SECOND QUARTER 2004

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Chief Executive Officer

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July 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 six months ended June 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 six 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 June 30, 2004 totaled $12,451,041, a $75,811, or 0.61 percent increase, compared to total loans outstanding at December 31, 2003, and an increase of $276,144, or 2.27 percent, compared to June 30, 2003. The increase in loans outstanding for the first six months of 2004 resulted primarily from increases of $399,080 in direct notes to AgFirst District Associations and Other Financing Institutions, offset by decreases of $315,094 in net participations/syndications, and $8,063 in secondary mortgage market loans.

The increase in direct notes since December 31, 2003 is primarily attributed to normal seasonal lending activity at the Associations. The decrease in participations/syndications outstanding is attributed to lower demand by borrowers whose borrowing needs have moderated due to strong cash flows resulting from favorable commodity prices coupled with good yields. Additionally, capital expenditures have been somewhat depressed due to economic uncertainty. These two factors, coupled with an abundant supply of available capital, have resulted in intense competition among lenders. It is anticipated that loan demand among corporate borrowers will increase as the general economy recovers.

The credit quality of the $11.0 billion direct portfolio remains stable. As of June 30, 2004, twenty-one of the twenty-three direct notes, representing 97.06 percent of the portfolio, were classified acceptable. The remaining 2.94 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 $1.25 billion (loans outstanding) Capital Markets portfolio reflects improvement in the acceptable and OAEM volume but has also seen increases in the percentage of adversely classified assets when compared with June 2003. As of June 30, 2004, acceptable volume totaled 93.37 percent compared to 89.3 percent the previous June. OAEM volume represented 1.77 percent in June 2004 compared to 7.43 percent in June 2003. Substandard volume increased from 3.3 percent to 4.01 percent and doubtful volume accounted for 0.85 percent in June 2004 compared to none the previous year. The increase in the adversely classified volume is concentrated in the utility sector of the Capital Markets portfolio.

AgFirst's allowance for loan losses at June 30, 2004 of $30,973 was .25 percent of total loans outstanding and 2.50 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 due to the charge-off of a portion of a single participation loan.

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.

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 are likely to 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.

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.

Liquidity and Funding Sources

As of June 30, 2004, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $3,660,314, or 22.46 percent of total assets at June 30, 2004, compared to $3,302,661, or 20.80 percent, as of December 31, 2003. At June 30, 2004, AgFirst had 176 days of coverage as defined by the Farm Credit System's common liquidity policy.

Interest-bearing liabilities, consisting of bonds and notes, increased by $424,682, or 2.93 percent, at June 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 $84,171 from December 31, 2003 to June 30, 2004. This 8.82 percent net increase is primarily attributed to an increase of $84,534 in retained earnings related to net income of $90,009, offset by a dividend payment on preferred stock of $5,475. In addition, capital stock and participation certificates increased by $213, offset by an increase in the accumulated other comprehensive loss of $576. This increase in accumulated other comprehensive loss is related to the market values of investments and derivative instruments.

As of June 30, 2004, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the Farm Credit Administration Regulations. At June 30, 2004, AgFirst's permanent capital ratio was 25.25 percent, core surplus was 14.01 percent, total surplus was 25.13 percent, and net collateral was 107.45 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2004 was $54,781 compared to $65,563 in the same period of 2003, a decrease of $10,782 or 16.45 percent. For the six months ended June 30, 2004, net interest income was $109,582 compared to $131,883 for the comparable period of 2003, a decrease of $22,301 or 16.91 percent.

The decreases in net interest income for the three months and six months 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 six month period ended June 30, 2004 totaled $9,442.

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 $620 for the quarter ended June 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 market loans of $1,257, offset by a $637 decrease in other noninterest income. Due to the rising interest rate environment, AgFirst recorded recoveries of $2,070 in the valuation allowance of secondary mortgage market loan servicing assets compared to the $3,000 valuation charge taken during the same quarter of last year. This $5,070 change from last year was partially offset by a $4,448 decline from gains to losses on the sales of secondary mortgage loans. Additional income of $633 was recorded during the quarter for other secondary mortgage market operations. Other noninterest income for the quarter decreased primarily because of the timing difference in recording income from insurance savings on the Farm Credit Captive Insurance program. In 2003, AgFirst recorded income of $302 for this program during the second quarter.

For the six months ended June 30, 2004, noninterest income increased $667 compared to the same period of 2003. For June 30, 2004, year-to-date, a gain was recorded on the sale of Farm Credit Leasing Corporation stock in the amount of $3,757. This increase was offset by a $991 decrease in secondary mortgage market operations, a reduction of $727 in patronage refunds from other Farm Credit Institutions, and a $1,203 reduction in loan fees. The reductions in secondary mortgage market operations and loan fees were a result of the rising interest rate environment, which depressed refinancing activity. For the six months ended June 30, 2004, AgFirst had losses from the sales of rural home loans of $2,396, which represented a decline of $7,306 from the gains in the same period last year. This decline was partially offset by the recovery of $2,444 of the valuation allowance on the secondary mortgage market servicing assets for a $5,444 improvement over the same period last year.

Noninterest Expense

Noninterest expense for the three and six months ended June 30, 2004 was $14,334 and $30,099, respectively, with decreases of $7,736 and $12,404, respectively, as compared to the corresponding periods in 2003. The majority of the quarterly and year-to-date decrease in noninterest expenses was attributable to the decrease in expenses related to Intra-System Financial Assistance Corporation (FAC) and called debt. The reductions related to FAC expense were $3,776 and $5,973, respectively, for the quarter and six months ended June 30, 2004. Expenses related to called debt decreased $5,099 for the quarter and $7,912 for the six months ended June 30, 2004. Offsetting the decreases in noninterest expense for the quarter ended June 30, 2004 were increases of $596 in salaries and benefits and $380 in other noninterest expense. The decreases for the six months ended June 30, 2004 were offset by increases in salaries and benefits of $962 and in occupancy and equipment of $725.

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2004**	**December 31, 2003**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 469,593	$ 469,945
Investment securities	3,190,721	2,832,716
Loans	12,451,041	12,375,230
Less: allowance for loan losses	30,973	34,168
Net loans	12,420,068	12,341,062
Accrued interest receivable	59,554	44,978
Investments in other Farm Credit System institutions	69,712	78,672
Premises and equipment, net	25,718	24,995
Due from associations	12,326	39,839
Other assets	47,220	47,341
Total assets	$ 16,294,912	$ 15,879,548
Liabilities		
Bonds and notes	$ 14,931,787	$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest payable	50,888	52,024
Patronage distribution payable	—	92,129
Postretirement benefits other than pensions	12,917	11,688
Minimum pension liability	8,751	8,751
Other liabilities	26,866	28,319
Total liabilities	15,256,209	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	686,233	601,699
Accumulated other comprehensive income	(26,826)	(26,250)
Total shareholders' equity	1,038,703	954,532
Total liabilities and equity	$ 16,294,912	$ 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 June 30, 2004	For the three months ended June 30, 2003	For the six months ended June 30, 2004	For the six months ended June 30, 2003
Interest Income				
Investment securities and other	$ 16,424	$ 15,365	$ 31,544	$ 31,442
Loans	111,234	119,477	222,617	240,768
Total interest income	127,658	134,842	254,161	272,210
Interest Expense	72,877	69,279	144,579	140,327
Net interest income	54,781	65,563	109,582	131,883
Provision for loan losses	—	—	—	2,500
Net interest income after provision for loan losses	54,781	65,563	109,582	129,383
Noninterest Income				
Loan fees	3,353	3,347	6,265	7,468
Realized gains (losses) on investments, net	80	86	92	200
Secondary mortgage operations income (loss)	(666)	(1,923)	(364)	627
Other noninterest income	(58)	579	4,533	1,564
Total noninterest income	2,709	2,089	10,526	9,859
Noninterest Expenses				
Salaries and employee benefits	6,090	5,494	12,179	11,217
Occupancy and equipment	2,180	1,841	4,607	3,882
Insurance Fund premium	411	519	847	1,072
Other operating expenses	3,198	3,266	5,807	6,187
Intra-System financial assistance expenses	1,666	5,442	3,320	9,293
Called debt expense	102	5,201	2,252	10,164
Other noninterest expense	687	307	1,087	688
Total noninterest expenses	14,334	22,070	30,099	42,503
Net income	$ 43,156	$ 45,582	$ 90,009	$ 96,739

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			96,739		96,739
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					92,700
Capital stock/participation certificates issued/retired, net		(361)			(361)
Mandatorily redeemable preferred stock dividends accrued			(9,443)		(9,443)
Balance at June 30, 2003	$ —	$ 249,083	$ 614,969	$ (24,311)	$ 839,741
Balance at December 31, 2003	$ 150,000	$ 229,083	$ 601,699	$ (26,250)	$ 954,532
Comprehensive income					
Net income			90,009		90,009
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				(6,457)	(6,457)
Change in fair value of derivative instruments				5,881	5,881
Total comprehensive income					89,433
Capital stock/participation certificates issued/retired, net		213			213
Perpetual preferred stock dividends paid			(5,475)		(5,475)
Balance at June 30, 2004	$ 150,000	$ 229,296	$ 686,233	$ (26,826)	$1,038,703

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2004	2003
Cash flows from operating activities:		
Net income	$ 90,009	$ 96,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,053	2,449
Provision for loan losses	—	2,500
(Gains) on sale of Farm Credit Leasing Corporation stock	(3,757)	—
Realized (gains) losses on investments, net	(92)	(200)
Realized (gains) losses on mortgage loans held for sale	2,396	(4,910)
Proceeds from sale of mortgage loans held for sale	210,864	405,639
Purchases of mortgage loans held for sale (net of principal repayment)	(216,847)	(366,188)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(14,576)	3,105
(Increase) decrease in investments in other Farm Credit System institutions	(117)	3
(Increase) decrease in due from associations	27,513	12,848
(Increase) decrease in other assets	121	(5,652)
Increase (decrease) in accrued interest payable	(1,136)	(10,733)
Increase (decrease) in postretirement benefits other than pensions	1,229	785
Increase (decrease) in other liabilities	(1,453)	1,681
Total adjustments	7,198	41,327
Net cash provided by (used in) operating activities	97,207	138,066
Cash flows from investing activities:		
Investment securities purchased	(2,498,764)	(2,292,399)
Investment securities sold or matured	2,134,394	1,662,906
Proceeds from sale of Farm Credit Leasing Corporation stock	12,834	—
Net (increase) decrease in loans	(75,419)	(201,200)
Purchase of premises and equipment, net	(3,776)	(4,955)
Net cash provided by (used in) investing activities	(430,731)	(835,648)
Cash flows from financing activities:		
Bonds and notes issued	24,087,401	31,463,028
Bonds and notes retired	(23,656,838)	(30,667,613)
Capital stock and participation certificates issued/retired, net	213	(361)
Cash distribution to shareholders	(92,129)	(86,677)
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	333,172	698,934
Net increase (decrease) in cash and cash equivalents	(352)	1,352
Cash and cash equivalents, beginning of period	469,945	359,819
Cash and cash equivalents, end of period	$ 469,593	$ 361,171
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (6,457)	$ (847)
Change in fair value of derivative instruments	5,881	(3,192)
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 112	$ (2,005)
Increase (decrease) in bonds and notes	(12,146)	4,038
Decrease (increase) in other assets	2,116	(3,872)
Increase (decrease) in other liabilities	9,169	(1,199)
Supplemental information:		
Interest paid	$ 145,715	$ 151,060

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 second 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 six months ended June 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 June 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	197
Balance at June 30, 2003	$ 33,852
Balance at December 31, 2003	$ 34,168
Provision for loan losses	—
Loans (charged off), net of recoveries	(3,195)
Balance at June 30, 2004	$ 30,973

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 $96.3 billion at June 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 six months ended June 30, 2004:

	For the six months ended June 30,	
	2004	**2003**
Pension	$ 1,981	$ 1,841
Thrift/deferred compensation	222	188
Other postretirement benefits	1,315	1,297
Total	$ 3,518	$ 3,326

As of June 30, 2004, the Bank had contributed $2,306 to the Districtwide defined benefit retirement plan. The Bank anticipates making additional contributions prior to September 30, 2004 in amounts sufficient to meet its accumulated benefit obligation.

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

	June 30, 2004 *(unaudited)*	December 31, 2003 *(audited)*
Cash and investment securities	$ 3,670,662	$ 3,327,055
Loans	14,450,308	14,369,690
Less: allowance for loan losses	313,598	316,735
Net loans	14,136,710	14,052,955
Other assets	329,368	315,907
Total assets	$ 18,136,740	$ 17,695,917
Bonds and notes	$ 14,931,787	$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	324,757	402,081
Total liabilities	15,481,544	15,134,186
Perpetual preferred stock	150,000	150,000
Protected borrower equity	10,721	12,453
Capital stock and participation certificates	125,799	128,099
Retained earnings	2,478,188	2,380,102
Accumulated other comprehensive income (loss)	(109,512)	(108,923)
Total shareholders' equity	2,655,196	2,561,731
Total liabilities and equity	$ 18,136,740	$ 17,695,917

Statement of Income Data

(unaudited)

	For the three months ended June 30, 2004	For the three months ended June 30, 2003	For the six months ended June 30, 2004	For the six months ended June 30, 2003
Interest income	$ 214,676	$ 218,163	$ 425,964	$ 432,817
Interest expense	72,888	69,304	144,623	140,376
Net interest income	141,788	148,859	281,341	292,441
Provision for loan losses	112	3,628	262	9,084
Net interest income after provision for loan losses	141,676	145,231	281,079	283,357
Noninterest income (expense), net	(60,196)	(62,350)	(115,033)	(118,003)
Net income	$ 81,480	$ 82,881	$ 166,046	$ 165,354