FIRST QUARTER 2004

Table of Contents

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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 combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, 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 and District Associations.

As of January 1, 2004, the District consisted of AgFirst, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-three Agricultural Credit Associations.

FINANCIAL OVERVIEW

- Net income for the three months ended March 31, 2004 was $84,566, an increase of $2,093 or 2.54 percent, compared to the three months ended March 31, 2003. The three-month increase was primarily attributed to a $5,306 decrease in the provision for loan losses expense and a $2,440 decrease in noninterest expense, offset by a decrease of $4,029 in net interest income, and a decrease of $1,600 in noninterest income.

- Total assets at March 31, 2004 decreased $38,668, or .22 percent, compared to December 31, 2003. This decrease was primarily attributed to decreases in loans of $132,746, in cash and cash equivalents of $19,291, and in investments in other Farm Credit institutions of $8,959, offset by increases in investment securities of $113,721 and in accrued interest receivable of $3,258.

- Bonds and notes outstanding at March 31, 2004 decreased $42,866, or .30 percent compared to December 31, 2003, in correlation with the decrease in loans and cash/cash equivalents and the increase in investments.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District 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 the District's assets.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2004 was $14,236,944, a decrease of $132,746, or .92 percent as compared to December 31, 2003, and an increase of $475,855 or 3.46 percent compared to March 31, 2003. The moderate decrease for the first quarter of 2004, compared to the year ended December 31, 2003 is a result of seasonal loan repayments, augmented by strong borrower liquidity, which resulted from high yields, favorable commodity prices, and, in some cases, government program payments.

Loan volume classified as Acceptable (which includes Other Assets Especially Mentioned) as of March 31, 2004, remained relatively stable compared to December 31, 2003 and March 31, 2003. Loan volume classified as Other Assets Especially Mentioned are considered fully collectible but have potential weaknesses. Nonaccrual loan assets for the combined District at March 31, 2004 were .83 percent of total loans outstanding as compared to .84 percent at December 31, 2003 and .79 percent at March 31, 2003.

The allowance for loan losses at March 31, 2004 of $316,702, or 2.22 percent of gross loan volume, is considered by management to be adequate to absorb potential losses on existing loans. 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. Refer to Note 2, "Allowance for Loan Losses," in the notes to the combined financial statements of this report for further information.

LIQUIDITY AND FUNDING SOURCES

As of March 31, 2004, AgFirst and all District Associations exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $3,421,485 or 19.38 percent of total assets at March 31, 2004, compared to $3,327,055 or 18.80 percent as of December 31, 2003. At March 31, 2004, AgFirst had 138 days of coverage as defined by the System's common liquidity policy.

Interest-bearing liabilities, consisting of bonds and notes, decreased by $42,866, or .30 percent, 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 District shareholders' equity increased $76,981 from December 31, 2003 to March 31, 2004. The increase was primarily the result of $84,566 in net income and a decrease in accumulated other comprehensive loss of $9,849, offset by a net reduction in stock and participation certificates of $2,408, and retirements of surplus of $13,543.

Key financial condition comparisons:

	March 31, 2004	**December 31, 2003**
Shareholders' Equity to Assets	14.94%	14.48%
Total Liabilities to Shareholders' Equity	5.69:1	5.91:1
Allowance for Loan Losses to Loans	2.22%	2.20%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2004 was $139,553, a decrease of $4,029 or 2.81 percent compared to the three months ended March 31, 2003. The decrease is primarily attributed to the reclassification of preferred stock dividends as interest expense and a lessening of the positive impact derived from debt called during prior periods (discussed below).

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.

Provision for Loan Losses

The provision for loan losses for the first quarter of 2004 was $150, as compared to $5,456 for the same period of the prior year. See Note 2, *Allowance for Loan Losses* in the notes to the combined financial statements for further information. This variance was due to AgFirst and the ACAs recording provisions of $2,500 and $2,956, respectively, for the first quarter in 2003, compared to the ACAs only, recording a provision of $150 for the first quarter of 2004.

Noninterest Income

Noninterest income for the three months ended March 31, 2004 was $16,114, a decrease of $1,600 compared to the three months ended March 31, 2003. The three-month decrease was primarily attributed to decreases of $2,689 in loan fees, $101 in realized gains on investments, and $3,011 in gains on sale of rural home loans. The decrease in loan fees consisted primarily of decreases in prepayment penalty fees of $1,495 and fees related to secondary mortgage marketing loans of $2,167. These decreases were offset by an increase in other noninterest income of $4,215. The increase in other noninterest income resulted primarily from $3,757 in a gain on the sale of Farm Credit Leasing Corporation stock recorded during the first quarter of 2004.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2004 was $70,614, a decrease of $2,440, as compared to the corresponding period in 2003. The three-month decrease was primarily attributed to the decreases in Intra-System Financial Assistance Corporation (FAC) expenses of $2,205 and called debt expense of $2,813, offset by increases in salaries and employee benefits of $2,886 and occupancy and equipment of $558. The decrease in FAC expense was due to the retirement of Financial Assistance Corporation bonds. The decrease in called debt expense is the result of increasing interest rates.

Provision for Income Taxes

The provision for income taxes for the three months ended March 31, 2004 was $337 compared to $313 for the same period in 2003.

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2004	**For the year ended December 31, 2003**
Return on Average Assets	1.94%	1.88%
Return on Average Shareholders' Equity	12.49%	13.03%
Net Interest Income as a Percentage of Average Earning Assets	3.19%	3.40%
Chargeoffs, Net of (Recoveries), to Average Loans	.005%	.02%

Combined Balance Sheets

(dollars in thousands)	March 31, 2004	December 31, 2003
	(unaudited)	
Assets		
Cash and cash equivalents	$ 475,048	$ 494,339
Investment securities	2,946,437	2,832,716
Loans	14,236,944	14,369,690
Less: allowance for loan losses	316,702	316,735
Net loans	13,920,242	14,052,955
Accrued interest receivable	125,265	122,007
Investments in other Farm Credit System institutions	10,198	19,157
Premises and equipment, net	88,233	86,914
Other property owned	3,343	2,253
Deferred tax assets, net	13,359	13,303
Other assets	75,124	72,273
Total assets	$ 17,657,249	$ 17,695,917
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	52,025
Dividends and patronage refunds payable	7,420	68,885
Postretirement benefits other than pensions	82,240	79,249
Minimum pension liability	63,248	52,519
Other liabilities	130,202	149,403
Total liabilities	15,018,537	15,134,186
Commitments and contingencies	—	—
Shareholders' Equity		
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		
Allocated	778,290	792,168
Unallocated	1,671,352	1,587,934
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

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2004	2003
Interest Income		
Investment securities and other	$ 15,123	$ 16,080
Loans	196,165	198,574
Total 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 Income		
Loan fees	8,452	11,141
Fees for financially related services	911	909
Realized gains (losses) on investments, net	13	114
Gain on sale of rural home loans	437	3,448
Interest related to IRS refunds	—	16
Other noninterest income	6,301	2,086
Total noninterest income	16,114	17,714
Noninterest Expenses		
Salaries and employee benefits	44,138	41,252
Occupancy and equipment	6,302	5,744
Insurance Fund premium	3,449	3,998
Other operating expenses	12,521	12,855
Intra-System financial assistance expenses	1,654	3,859
Called debt expense	2,150	4,963
Other noninterest expense	400	383
Total noninterest expenses	70,614	73,054
Income before income taxes	84,903	82,786
Provision for income taxes	337	313
Net income	$ 84,566	$ 82,473

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2002	$ —	$ 15,486	$ 124,541	$ 756,525	$ 1,494,659	$(110,655)	$ 2,280,556
Comprehensive income							
Net income					82,473		82,473
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(1,072)	(1,072)
Change in fair value of derivative instruments						(1,448)	(1,448)
Total comprehensive income							79,953
Protected borrower equity retired		(1,784)					(1,784)
Capital stock/participation certificates issued/retired, net			480				480
Dividends declared/paid			21		(99)		(78)
Mandatorily redeemable preferred stock dividends accrued					(4,721)		(4,721)
Patronage distribution							
Cash					(2,430)		(2,430)
Retained earnings retired				(22,302)			(22,302)
Patronage distribution adjustment				4,631	(7,239)		(2,608)
Balance at March 31, 2003	$ —	$ 13,702	$ 125,042	$ 738,854	$ 1,562,643	$(113,175)	$ 2,327,066
Balance at December 31, 2003	$150,000	$ 12,453	$ 128,099	$ 792,168	$ 1,587,934	$(108,923)	$ 2,561,731
Comprehensive income							
Net income					84,566		84,566
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							94,415
Protected borrower equity retired		(1,508)					(1,508)
Capital stock/participation certificates issued/retired, net			(920)				(920)
Dividends declared/paid			20		(96)		(76)
Patronage distribution							
Cash					(2,967)		(2,967)
Allocated retained earnings				45	(45)		—
Retained earnings retired				(13,543)			(13,543)
Patronage distribution adjustment				(380)	1,960		1,580
Balance at March 31, 2004	$150,000	$ 10,945	$ 127,199	$ 778,290	$ 1,671,352	$ (99,074)	$ 2,638,712

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2004	2003
Cash flows from operating activities:		
Net income	$ 84,566	$ 82,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,425	3,227
Provision for loan losses	150	5,456
(Gains) on sale of Farm Credit Leasing Corporation stock	(3,757)	—
(Gains) losses on other property owned, net	(53)	(43)
Realized (gains) losses on investments, net	(13)	(114)
Realized (gains) losses on mortgage loans held for sale	(437)	(3,448)
Proceeds from sale of mortgage loans held for sale	102,507	221,676
Originations 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	(3,258)	3,492
(Increase) decrease in investments in other Farm Credit System institutions	(118)	109
(Increase) decrease in deferred tax assets, net	(56)	2,747
(Increase) decrease in other assets	(2,376)	5,694
Increase (decrease) in accrued interest payable	(5,837)	(3,264)
Increase (decrease) in postretirement benefits other than pensions	2,991	3,072
Increase (decrease) in minimum pension liability	10,729	5,438
Increase (decrease) in other liabilities	(16,222)	26,481
Total adjustments	(2,536)	125,047
Net cash provided by (used in) operating activities	82,030	207,520
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	119,129	(12,606)
Purchase of premises and equipment, net	(4,744)	(3,892)
Proceeds from sale of other property owned	150	1,082
Net cash provided by (used in) investing activities	21,261	(128,853)
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)
Protected borrower equity retired	(1,508)	(1,784)
Capital stock and participation certificates issued/retired, net	(920)	480
Patronage refunds and dividends paid	(65,993)	(64,180)
Retained earnings retired	(13,543)	(22,302)
Net cash provided by (used in) financing activities	(122,582)	(148,924)
Net increase (decrease) in cash and cash equivalents	(19,291)	(70,257)
Cash and cash equivalents, beginning of period	494,339	444,457
Cash and cash equivalents, end of period	$ 475,048	$ 374,200
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 55	$ 383
Loans transferred to other property owned	1,155	1,694
Patronage refund and dividends payable	3,043	2,508
Change in unrealized gains (losses) on investments, net	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	$ 77,572	$ 74,336
Taxes paid, net	671	131

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

Notes to the Combined Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst) and the accounts of the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, and reflect the investments in and allocated earnings of the service organizations in which AgFirst has a partial ownership interest. All significant transactions and balances among AgFirst and the District Associations have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the District as of and for the year ended December 31, 2003, are contained in the 2003 Annual Report to Stockholders. These unaudited first quarter 2004 financial statements should be read in conjunction with the 2003 Annual Report to Stockholders.

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS No. 150 or the Statement). The Statement requires that certain instruments having characteristics of both liabilities and equity be classified as liabilities effective July 1, 2003. The Statement is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issue date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted.

The accompanying 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 District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of March 31, 2004, the allowances for losses are 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	$ 311,180
Provision for loan losses	5,456
Recoveries, net of loans charged off	84
Balance at March 31, 2003	$ 316,720
Balance at December 31, 2003	$ 316,735
Provision for loan losses	150
Loans (charged off), net of recoveries	(183)
Balance at March 31, 2004	$ 316,702

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 AgFirst and/or certain District Associations 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 combined financial position of AgFirst and District Associations.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

	Pension Benefits	
	2004	**2003**
Service cost	$ 3,473	$ 2,790
Interest cost	5,701	5,317
Expected return on plan assets	(5,769)	(4,832)
Amortization of prior service costs	162	162
Recognized net (gain) loss	2,211	2,305
Net periodic benefit cost	$ 5,778	$ 5,742

	Other Benefits	
	2004	**2003**
Service cost	$ 926	$ 908
Interest cost	2,312	2,272
Expected return on plan assets	—	(1)
Amortization of prior service costs	(46)	(23)
Recognized net (gain) loss	1,299	1,016
Net periodic benefit cost	$ 4,491	$ 4,172

The District previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute $19 million to its pension plan in 2004. As of March 31, 2004, no contributions have been made. The District still anticipates contributing the $19 million to fund its pension plan during the remainder of 2004.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst follows:

Balance Sheet Data

	March 31, 2004	December 31, 2003
		(Audited)
Cash and investment securities	$ 3,408,593	$ 3,302,661
Loans	12,202,670	12,375,351
Less: allowance for loan losses	34,173	34,168
Net loans	12,168,497	12,341,183
Other assets	204,925	235,704
Total assets	$ 15,782,015	$ 15,879,548
Bonds and notes	$ 14,464,239	$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	80,877	192,911
Total liabilities	14,770,116	14,925,016
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

Statement of Income Data

	For the three months ended March 31, 2004	2003
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 expense, net	(7,948)	(12,663)
Net income	$ 46,853	$ 51,157