SECOND QUARTER 2005

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F. A. Lowrey

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Chief Executive Officer

Robert G. Sexton

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Chairman of the Board

July 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 and six months ended June 30, 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 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, 2005 totaled $13.6 billion, a $662.1 million, or 5.13 percent increase, compared to total loans outstanding at December 31, 2004, and an increase of $1.1 billion, or 8.99 percent, compared to June 30, 2004. The increases are primarily attributed to an increase in direct notes that fund Association lending.

The credit quality of the $11.9 billion direct note portfolio remains stable. No deterioration of the credit quality of AgFirst's direct notes is expected. As of June 30, 2005, twenty-two of the twenty-three direct notes, representing 98.65 percent of the portfolio, were classified acceptable. The remaining 1.35 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	**June 30, 2005**	**December 31, 2004**	**June 30, 2004**
Acceptable	93.91%	93.82%	93.37%
OAEM	2.12%	2.75%	1.77%
Substandard	3.14%	2.66%	4.01%
Doubtful	.83%	0.77%	.85%

AgFirst's allowance for loan losses at June 30, 2005 of $14.5 million was .11 percent of total loans outstanding and 1.15 percent of AgFirst's participations/syndications outstanding. By comparison, the allowance for loan losses at December 31, 2004 was $14.8 million. See Note 2, *Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

Liquidity and Funding Sources

As of June 30, 2005, AgFirst exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled $4.0 billion, or 22.28 percent of total assets at June 30, 2005, compared to $3.7 billion, or 22.20 percent, as of December 31, 2004. Except as noted below, all investment securities were classified as being available-for-sale. At June 30, 2005, AgFirst had 195 days of liquidity coverage as defined by the Farm Credit System's common liquidity policy.

The investment securities at June 30, 2005 included $187.7 million in investments classified as being held-to-maturity. In this group of held-to-maturity investments were $164.2 million in Rural Housing Mortgage-backed Securities (RHMS) purchased under a mission-related investment pilot program approved by the Farm Credit Administration (FCA). This investment pilot program is intended to create more demand for rural housing loans by providing an incentive to lenders to create RHMS for sale in the secondary market. Creating demand for rural housing loans should result in more cost-effective, market priced credit to homeowners in rural America. At June 30, 2005, AgFirst also had commitments to purchase an additional $426.1 million in RHMS in July 2005.

On July 14, 2005, the FCA Board approved a final rule which, among other things, increased minimum liquidity reserve requirements and increased eligible investment limits for System institutions. The rule will become effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session.

The primary source of funds for AgFirst is the issuance of Systemwide Debt securities through the Federal Farm Credit Banks Funding Corporation. At June 30, 2005, AgFirst had $16.3 billion in total debt outstanding compared to $15.4 billion at December 31, 2004. In addition, other interest-bearing liabilities for AgFirst included $225.0 million in Mandatorily Redeemable Preferred Stock (MRPS) for the same periods. Total interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

Capital Resources

Total shareholders' equity increased $69.8 million from December 31, 2004 to June 30, 2005. This 6.81 percent net increase is primarily attributed to the increase in retained earnings related to net income of $81.4 million.

As of June 30, 2005, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements established by the Farm Credit Administration Regulations. At June 30, 2005, AgFirst's permanent capital ratio was 24.23 percent, core surplus was 13.74 percent, total surplus was 24.16 percent, and net collateral was 107.04 percent.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2005 was $51.3 million compared to $54.8 million in the same period of 2004, a decrease of $3.5 million or 6.39 percent. For the six months ended June 30, 2005, net interest income was $100.7 million compared to $109.6 million for the comparable period of 2004, a decrease of $8.9 million or 8.12 percent.

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 for the three and six months ended June 30, 2005 of $39 thousand and $610 thousand, respectively, resulted from recoveries related to loans in the Participation/Syndication portfolio.

Noninterest Income

Noninterest income increased $3.5 million for the quarter ended June 30, 2005, compared to the same period of 2004. The 2005 quarter-to-date increase in noninterest income was primarily the result of increased income related to secondary mortgage operations, which amounted to $1.7 million, compared to a ($666 thousand) loss for the second quarter of 2004. The $2.4 million improvement in secondary mortgage operations income was due to a $1.6 million gain on sale of mortgage servicing assets and a net $734 thousand increase in other secondary mortgage operating income. Loan fees increased $326 thousand, gains on investments increased $192 thousand, and other noninterest income increased $626 thousand for the second quarter.

For the six months ended June 30, 2005, noninterest income decreased $345 thousand compared to the same period of 2004. For the six months ended June 30, 2004, a gain on the sale of Farm Credit Leasing Corporation stock in 2004 in the amount of $3.8 million contributed to the decrease, in addition to $137 thousand less loan fee income in 2005. These decreases were offset by gains on investments, which increased $280 thousand and income from secondary mortgage market operations, which increased $2.7 million due to the sale of the above mentioned mortgage servicing assets and a net $1.1 million increase in other secondary mortgage operating income.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2005 was $14.5 million, an increase of $189 thousand as compared to the corresponding period in 2004. The quarterly increase resulted from increases of $149 thousand in salaries and benefits, $250 thousand in occupancy and equipment expense, and $528 thousand in other operating expenses. Offsetting these increases were decreases in the Insurance Fund premium of $233 thousand, Intra-System financial assistance expense of $297 thousand, called debt expense of $19 thousand, and other noninterest expense of $189 thousand.

For the six months ended June 30, 2005, noninterest expense decreased $2 thousand. Called debt expense decreased $1.7 million, and the Insurance Fund premium decreased $497 thousand. Also, Intra-System financial assistance expense decreased $87 thousand and other noninterest expense decreased $123 thousand. Offsetting these decreases were increases of $407 thousand in salaries and benefits, $518 thousand in occupancy and equipment expense, and $1.5 million in other operating expenses.

NOTE: Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Jay Wise, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. AgFirst prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2005**	**December 31, 2004**
	(unaudited)	*(audited)*
Assets		
Cash and cash equivalents	$ 432,149	$ 470,258
Investment securities	3,519,507	3,278,414
Loans	13,570,379	12,908,249
Less: allowance for loan losses	14,500	14,800
Net loans	13,555,879	12,893,449
Accrued interest receivable	57,908	50,630
Investments in other Farm Credit System institutions	66,764	66,646
Premises and equipment, net	28,300	27,920
Due from associations	11,678	30,385
Other assets	68,109	69,821
Total assets	$ 17,740,294	$ 16,887,523
Liabilities		
Bonds and notes	$ 16,286,169	$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest payable	86,612	65,854
Patronage distribution payable	—	126,689
Postretirement benefits other than pensions	14,379	13,943
Other liabilities	34,041	29,356
Total liabilities	16,646,201	15,863,227
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	224,554	226,200
Retained earnings	720,275	644,366
Accumulated other comprehensive income (loss)	(736)	3,730
Total shareholders' equity	1,094,093	1,024,296
Total liabilities and equity	$ 17,740,294	$ 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 June 30, 2005	2004	For the six months ended June 30, 2005	2004
Interest Income				
Investment securities and other	$ 32,282	$ 16,424	$ 61,564	$ 31,544
Loans	148,755	111,234	283,193	222,617
Total interest income	181,037	127,658	344,757	254,161
Interest Expense	129,709	72,877	244,063	144,579
Net interest income	51,328	54,781	100,694	109,582
Provision for (reversal of) loan losses	(39)	—	(610)	—
Net interest income after provision for loan losses	51,367	54,781	101,304	109,582
Noninterest Income				
Loan fees	3,679	3,353	6,128	6,265
Realized gains (losses) on investments, net	272	80	372	92
Secondary mortgage operations income (loss)	1,699	(666)	2,372	(364)
Other noninterest income	568	(58)	1,309	4,533
Total noninterest income	6,218	2,709	10,181	10,526
Noninterest Expenses				
Salaries and employee benefits	6,239	6,090	12,586	12,179
Occupancy and equipment	2,430	2,180	5,125	4,607
Insurance Fund premium	178	411	350	847
Other operating expenses	3,726	3,198	7,281	5,807
Intra-System financial assistance expenses	1,369	1,666	3,233	3,320
Called debt expense	83	102	558	2,252
Other noninterest expense	498	687	964	1,087
Total noninterest expenses	14,523	14,334	30,097	30,099
Net income	$ 43,062	$ 43,156	$ 81,388	$ 90,009

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			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
Preferred stock dividends paid			(5,475)		(5,475)
Balance at June 30, 2004	$ 150,000	$ 229,296	$ 686,233	$ (26,826)	$1,038,703
Balance at December 31, 2004	$ 150,000	$ 226,200	$ 644,366	$ 3,730	$1,024,296
Comprehensive income					
Net income			81,388		81,388
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				(9,632)	(9,632)
Change in fair value of derivative instruments				5,166	5,166
Total comprehensive income					76,922
Capital stock/participation certificates issued/retired, net		(1,646)			(1,646)
Perpetual preferred stock dividends paid			(5,475)		(5,475)
Cash patronage			(4)		(4)
Balance at June 30, 2005	$ 150,000	$ 224,554	$ 720,275	$ (736)	$1,094,093

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, 2005	2004
Cash flows from operating activities:		
Net income	$ 81,388	$ 90,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,987	3,053
Provision for (reversal of) loan losses	(610)	—
(Gains) on sale of Farm Credit Leasing Corporation stock	—	(3,757)
Realized (gains) losses on investments, net	(372)	(92)
Realized (gains) losses on derivatives, net	(43)	—
Realized (gains) losses on mortgage loans held for sale	(1,584)	2,396
Proceeds from sale of mortgage loans held for sale	3,269	210,864
Purchases of mortgage loans held for sale (net of principal repayment)	(123,066)	(202,028)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(7,278)	(14,576)
(Increase) decrease in investments in other Farm Credit System institutions	(118)	(117)
(Increase) decrease in due from associations	18,707	27,513
(Increase) decrease in other assets	2,569	121
Increase (decrease) in accrued interest payable	20,758	(1,136)
Increase (decrease) in postretirement benefits other than pensions	436	1,229
Increase (decrease) in other liabilities	(3,658)	(1,453)
Total adjustments	(88,003)	22,017
Net cash provided by (used in) operating activities	(6,615)	112,026
Cash flows from investing activities:		
Investment securities purchased	(1,290,332)	(2,498,764)
Investment securities sold or matured	1,039,979	2,134,394
Proceeds from sale of Farm Credit Leasing Corporation stock	—	12,834
Net (increase) decrease in loans	(540,471)	(90,238)
Purchase of premises and equipment, net	(3,367)	(3,776)
Net cash provided by (used in) investing activities	(794,191)	(445,550)
Cash flows from financing activities:		
Bonds and notes issued	19,044,485	24,087,401
Bonds and notes retired	(18,147,974)	(23,656,838)
Capital stock and participation certificates issued/retired, net	(1,646)	213
Cash distribution to shareholders	(126,693)	(92,129)
Dividends paid on perpetual preferred stock	(5,475)	(5,475)
Net cash provided by (used in) financing activities	762,697	333,172
Net increase (decrease) in cash and cash equivalents	(38,109)	(352)
Cash and cash equivalents, beginning of period	470,258	469,945
Cash and cash equivalents, end of period	$ 432,149	$ 469,593
Supplemental schedule of non-cash investing and financing activities:		
Change in unrealized gains (losses) on investments and derivative instruments, net	$ (9,632)	$ (6,457)
Change in fair value of derivative instruments	5,166	5,881
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 32	$ 112
Increase (decrease) in bonds and notes	(12,727)	(12,146)
Decrease (increase) in other assets	(857)	2,116
Increase (decrease) in other liabilities	8,343	9,169
Supplemental information:		
Interest paid	$ 223,305	$ 145,715

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 second 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 six months ended June 30, 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 June 30, 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	—
Loans (charged off), net of recoveries	(3,195)
Balance at June 30, 2004	$ 30,973
Balance at December 31, 2004	$ 14,800
Provision for (reversal of) loan losses	(610)
Recoveries, net of loans charged off	310
Balance at June 30, 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 one-time 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 $104.4 billion at June 30, 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 six months ended June 30, 2005:

	For the six months ended June 30,	
	2005	2004
Pension	$ 1,807	$ 1,981
Thrift/deferred compensation	273	222
Other postretirement benefits	996	1,315
Total	$ 3,076	$ 3,518

As of June 30, 2005, the Bank had made no contributions to the Districtwide defined benefit retirement plan for 2005. 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 pension and deferred compensation costs above. The Bank contributed $126 thousand to these plans during the first six months of 2005. The Bank anticipates making additional contributions of $126 thousand to these supplemental retirement and deferred compensation plans during the remainder of 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

	6/30/05 *(unaudited)*	12/31/04 *(audited)*
Cash and investment securities	$ 3,989,537	$ 3,813,829
Loans	15,577,825	14,836,278
Less: allowance for loan losses	94,072	95,419
Net loans	15,483,753	14,740,859
Other assets	480,652	440,728
Total assets	$ 19,953,942	$ 18,995,416
Bonds and notes	$ 16,286,169	$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	337,056	368,386
Total liabilities	16,848,225	15,995,771
Perpetual preferred stock	150,000	150,000
Protected borrower equity	8,007	10,123
Capital stock and participation certificates	122,075	125,089
Retained earnings	2,826,770	2,711,102
Accumulated other comprehensive income (loss)	(1,135)	3,331
Total shareholders' equity	3,105,717	2,999,645
Total liabilities and equity	$ 19,953,942	$ 18,995,416

Statement of Income Data

(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
Interest income	$ 280,607	$ 214,676	$ 539,552	$ 425,964
Interest expense	129,748	72,888	244,138	144,623
Net interest income	150,859	141,788	295,414	281,341
Provision for (reversal of) loan losses	283	112	(982)	262
Net interest income after provision for loan losses	150,576	141,676	296,396	281,079
Noninterest expense, net	(55,650)	(60,196)	(112,847)	(115,033)
Net income	$ 94,926	$ 81,480	$ 183,549	$ 166,046