THIRD QUARTER 2004

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Chief Executive Officer

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October 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 for the three months and nine months ended September 30, 2004. These comments should be read in conjunction with the accompanying financial statements and the 2003 Annual Report of AgFirst Farm Credit Bank.

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, 2004 totaled $12,778,836, a $403,606, or 3.26 percent increase, compared to total loans outstanding at December 31, 2003, and an increase of $500,157, or 4.07 percent, compared to September 30, 2003. The increase in loans is attributable to the continued health of the agricultural sector.

The credit quality of the $11.3 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, 2004, twenty-two of the twenty-three direct notes, representing 98.69 percent of the portfolio, were classified acceptable. The remaining 1.31 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 (loans outstanding) participations/syndications portfolio is shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**September 30, 2004**	**December 31, 2003**	**September 30, 2003**
Acceptable	92.70%	92.94%	88.59%
OAEM	2.63%	3.66%	6.07%
Substandard	3.81%	2.78%	4.60%
Doubtful	0.86%	0.62%	0.74%

AgFirst's allowance for loan losses at September 30, 2004 of $30,298 was .24 percent of total loans outstanding and 2.46 percent of AgFirst's participations/syndications outstanding. By comparison, the allowance for loan losses at December 31, 2003 was $34,168, or 2.20 percent of AgFirst's participations/syndications outstanding. The decrease in the allowance was primarily due to charge-offs of participation loans.

In June 2003, the American Institute of Certified Public Accountants' (AICPA) Accounting Standards Executive Committee (AcSEC) issued a proposed Statement of Position — 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 Statement of Position and announced that it would focus instead on improving financial statement disclosures regarding the allowance for loan losses.

In April 2004, the Farm Credit Administration, the System's regulator, issued an "Informational Memorandum" to System institutions regarding the allowance for loan losses. The memorandum addresses the status of the AICPA's project and the Securities and Exchange Commission and the Federal Financial Institutions Examination Council guidance on the subject. The objective of the Farm Credit Administration's memorandum was to clarify its expectations regarding the analysis and related documentation for the allowance for loan losses. The Farm Credit Administration endorsed the direction provided by these other regulatory agencies and will include the conceptual framework addressed in this guidance in their examination process.

System institutions have initiated studies to further refine methodologies for calculating their respective allowances 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. These studies will be completed by the fourth quarter of 2004 with any appropriate reductions to the allowance for loan losses implemented at that time. The resulting reductions in the allowance for loan losses may be significant.

Refer to Note 2, *Allowance for Loan Losses*, in the notes to the combined financial statements of this report for further information.

Employee Retirement Plans

During the third quarter of 2004, AgFirst funded $16.6 million to the Districtwide pension plan in addition to the $2.3 million funded during the second quarter of 2004. The Districtwide funding brings the pension plan's assets to an amount exceeding the Accumulated Benefit Obligation. The impact of the funding is expected to be minimal on 2004 net income and capital levels. Benefits in subsequent periods should include improved net income and the elimination of the pension-related charge to accumulated other comprehensive income in the shareholders' equity. See Note 4, *Employee Benefit Plans*, in the notes to the combined financial statements of this report for further information.

Liquidity and Funding Sources

As of September 30, 2004, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $3,746,517 or 22.41 percent of total assets at September 30, 2004, compared to $3,302,661, or 20.80 percent, as of December 31, 2003. At September 30, 2004, AgFirst had 203 days of coverage as defined by the Farm Credit System's common liquidity policy.

Interest-bearing liabilities, consisting of bonds and notes, increased by $802,065 or 5.53 percent, at September 30, 2004, compared to bonds and notes outstanding at December 31, 2003. Interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

Capital Resources

Total shareholders' equity increased $136,019 from December 31, 2003 to September 30, 2004. This 14.25 percent net increase is primarily attributed to an increase of $124,877 in retained earnings related to net income of $130,362, offset by a dividend payment on preferred stock of $5,475. Also adding to the increase in stockholders' equity was the increase of $213 in capital stock and participation certificates and the decrease in the accumulated other comprehensive loss of $10,919. The majority of the decrease in the amount of accumulated other comprehensive loss is related to the market values of investments and derivative instruments.

As of September 30, 2004, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the Farm Credit Administration Regulations. At September 30, 2004, AgFirst's permanent capital ratio was 26.59 percent, core surplus was 15.16 percent, total surplus was 26.47 percent, and net collateral was 107.43 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended September 30, 2004 was $53,340 compared to $56,168 in the same period of 2003, a decrease of $2,828 or 5.03 percent. For the nine months ended September 30, 2004, net interest income was $162,922 compared to $188,051 for the comparable period of 2003, a decrease of $25,129 or 13.36 percent.

The comparative nine month decrease can be attributed in part to the inclusion of the term 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 nine-month period ended September 30, 2004 totaled $14,163 compared to $4,721 in 2003. The reclassification of the term preferred stock dividend had no impact on the comparative third quarters, as the reclassification became effective in the third quarter of 2003.

Additionally, 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. The decline in net interest income in 2004 reflects the anticipated return toward normal profitability levels following the extraordinary improvement achieved by exercising call options.

Noninterest Income

Noninterest income increased $5,388 for the quarter ended September 30, 2004, compared to the same period of 2003. The quarter-to-date increase was primarily due to the reduction of losses related to secondary mortgage operations of $5,530, minor increases in realized gains on investments and in other noninterest income, offset by a $167 decrease in loan fees. AgFirst had a $5,566 decline in losses on the sales of secondary mortgage market loans. A third quarter 2004 increase in secondary mortgage servicing income of $1,024 was more than offset by a $1,060 valuation charge to the mortgage servicing assets during the third quarter 2004.

For the nine months ended September 30, 2004, noninterest income increased $6,054 compared to the same period of 2003. For September 30, 2004, year-to-date, a gain was recorded on the sale of Farm Credit Leasing Corporation stock in the amount of $3,757. Also contributing to the increase in noninterest income was the reduction of losses related to secondary mortgage operations of $4,538.

Noninterest Expense

Noninterest expense for the three and nine months ended September 30, 2004 was $15,416 and $45,515, respectively, reflecting increases of $717 and decreases of $11,688, respectively, as compared to the corresponding periods in 2003. The majority of the quarterly increase in noninterest expense was attributable to increases in operating expenses of $2,352. Salaries and benefits, occupancy and equipment, and other operating expenses increased $973, $307, and $1,072, respectively. A reduced Insurance Fund premium of $676 and decreases in expenses related to Intra-System Financial Assistance Corporation (FAC) and called debt offset these increases. The reductions for the three months ended September 30, 2004 related to FAC expense and called debt were $486 and $717, respectively. For the nine months ended September 30, 2004, the majority of the decrease in noninterest expenses was related to decreases in called debt of $8,629, $6,459 of FAC expense, and $901 in the Insurance Fund premium. Offsetting these decreases in noninterest expense for the nine months ended September 30, 2004 were increases in operating expenses, including $1,935 in salaries and benefits, $1,032 in occupancy and equipment, and $691 in other operating expenses.

Consolidated Balance Sheets

(dollars in thousands)	**September 30, 2004**	**December 31, 2003**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 473,725	$ 469,945
Investment securities	3,272,792	2,832,716
Loans	12,778,836	12,375,230
Less: allowance for loan losses	30,298	34,168
Net loans	12,748,538	12,341,062
Accrued interest receivable	48,461	44,978
Investments in other Farm Credit System institutions	69,713	78,672
Premises and equipment, net	26,646	24,995
Due from associations	11,511	39,839
Other assets	65,157	47,341
Total assets	$ 16,716,543	$ 15,879,548
Liabilities		
Bonds and notes	$ 15,309,170	$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest payable	60,367	52,024
Patronage distribution payable	—	92,129
Postretirement benefits other than pensions	13,286	11,688
Minimum pension liability	—	8,751
Other liabilities	18,169	28,319
Total liabilities	15,625,992	14,925,016
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	229,296	229,083
Retained earnings	726,586	601,699
Accumulated other comprehensive income (loss)	(15,331)	(26,250)
Total shareholders' equity	1,090,551	954,532
Total liabilities and equity	$ 16,716,543	$ 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 September 30, 2004	For the three months ended September 30, 2003	For the nine months ended September 30, 2004	For the nine months ended September 30, 2003
Interest Income				
Investment securities and other	$ 19,811	$ 12,615	$ 51,355	$ 44,057
Loans	120,400	114,428	343,017	355,196
Total interest income	140,211	127,043	394,372	399,253
Interest Expense	86,871	70,875	231,450	211,202
Net interest income	53,340	56,168	162,922	188,051
Provision for loan losses	—	—	—	2,500
Net interest income after provision for loan losses	53,340	56,168	162,922	185,551
Noninterest Income				
Loan fees	3,291	3,458	9,556	10,927
Realized gains (losses) on investments, net	44	29	136	229
Secondary mortgage operations income (loss)	(1,096)	(6,626)	(1,460)	(5,998)
Other noninterest income	190	180	4,723	1,743
Total noninterest income	2,429	(2,959)	12,955	6,901
Noninterest Expenses				
Salaries and employee benefits	6,271	5,298	18,450	16,515
Occupancy and equipment	2,270	1,963	6,877	5,845
Insurance Fund premium	(209)	467	638	1,539
Other operating expenses	4,317	3,245	10,124	9,433
Intra-System financial assistance expenses	1,709	2,195	5,029	11,488
Called debt expense	437	1,154	2,689	11,318
Other noninterest expense	621	377	1,708	1,065
Total noninterest expenses	15,416	14,699	45,515	57,203
Net income	$ 40,353	$ 38,510	$ 130,362	$ 135,249

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			135,249		135,249
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				1,940	1,940
Change in fair value of derivative instruments				(693)	(693)
Total comprehensive income					136,496
Capital stock/participation certificates issued/retired, net		(361)			(361)
Mandatorily redeemable preferred stock dividends accrued			(9,443)		(9,443)
Balance at September 30, 2003	$ —	$ 249,083	$ 653,479	$ (19,025)	$ 883,537
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
Perpetual preferred stock dividends paid			(5,475)		(5,475)
Balance at September 30, 2004	$ 150,000	$ 229,296	$ 726,586	$ (15,331)	$1,090,551

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, 2004	2003
Cash flows from operating activities:		
Net income	$ 130,362	$ 135,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,527	3,690
Provision for loan losses	—	2,500
(Gains) on sale of Farm Credit Leasing Corporation stock	(3,757)	—
Realized (gains) losses on investments, net	(136)	(229)
Realized (gains) losses on mortgage loans held for sale	(2,482)	(243)
Proceeds from sale of mortgage loans held for sale	254,035	756,231
Purchases of mortgage loans held for sale (net of principal repayment)	(293,447)	(863,098)
Contributions to defined benefit retirement plan	(18,904)	(2,785)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(3,483)	3,949
(Increase) decrease in investments in other Farm Credit System institutions	(118)	69
(Increase) decrease in due from associations	28,328	10,912
(Increase) decrease in other assets	(17,816)	(10,367)
Increase (decrease) in accrued interest payable	8,343	8,236
Increase (decrease) in postretirement benefits other than pensions	1,598	1,176
Increase (decrease) in other liabilities	3	88,833
Total adjustments	(43,309)	(1,126)
Net cash provided by (used in) operating activities	87,053	134,123
Cash flows from investing activities:		
Investment securities purchased	(3,390,204)	(3,735,308)
Investment securities sold or matured	2,952,753	2,780,113
Proceeds from sale of Farm Credit Leasing Corporation stock	12,834	—
Net (increase) decrease in loans	(365,582)	(163,232)
Purchase of premises and equipment, net	(6,178)	(8,110)
Net cash provided by (used in) investing activities	(796,377)	(1,126,537)
Cash flows from financing activities:		
Bonds and notes issued	32,591,242	42,432,489
Bonds and notes retired	(31,780,747)	(41,170,380)
Capital stock and participation certificates issued/retired, net	213	(361)
Cash distribution to shareholders	(92,129)	(85,477)
Dividends paid on perpetual preferred stock	(5,475)	—
Dividends paid on mandatorily redeemable preferred stock	—	(9,443)
Net cash provided by (used in) financing activities	713,104	1,166,828
Net increase (decrease) in cash and cash equivalents	3,780	174,414
Cash and cash equivalents, beginning of period	469,945	359,819
Cash and cash equivalents, end of period	$ 473,725	$ 534,233
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ 2,489	$ 1,940
Change in fair value of derivative instruments	8,430	(693)
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ (326)	$ 1,781
Increase (decrease) in bonds and notes	(2,106)	2,459
Decrease (increase) in other assets	(540)	3,108
Increase (decrease) in other liabilities	924	(553)
Supplemental information:		
Interest paid	$ 223,107	$ 202,127

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 third 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 nine months ended September 30, 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 September 30, 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	296
Balance at September 30, 2003	$ 33,951
Balance at December 31, 2003	$ 34,168
Provision for loan losses	—
Loans (charged off), net of recoveries	(3,870)
Balance at September 30, 2004	$ 30,298

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 $97.0 billion at September 30, 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 nine months ended September 30, 2004:

	For the nine months ended September 30,	
	2004	**2003**
Pension	$ 2,915	$ 2,759
Thrift/deferred compensation	337	287
Other postretirement benefits	1,973	1,946
Total	$ 5,225	$ 4,992

As of September 30, 2004, the Bank had contributed $18,904 to the Districtwide defined benefit retirement plan. The contributions were sufficient to meet the Accumulated Benefit Obligation. The contributions eliminated the minimum pension liability with $6,543 of the contributions being classified as prepaid retirement expense in Other Assets on the Consolidated Balance Sheets. The Bank does not anticipate making additional contributions for the remainder of 2004.

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

	9/30/04	12/31/03
	(unaudited)	*(audited)*
Cash and investment securities	$ 3,759,855	$ 3,327,055
Loans	14,677,874	14,369,690
Less: allowance for loan losses	312,345	316,735
Net loans	14,365,529	14,052,955
Other assets	407,413	315,907
Total assets	$ 18,532,797	$ 17,695,917
Bonds and notes	$ 15,309,170	$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	265,244	402,081
Total liabilities	15,799,414	15,134,186
Perpetual preferred stock	150,000	150,000
Protected borrower equity	10,358	12,453
Capital stock and participation certificates	125,789	128,099
Retained earnings	2,545,253	2,380,102
Accumulated other comprehensive income (loss)	(98,017)	(108,923)
Total shareholders' equity	2,733,383	2,561,731
Total liabilities and equity	$ 18,532,797	$ 17,695,917

Statement of Income Data

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
Interest income	$ 231,015	$ 212,965	$ 656,979	$ 645,782
Interest expense	86,898	70,891	231,521	211,267
Net interest income	144,117	142,074	425,458	434,515
Provision for loan losses	1,775	(281)	2,037	8,803
Net interest income after provision for loan losses	142,342	142,355	423,421	425,712
Noninterest income (expense), net	(53,536)	(63,506)	(168,569)	(181,509)
Net income	$ 88,806	$ 78,849	$ 254,852	$ 244,203