FIRST QUARTER 2004

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Chief Executive Officer

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April 29, 2004

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 months ended March 31, 2004. These comments should be read in conjunction with the accompanying financial statements and the 2003 Annual Report of AgFirst Farm Credit Bank.

FINANCIAL OVERVIEW

- Net income for the three months ended March 31, 2004 was $46,853, a decrease of $4,304 or 8.41 percent, compared to the three months ended March 31, 2003. The decrease was primarily attributed to an $11,519 decrease in net interest income, offset by a $53 increase in noninterest income, a $4,662 decrease in noninterest expense, and a $2,500 decrease in provision for loan losses.

- Total assets at March 31, 2004 decreased $97,533, or .61 percent compared to December 31, 2003. This decrease was primarily attributed to decreased loan volume.

- Bonds and notes outstanding at March 31, 2004 decreased $42,866, or .30 percent compared to December 31, 2003, which correlates to the decrease in loan volume.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst in more detail. The three months' results of operations are not indicative of an entire year due to the seasonal nature of a portion of AgFirst's assets.

FINANCIAL CONDITION

Loan Portfolio

Total loans outstanding at March 31, 2004 were $12,202,670, a 1.40 percent decrease compared to total loans outstanding of $12,375,351 at December 31, 2003. The $172,681 decrease in loans outstanding resulted primarily from decreases of $52,603 in direct loans to AgFirst District Associations, $101,991 in net participation loans, and $17,395 in secondary mortgage market loans. The decreases in direct loans to Associations is attributed to seasonal loan repayments, augmented by strong borrower liquidity resulting from high yields, favorable commodity prices, and, in some cases, government program payments. The decreases in participation loans are attributable to scheduled repayments, lower levels of refinancings and smaller allocations of multi-lender loans from System institutions.

AgFirst's allowance for loan losses at March 31, 2004 of $34,173 was .28 percent of total loans outstanding and 2.35 percent of AgFirst's participations outstanding. In June, 2003, the American Institute of Certified Public Accountants' Accounting Standards Executive Committee (AcSEC) issued a proposed Statement of Position (SOP) – Allowance for Credit Losses, which was intended to clarify the methodology for estimating the allowance for credit losses and to enhance financial statement disclosures related to the allowance for credit losses. In January 2004, AcSEC abandoned its proposed SOP and announced that it would focus instead on improving financial statement disclosures regarding the allowance for loan losses.

AgFirst plans to conduct a study to further refine its methodology for calculating the allowance for loan losses taking into account generally accepted accounting principles, and applicable Farm Credit Administration requirements, as well as the Securities and Exchange Commission and Federal Financial Institutions Examination Council guidelines. The study is likely to be completed by the fourth quarter of 2004 with any appropriate reduction to the allowance for loan losses implemented at that time, which reduction may be significant.

Liquidity and Funding Sources

As of March 31, 2004, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $3,408,593, or 21.60 percent of total assets at March 31, 2004, compared to $3,302,661, or 20.80 percent of total assets at December 31, 2003. At March 31, 2004, AgFirst had 138 days of coverage as defined by the Farm Credit System's common liquidity policy.

Interest-bearing liabilities, consisting of bonds and notes, decreased by $42,866, or .30 percent, at March 31, 2004, compared to bonds and notes outstanding at December 31, 2003. Interest-bearing liabilities decreased primarily due to the decrease in loan volume previously mentioned.

Capital Resources

Total shareholders' equity increased $57,367 from December 31, 2003 to March 31, 2004. This 6.01 percent net increase is primarily attributed to an increase of $46,853 in retained earnings related to net income of the same amount, and a $665 increase related to net stock issuance/retirement. In addition, the accumulated other comprehensive loss decreased in the amount of $9,849 related to increased market values of investments and derivative instruments.

As of March 31, 2004, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the Farm Credit Administration Regulations. At March 31, 2004, AgFirst's permanent capital ratio was 24.40 percent, core surplus was 13.14 percent, total surplus was 24.22 percent, and net collateral was 107.50 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2004 was $54,801 compared to $66,320 in the same period of 2003, a decrease of $11,519, or 17.37 percent.

This decrease in net interest income can be attributed in part to the inclusion of the preferred stock dividend in interest expense. Effective July 1, 2003, AgFirst adopted SFAS No. 150, *Accounting for Certain Financial Instruments with Similar Characteristics of Both Liabilities and Equity*, which requires that the Series 1 Preferred Stock be classified as a liability rather than as a component of equity, and that the related dividends incurred subsequent to June 30, 2003 be classified as a component of interest expense. Accrued dividends for the three-month period ended March 31, 2004 totaled $4,721.

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 improvement in net interest margin.

Noninterest Income

Noninterest income for the three months ended March 31, 2004 was $7,817, an increase of $53 as compared to the same period of 2003. This increase was the net result of a $3,606 increase in other noninterest income, offset by decreases of $1,059 in loan fees and $2,392 in income from secondary mortgage operations. The increase in other noninterest income was primarily the result of a gain on the sale of Farm Credit Leasing Corporation stock in the amount of $3,757. The majority of the loan fee decrease related to prepayment penalty fee income, which decreased $1,350 the first quarter of 2004 compared to the comparable period last year. Secondary mortgage operations income decreased primarily as a result of $38 in losses on the sale of secondary mortgage marketing loans during the first quarter of 2004, compared to $2,281 in gains on the sale of loans during the same period in 2003.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2004 was $15,765, a decrease of $4,662, as compared to the corresponding period in 2003. This decrease was primarily attributed to a decrease of $2,813 in expenses related to called debt and a $2,197 decrease in Intra-System financial assistance expense. These decreases were offset by a $366 increase in salaries and benefits and a $386 increase in occupancy and equipment expense.

Consolidated Balance Sheets

(dollars in thousands)	**March 31, 2004**	**December 31, 2003**
	(unaudited)	
Assets		
Cash and cash equivalents	$ 462,156	$ 469,945
Investment securities	2,946,437	2,832,716
Loans	12,202,670	12,375,351
Less: allowance for loan losses	34,173	34,168
Net loans	12,168,497	12,341,183
Accrued interest receivable	51,599	44,978
Investments in other Farm Credit System institutions	69,713	78,672
Premises and equipment, net	24,974	24,995
Due from associations	5,331	39,839
Other assets	53,308	47,220
Total assets	$ 15,782,015	$ 15,879,548
Liabilities		
Bonds and notes	$ 14,464,239	$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	46,188	52,024
Patronage distribution payable	29	92,129
Postretirement benefits other than pensions	12,549	11,688
Minimum pension liability	10,555	8,751
Other liabilities	11,556	28,319
Total liabilities	14,770,116	14,925,016
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	229,748	229,083
Retained earnings	648,552	601,699
Accumulated other comprehensive income (loss)	(16,401)	(26,250)
Total shareholders' equity	1,011,899	954,532
Total liabilities and equity	$ 15,782,015	$ 15,879,548

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 March 31, 2004	2003
Interest Income		
Investment securities and other	$ 15,120	$ 16,077
Loans	111,383	121,291
Total interest income	126,503	137,368
Interest Expense	71,702	71,048
Net interest income	54,801	66,320
Provision for loan losses	—	2,500
Net interest income after provision for loan losses	54,801	63,820
Noninterest Income		
Loan fees	2,912	4,122
Realized gains (losses) on investments, net	12	114
Secondary mortgage operations income (loss)	302	2,551
Other noninterest income	4,591	977
Total noninterest income	7,817	7,764
Noninterest Expenses		
Salaries and employee benefits	6,089	5,723
Occupancy and equipment	2,427	2,041
Insurance Fund premium	436	553
Other operating expenses	2,609	2,914
Intra-system financial assistance expenses	1,654	3,851
Called debt expense	2,150	4,963
Other noninterest expense	400	382
Total noninterest expenses	15,765	20,427
Net income	$ 46,853	$ 51,157

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, 2002	$ —	$ 249,444	$ 527,673	$ (20,272)	$ 756,845
Comprehensive income					
Net income			51,157		51,157
Unrealized gains (losses) on investments available for sale				(1,072)	(1,072)
Change in fair value of derivative instruments				(1,448)	(1,448)
Total comprehensive income					48,637
Capital stock/participation certificates issued/retired, net		—			—
Mandatorily redeemable preferred stock dividends accrued			(4,721)		(4,721)
Balance at March 31, 2003	$ —	$ 249,444	$ 574,109	$ (22,792)	$ 800,761
Balance at December 31, 2003	$ 150,000	$ 229,083	$ 601,699	$ (26,250)	$ 954,532
Comprehensive income					
Net income			46,853		46,853
Unrealized gains (losses) on investments available for sale				7,601	7,601
Change in fair value of derivative instruments				2,248	2,248
Total comprehensive income					56,702
Capital stock/participation certificates issued/retired, net		665			665
Balance at March 31, 2004	$ 150,000	$ 229,748	$ 648,552	$ (16,401)	$ 1,011,899

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2004	2003
Cash flows from operating activities:		
Net income	$ 46,853	$ 51,157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	1,467	1,273
Provision for loan losses	—	2,500
(Gain) on sale of Farm Credit Leasing Corporation stock	(3,757)	—
Realized (gains) losses on investments, net	(12)	(114)
Realized (gains) losses on mortgage loans held for sale	38	(2,821)
Proceeds from sale of mortgage loans held for sale	102,507	221,676
Purchases of mortgage loans held for sale (net of principal repayment)	(90,211)	(145,476)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(6,621)	1,607
(Increase) decrease in investments in other Farm Credit System institutions	(118)	109
(Increase) decrease in other assets	28,420	15,749
Increase (decrease) in accrued interest payable	(5,836)	(3,263)
Increase (decrease) in postretirement benefits other than pensions	861	401
Increase (decrease) in minimum pension liability	1,804	902
Increase (decrease) in other liabilities	(16,734)	731
Total adjustments	11,808	93,274
Net cash provided by operating activities	58,661	144,431
Cash flows from investing activities:		
Investment securities purchased	(1,074,914)	(931,831)
Investment securities sold or matured	968,806	818,394
Proceeds from sale of Farm Credit Leasing Corporation stock	12,834	—
Net (increase) decrease in loans	160,352	86,185
Purchase of premises and equipment, net	(1,446)	(1,389)
Net cash used in investing activities	65,632	(28,641)
Cash flows from financing activities:		
Bonds and notes issued	13,449,991	15,774,112
Bonds and notes retired	(13,490,609)	(15,835,250)
Capital stock and participation certificates issued/retired, net	665	—
Cash distribution to shareholders	(92,129)	(86,677)
Dividends paid on mandatorily redeemable preferred stock	—	(4,721)
Net cash provided by (used in) financing activities	(132,082)	(152,536)
Net increase (decrease) in cash and cash equivalents	(7,789)	(36,746)
Cash and cash equivalents, beginning of period	469,945	359,819
Cash and cash equivalents, end of period	$ 462,156	$ 323,073
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments	$ 7,601	$ (1,072)
Change in fair value of derivative instruments	2,248	(1,448)
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ (132)	$ (1,366)
Increase (decrease) in bonds and notes	8,408	384
Decrease (increase) in other assets	(9,011)	(736)
Increase (decrease) in other liabilities	(818)	(418)
Supplemental information:		
Interest paid	$ 77,538	$ 74,311

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, 2003, are contained in the 2003 Annual Report. These unaudited first quarter financial statements should be read in conjunction with the 2003 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 three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

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 March 31, 2004, 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, 2002	$ 31,155
Provision for loan losses	2,500
Recoveries, net of loans charged off	—
Balance at March 31, 2003	$ 33,655
Balance at December 31, 2003	$ 34,168
Provision for loan losses	—
Recoveries, net of loans charged off	5
Balance at March 31, 2004	$ 34,173

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 $97.7 billion at March 31, 2004.

Actions are pending against the Bank 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 financial position of 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 Thrift and other postretirement benefit plans.

The following is a table of retirement and postretirement benefit expense for the three months ended March 31, 2004:

	For the three months ended March 31,	
	2004	**2003**
Pension	$ 903	$ 902
Thrift/deferred compensation	107	92
Other postretirement benefits	658	649
Total	$ 1,668	$ 1,643

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

	March 31, 2004	December 31, 2003 (Audited)
Cash and investment securities	$ 3,421,485	$ 3,327,055
Loans	14,236,944	14,369,690
Less: allowance for loan losses	316,702	316,735
Net loans	13,920,242	14,052,955
Other assets	315,522	315,907
Total assets	$ 17,657,249	$ 17,695,917
Bonds and notes	$ 14,464,239	$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	329,298	402,081
Total liabilities	15,018,537	15,134,186
Perpetual preferred stock	150,000	150,000
Protected borrower equity	10,945	12,453
Capital stock and participation certificates	127,199	128,099
Retained earnings	2,449,642	2,380,102
Accumulated other comprehensive income (loss)	(99,074)	(108,923)
Total shareholders' equity	2,638,712	2,561,731
Total liabilities and equity	$ 17,657,249	$ 17,695,917

Statement of Income Data

	For the three months ended March 31, 2004	2003
Interest income	$ 211,288	$ 214,654
Interest expense	71,735	71,072
Net interest income	139,553	143,582
Provision for loan losses	150	5,456
Net interest income after provision for loan losses	139,403	138,126
Noninterest expense, net	(54,837)	(55,653)
Net income	$ 84,566	$ 82,473