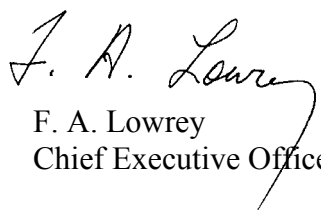



SECOND QUARTER 2003

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations	2
Consolidated Financial Statements:	
Consolidated Balance Sheets	5
Consolidated Statements of Income	6
Consolidated Statements of Changes in Preferred Stock and Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements.....	9


F. A. Lowrey
Chief Executive Officer


Paul Lemoine
Chairman of the Board

July 29, 2003

Management's Discussion and Analysis of Financial Condition and Results of Operations

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, 2003. These comments should be read in conjunction with the accompanying financial statements and the 2002 Annual Report of AgFirst Farm Credit Bank and its subsidiary.

FINANCIAL OVERVIEW

- Net interest income after provision for loan losses for the three months ended June 30, 2003 was \$65.6 million compared to \$63.1 million in the same period of 2002, an increase of \$2.5 million or 3.90%. For the six months ended June 30, 2003, net interest income was \$131.9 million compared to \$124.2 million for the comparable period of 2002, an increase of \$7.7 million or 6.18%. The increases in net interest income for the three months and six months are primarily the result of increased loan volume compared to the prior year combined with AgFirst's ability to call significant amounts of debt in a lower interest rate environment.
- Total assets at June 30, 2003 increased 5.1% compared to December 31, 2002. This increase was primarily attributed to increased loan and investment volume.
- Bonds and notes outstanding at June 30, 2003 increased in order to fund the additional loan and investment volume.
- Credit quality at June 30, 2003 remained relatively stable during the second quarter of 2003.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst in more detail. The six months' results of operations are not indicative of an entire year due to the seasonal nature of a portion of AgFirst's assets.

FINANCIAL CONDITION

Loan Portfolio

Total loans outstanding at June 30, 2003 were \$12.2 billion, a 1.39% increase compared to total loans outstanding of \$12.0 billion at December 31, 2002, and a 6.39% increase compared to total loans outstanding of \$11.4 billion at June 30, 2002. During 2003, growth in AgFirst's portfolios has been largely offset by bulk sales of rural home loans from AgFirst to Fannie Mae, a reduced level of usage of committed credit facilities in AgFirst's capital markets portfolio, and increased sold participation loan

volume. Fluctuations in credit facility usage around fiscal year-end are normal in the industry and are largely the result of borrower tax management activities. The significant growth rate experienced over the past several years moderated during the second quarter, with the slowdown attributed primarily to adverse weather conditions that delayed agricultural activities in many areas and to the generally sluggish economy.

AgFirst's allowance for loan losses at June 30, 2003 of \$33.9 million is .28% of total loans outstanding and 2.52% of AgFirst's participations outstanding. By comparison, the allowance as a percentage of participations outstanding was 1.93% at December 31, 2002. The increase in the percentage is largely due to a decrease in participations outstanding and a \$2.5 million provision for loan loss recorded in the first quarter. Management considers this allowance to be adequate to absorb potential losses on existing loans.

Overall credit quality in the AgFirst portfolio at June 30, 2003 improved slightly as compared to December 31, 2002 while declining when compared to June 30, 2002. Nonaccrual loan assets in the AgFirst loan portfolio at June 30, 2003 decreased to \$15.6 million compared to \$23.6 million at December 31, 2002, and increased from \$11.4 million as of June 30, 2002. During the third quarter of 2002, a \$24.0 million farm related business loan was classified as nonaccrual, and has now paid down to \$13.7 million as of June 30, 2003. This was offset by a charge-off of \$2.2 million related to a marketing and processing loan and a pay-off of a \$6.2 million telecommunication loan.

Although overall credit quality improved slightly compared to December 31, 2002, adversity in certain discrete sectors of AgFirst's participation portfolio remains a concern. As of August 31, 2003, a secured substandard loan totaling \$20 million has been identified as high risk and may require a specific reserve to be recorded in the third quarter of 2003.

Liquidity and Funding Sources

As of June 30, 2003, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the FCA Regulations. At June 30, 2003, AgFirst's permanent capital ratio was 21.50%, core surplus was 12.74%, total surplus was 21.30%, and net collateral was 106.37%.

Cash and investment securities totaled \$3.1 billion or 20.29% of total assets compared to \$2.5 billion or 17.09% of total assets at December 31, 2002. Liquidity coverage, as defined in AgFirst's liquidity policy, was 165 Days.

Interest-bearing liabilities, consisting of bonds and notes, increased by \$798.6 million, or 5.90%, at June 30, 2003, compared to bonds and notes outstanding at December 31, 2002. Interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

Capital Resources

Total shareholders' equity increased \$82.9 million from December 31, 2002 to June 30, 2003. This 10.95% net increase is the result of an increase of \$96.7 million in retained earnings related to net income, which was partially offset by paid dividends for preferred stock of \$9.4 million, \$4.0 million related to accumulated other comprehensive income and a \$361 thousand decrease related to net stock issuance/retirement. The total shareholders' equity for the six month period ended June 30, 2003 does not include the outstanding Series 1 Preferred Stock issued in May 2001.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2003 was \$65.6 million compared to \$63.1 million in the same period of 2002, an increase of \$2.5 million or 3.90%. For the six months ended June 30, 2003, net interest income was \$131.9 million compared to \$124.2 million for the comparable period of 2002, an increase of \$7.7 million or 6.18%. The increases in net interest income for the three months and six months continue to be primarily the result of increased loan volume compared to the prior year combined with AgFirst's ability to call significant amounts of debt in a lower interest rate environment.

Noninterest Income

Noninterest income decreased \$2.0 million for the quarter ended June 30, 2003, and increased \$2.5 million for the six months ended June 30, 2003, compared to the same periods of 2002. The decrease for the quarter is mostly attributed to the \$2.1 million realized gain related to the sale of rural home loans to Fannie Mae compared to \$4.6 million for the second quarter of 2002. The year-to-date increase is primarily due to increases of \$1.3 million in loan fee income related to participation loan activity, \$900 thousand in dividend income from other System Institutions and \$309 thousand in realized gains related to the sale of rural home loans to Fannie Mae.

Noninterest Expense

Noninterest expense for the three and six months ended June 30, 2003 was \$25.0 million and \$45.3 million, respectively, an increase of \$7.1 million and \$7.5 million, respectively, as compared to the corresponding period in 2002. The three-month increase was primarily attributed to the \$3.0 million write-down of mortgage servicing rights to reflect the current market value and increases of \$2.7 million in expenses related to called debt and \$1.8 million in financial assistance expense. The six-month increase was primarily attributed to the \$3.0 million write-down of mortgage servicing rights to reflect the current market value, increases of \$6.3 million in expenses related to called debt and \$1.7 million in financial assistance expense. These increases were offset by the \$3.0 million positive variance in net realized losses on investments recorded in 2002 of \$2.8 million compared to recoveries of \$200 thousand recorded in 2003.

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2003	December 31, 2002
	<i>(unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 361,171	\$ 359,819
Investment securities	2,781,964	2,153,118
Loans	12,174,897	12,008,041
Less: allowance for loan losses	33,852	31,155
Net loans	12,141,045	11,976,886
Accrued interest receivable	47,365	50,470
Investments in other Farm Credit System institutions	78,248	78,251
Premises and equipment, net	21,228	18,722
Other assets	56,728	63,924
Total assets	\$ 15,487,749	\$ 14,701,190
Liabilities		
Bonds and notes	\$ 14,337,143	\$ 13,538,536
Accrued interest payable	32,999	43,732
Patronage distribution payable	—	85,477
Postretirement benefits other than pensions	11,299	10,512
Minimum pension liability	9,469	10,449
Other liabilities	31,259	29,800
Total liabilities	14,422,169	13,718,506
Commitments and contingencies		
Preferred Stock	225,839	225,839
Shareholders' Equity		
Capital stock and participation certificates	249,083	249,444
Retained earnings	614,969	527,673
Accumulated other comprehensive income	(24,311)	(20,272)
Total shareholders' equity	839,741	756,845
Total liabilities and equity	\$ 15,487,749	\$ 14,701,190

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

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2003	2002	2003	2002
Interest Income				
Investment securities and other	\$ 15,365	\$ 16,313	\$ 31,442	\$ 33,012
Loans	119,477	139,960	240,768	279,075
Total interest income	134,842	156,273	272,210	312,087
Interest Expense	69,279	93,169	140,327	187,875
Net interest income	65,563	63,104	131,883	124,212
Provision for loan losses	—	1,000	2,500	2,000
Net interest income after provision for loan losses	65,563	62,104	129,383	122,212
Noninterest Income				
Loan fees	2,330	2,098	6,175	4,923
Gain on sale of rural home loans	2,089	4,597	4,910	4,601
Miscellaneous	579	265	1,563	610
Total noninterest income	4,998	6,960	12,648	10,134
Noninterest Expenses				
Salaries and employee benefits	5,494	5,283	11,217	10,431
Occupancy and equipment	1,841	1,972	3,882	3,793
Other operating expenses	3,780	4,586	7,248	8,204
Intra-System financial assistance expenses	5,442	3,688	9,293	7,584
Realized losses (gains) on investments, net	(86)	(635)	(200)	2,788
Called debt expense	5,201	2,516	10,164	3,911
Impairment of servicing assets	3,000	—	3,000	—
Miscellaneous	307	511	688	1,032
Total noninterest expenses	24,979	17,921	45,292	37,743
Net income	\$ 45,582	\$ 51,143	\$ 96,739	\$ 94,603

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

Consolidated Statements of Changes in Preferred Stock and Shareholders' Equity

(unaudited)

	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<i>(dollars in thousands)</i>					
Balance at December 31, 2001	\$ 225,839	\$ 281,803	\$ 439,104	\$ 7,041	\$ 953,787
Comprehensive income					
Net income			94,603		94,603
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				9,216	9,216
Change in fair value of derivative instruments				(6,431)	(6,431)
Total comprehensive income					97,388
Capital stock/participation certificates issued/retired, net		(2,358)			(2,358)
Preferred stock dividends accrued	9,443		(9,443)		—
Preferred stock dividends paid	(9,443)				(9,443)
Balance at June 30, 2002	\$ 225,839	\$ 279,445	\$ 524,264	\$ 9,826	\$ 1,039,374
Balance at December 31, 2002	\$ 225,839	\$ 249,444	\$ 527,673	\$ (20,272)	\$ 982,684
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)
Preferred stock dividends accrued	9,443		(9,443)		—
Preferred stock dividends paid	(9,443)				(9,443)
Balance at June 30, 2003	\$ 225,839	\$ 249,083	\$ 614,969	\$ (24,311)	\$ 1,065,580

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

Consolidated Statements of Cash Flows

(unaudited)

	For the six months ended June 30,	
(dollars in thousands)	2003	2002
Cash flows from operating activities:		
Net income	\$ 96,739	\$ 94,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,449	2,051
Provision for loan losses	2,500	2,000
Realized (gains) losses on investments, net	(200)	2,788
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	3,105	1,607
(Increase) decrease in investments in other Farm Credit System institutions	3	46
(Increase) decrease in other assets	7,196	(3,631)
Increase (decrease) in accrued interest payable	(10,733)	(3,786)
Increase (decrease) in other liabilities	1,266	(1,570)
Total adjustments	5,586	(495)
Net cash provided by (used in) operating activities	102,325	94,108
Cash flows from investing activities:		
Investment securities purchased	(2,292,399)	(1,088,140)
Investment securities sold or matured	1,662,906	1,175,998
Net (increase) decrease in loans	(166,659)	(314,776)
Purchase of premises and equipment, net	(4,955)	(3,400)
Net cash provided by (used in) investing activities	(801,107)	(230,318)
Cash flows from financing activities:		
Bonds and notes issued	31,463,028	24,022,415
Bonds and notes retired	(30,667,613)	(23,718,200)
Capital stock and participation certificates issued/retired, net	(361)	(2,358)
Patronage refunds and dividends paid	(85,477)	67,786
Dividends paid on preferred stock	(9,443)	(9,443)
Net cash provided by (used in) financing activities	700,134	360,200
Net increase (decrease) in cash and cash equivalents	1,352	223,990
Cash and cash equivalents, beginning of period	359,819	265,254
Cash and cash equivalents, end of period	\$ 361,171	\$ 489,244
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	\$ (2,005)	\$ (1,144)
Increase (decrease) in bonds and notes	4,038	(9,332)
Decrease (increase) in other assets	(3,872)	9,704
Increase (decrease) in other liabilities	(1,199)	(249)
Supplemental information:		
Interest paid	\$ 151,060	\$ 191,661

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, 2002, are contained in the 2002 Annual Report. These unaudited second quarter financial statements should be read in conjunction with the 2002 Annual Report.

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.

Prior to the implementation of SFAS No. 150, the mandatorily redeemable preferred stock issued by AgFirst in May 2001 in the amount of \$225 million (225,000 shares) was classified as mezzanine equity (between the liability section and the equity section of the financial statement of position) and was considered to be a component of capital for certain regulatory ratios. The dividends accrued and paid on the preferred stock were charged directly to unallocated surplus. Effective July 1, 2003, the preferred stock will be reclassified as a liability and dividends will be recorded in interest expense prospectively. However, it will continue to be treated as a component of capital in the Bank’s regulatory ratios.

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, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003.

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, 2003, 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 12-31-01	\$ 25,616
Provision for loan losses	2,000
Loans (charged off), net of recoveries	<u>(227)</u>
Balance at 6-30-02	<u>\$ 27,389</u>
Balance at 12-31-02	\$ 31,155
Provision for loan losses	2,500
Recoveries, net of loans charged off	<u>197</u>
Balance at 6-30-03	<u>\$ 33,852</u>

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 contingently liable for the Systemwide obligations of the System banks. The total consolidated Systemwide debt securities of the System were \$92.2 billion at June 30, 2003.