ 18,995,416
Bonds and notes	$ 17,867,257	$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	390,787	368,386
Total liabilities	18,483,044	15,995,771
Perpetual preferred stock	150,000	150,000
Protected borrower equity	7,820	10,123
Capital stock and participation certificates	121,468	125,089
Retained earnings	2,902,526	2,711,102
Accumulated other comprehensive income (loss)	(6,018)	3,331
Total shareholders' equity	3,175,796	2,999,645
Total liabilities and equity	$ 21,658,840	$ 18,995,416

Statement of Income Data
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	2004	2005	2004
Interest income	$ 314,783	$ 231,015	$ 854,335	$ 656,979
Interest expense	158,473	86,898	402,611	231,521
Net interest income	156,310	144,117	451,724	425,458
Provision for (reversal of) loan losses	(349)	1,775	(1,331)	2,037
Net interest income after provision for loan losses	156,659	142,342	453,055	423,421
Noninterest expense, net	(60,137)	(53,536)	(172,984)	(168,569)
Net income	$ 96,522	$ 88,806	$ 280,071	$ 254,852