FIRST QUARTER 2005

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Chief Executive Officer

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April 29, 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 months ended March 31, 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.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the three 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 March 31, 2005 totaled $12,821,486, an $86,763, or 0.67 percent decrease, compared to total loans outstanding at December 31, 2004, and an increase of $618,816, or 5.07 percent, compared to March 31, 2004. The decrease since December 31, 2004 is primarily attributed to the liquidation of accrued 2004 patronage, which was applied to the ACAs' direct notes in January. The increase in loans since March 31, 2004 is attributable to an increase in direct notes that fund Association lending.

During the third quarter of 2004, a series of five hurricanes caused significant damage across the AgFirst District. Florida, Puerto Rico and parts of Georgia, Alabama and North Carolina were the areas most impacted. In certain areas, crop and commodity damage was severe, but no long-term negative impact is anticipated as the risk of loss appears to be mitigated by insurance proceeds, disaster relief and the overall health of the borrowers' balance sheets.

The credit quality of the $11.1 billion direct note portfolio remains stable. No deterioration of the credit quality of AgFirst's direct notes is expected. As of March 31, 2005, twenty-two of the twenty-three direct notes, representing 98.61 percent of the portfolio, were classified acceptable. The remaining 1.39 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 $1.3 billion (loans outstanding) participations/syndications portfolio is shown in the following chart:

Participations/Syndications Credit Quality as of:			
Classification	**March 31, 2005**	**December 31, 2004**	**March 31, 2004**
Acceptable	95.22%	93.82%	92.67%
OAEM	1.94%	2.75%	3.83%
Substandard	2.04%	2.66%	2.73%
Doubtful	0.80%	0.77%	0.77%

AgFirst's allowance for loan losses at March 31, 2005 of $14,500 was 0.11 percent of total loans outstanding and 1.10 percent of AgFirst's participations/syndications outstanding. By comparison, the allowance for loan losses at December 31, 2004 was $14,800. The decrease in the allowance was primarily the net change related to three loans in the Participation/Syndication portfolio. See Note 2, *Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

Liquidity and Funding Sources

As of March 31, 2005, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $3,729,340 or 22.24 percent of total assets at March 31, 2005, compared to $3,748,672, or 22.20 percent, as of December 31, 2004. At March 31, 2005, AgFirst had 194 days of liquidity coverage as defined by the Farm Credit System's common liquidity policy.

Interest-bearing liabilities, consisting of bonds and notes, decreased by $52,186 or 0.34 percent, at March 31, 2005, compared to bonds and notes outstanding at December 31, 2004. Interest-bearing liabilities decreased primarily due to the decrease in loan and investment volume previously mentioned.

Capital Resources

Total shareholders' equity increased $33,525 from December 31, 2004 to March 31, 2005. This 3.27 percent net increase is primarily attributed to the increase in retained earnings related to net income of $38,326.

As of March 31, 2005, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the Farm Credit Administration Regulations. At March 31, 2005, AgFirst's permanent capital ratio was 24.51 percent, core surplus was 13.52 percent, total surplus was 24.41 percent, and net collateral was 107.25 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2005 was $49,366 compared to $54,801 in the same period of 2004, a decrease of $5,435 or 9.92 percent.

Increases in interest income from direct notes and investment securities compared to the same period last year were more than off-set by the increase in interest expense on bonds and notes. 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 of $571 for the quarter ended March 31, 2005 was the net activity related to three loans in the Participation/Syndication portfolio.

Noninterest Income

Noninterest income decreased $3,854 for the quarter ended March 31, 2005, compared to the same period of 2004. The decrease in noninterest income was primarily the result of a gain recorded in 2004 on the sale of Farm Credit Leasing Corporation stock in the amount of $3,757. Loan fees decreased $463, with the main contributor being a $327 decrease in participation loan fee income. The improvement in secondary mortgage operations income of $371 was mainly due to a $423 increase in the recovery of a servicing asset valuation charge taken in prior years, off-set slightly by lower servicing income.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2005 was $15,574, a decrease of $191, as compared to the corresponding period in 2004. This decrease was primarily attributed to a decrease of $1,675 in expenses related to called debt and a $264 decrease in Insurance Fund premium. These decreases were offset by a $258 increase in salaries and benefits, a $268 increase in occupancy and equipment expense, a $210 increase in Intra-System financial assistance expense, and a $946 increase in other operating expenses. The majority of the increase in other operating expenses was the $844 increase related to professional fees paid for consultants' assistance related to AgFirst's compliance with new System disclosure practices.

Consolidated Balance Sheets

(dollars in thousands)	**March 31, 2005**	**December 31, 2004**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 413,359	$ 470,258
Investment securities, available for sale	3,315,981	3,278,414
Loans	12,821,486	12,908,249
Less: allowance for loan losses	14,500	14,800
Net loans	12,806,986	12,893,449
Accrued interest receivable	53,673	50,630
Investments in other Farm Credit System institutions	66,764	66,646
Premises and equipment, net	28,222	27,920
Due from associations	17,903	30,385
Other assets	65,398	69,821
Total assets	$ 16,768,286	$ 16,887,523
Liabilities		
Bonds and notes	$ 15,350,199	$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	77,331	65,854
Patronage distribution payable	38	126,689
Postretirement benefits other than pensions	14,168	13,943
Other liabilities	43,729	29,356
Total liabilities	15,710,465	15,863,227
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	226,200	226,200
Retained earnings	682,688	644,366
Accumulated other comprehensive income (loss)	(1,067)	3,730
Total shareholders' equity	1,057,821	1,024,296
Total liabilities and shareholders' equity	$ 16,768,286	$ 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 March 31, 2005	2004
Interest Income		
Investment securities and other	$ 29,282	$ 15,120
Loans	134,438	111,383
Total interest income	163,720	126,503
Interest Expense	114,354	71,702
Net interest income	49,366	54,801
Provision for (reversal of) loan losses	(571)	—
Net interest income after provision for loan losses	49,937	54,801
Noninterest Income		
Loan fees	2,449	2,912
Realized gains (losses) on investments, net	100	12
Secondary mortgage operations income	673	302
Noninterest income other	741	4,591
Total noninterest income	3,963	7,817
Noninterest Expenses		
Salaries and employee benefits	6,347	6,089
Occupancy and equipment	2,695	2,427
Insurance Fund premium	172	436
Other operating expenses	3,555	2,609
Intra-System financial assistance expenses	1,864	1,654
Called debt expense	475	2,150
Noninterest expense other	466	400
Total noninterest expenses	15,574	15,765
Net income	$ 38,326	$ 46,853

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			46,853		46,853
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				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
Balance at December 31, 2004	$ 150,000	$ 226,200	$ 644,366	$ 3,730	$1,024,296
Comprehensive income					
Net income			38,326		38,326
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				(8,308)	(8,308)
Change in fair value of derivative instruments				3,511	3,511
Total comprehensive income					33,529
Cash patronage			(4)		(4)
Balance at March 31, 2005	$ 150,000	$ 226,200	$ 682,688	$ (1,067)	$1,057,821

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, 2005	2004
Cash flows from operating activities:		
Net income	$ 38,326	$ 46,853
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	1,424	1,467
Provision for loan losses	(571)	—
(Gains) on sale of Farm Credit Leasing Corporation stock	—	(3,757)
Realized (gains) losses on investments, net	(100)	(12)
Realized (gains) losses on mortgage loans held for sale	60	38
Proceeds from sale of mortgage loans held for sale	992	102,507
Purchases of mortgage loans held for sale (net of principal repayment)	(55,298)	(83,067)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(3,043)	(6,621)
(Increase) decrease in investments in other Farm Credit System institutions	(118)	(118)
(Increase) decrease in other assets	16,905	28,420
Increase (decrease) in accrued interest payable	11,477	(5,836)
Increase (decrease) in postretirement benefits other than pensions	225	861
Increase (decrease) in minimum pension liability	—	1,804
Increase (decrease) in other liabilities	35,178	(16,734)
Total adjustments	7,131	18,952
Net cash provided by operating activities	45,457	65,805
Cash flows from investing activities:		
Investment securities purchased	(518,151)	(1,074,914)
Investment securities sold or matured	472,376	968,806
Proceeds from sale of Farm Credit Leasing Corporation stock	—	12,834
Net (increase) decrease in loans	141,400	153,208
Purchase of premises and equipment, net	(1,726)	(1,446)
Net cash used in investing activities	93,899	58,488
Cash flows from financing activities:		
Bonds and notes issued	9,122,934	13,449,991
Bonds and notes retired	(9,192,500)	(13,490,609)
Capital stock and participation certificates issued/retired, net	—	665
Cash distribution to shareholders	(126,689)	(92,129)
Net cash provided by (used in) financing activities	(196,255)	(132,082)
Net increase (decrease) in cash and cash equivalents	(56,899)	(7,789)
Cash and cash equivalents, beginning of period	470,258	469,945
Cash and cash equivalents, end of period	$ 413,359	$ 462,156
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (8,308)	$ 7,601
Change in fair value of derivative instruments	3,511	2,248
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 17	$ (132)
Increase (decrease) in bonds and notes	(24,402)	8,408
Decrease (increase) in other assets	968	(9,011)
Increase (decrease) in other liabilities	19,925	(818)
Supplemental information:		
Interest paid	$ 102,877	$ 77,538

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 first 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 three months ended March 31, 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 March 31, 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	—
Recoveries, net of loans charged off	5
Balance at March 31, 2004	$ 34,173
Balance at December 31, 2004	$ 14,800
Provision for (reversal of) loan losses	(571)
Recoveries, net of loans charged off	271
Balance at March 31, 2005	$ 14,500

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 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 $100.8 billion at March 31, 2005.

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, 2005:

	For the three months ended March 31,	
	2005	**2004**
Pension	$ 904	$ 1,047
Thrift/deferred compensation	132	107
Other postretirement benefits	498	658
Total	$ 1,534	$ 1,812

As of March 31, 2005, the Bank had made no contributions to the Districtwide defined benefit retirement plan. 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.

The Bank also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the retirement costs above. The Bank anticipates making contributions of $252 to these supplemental retirement and deferred compensation plans during 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

	3/31/05 (unaudited)	12/31/04 (audited)
Cash and investment securities	$ 3,772,996	$ 3,813,829
Loans	14,880,339	14,836,278
Less: allowance for loan losses	93,856	95,419
Net loans	14,786,483	14,740,859
Other assets	448,582	440,728
Total assets	$ 19,008,061	$ 18,995,416
Bonds and notes	$ 15,350,199	$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	392,726	368,386
Total liabilities	15,967,925	15,995,771
Perpetual preferred stock	150,000	150,000
Protected borrower equity	8,282	10,123
Capital stock and participation certificates	124,402	125,089
Retained earnings	2,758,918	2,711,102
Accumulated other comprehensive income (loss)	(1,466)	3,331
Total shareholders' equity	3,040,136	2,999,645
Total liabilities and equity	$ 19,008,061	$ 18,995,416

Statement of Income Data

	For the three months ended March 31,	
	2005	2004
Interest income	$ 258,945	$ 211,288
Interest expense	114,390	71,735
Net interest income	144,555	139,553
Provision for loan losses	(1,265)	150
Net interest income after provision for loan losses	145,820	139,403
Noninterest expense, net	(57,197)	(54,837)
Net income	$ 88,623	$ 84,566