THIRD QUARTER 2003

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F. A. Lowrey

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Chief Executive Officer

Paul Lemoine

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Chairman of the Board

October 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 nine months ended September 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 income for the three months ended September 30, 2003 was $38,510, a decrease of $10,276 or 21.06 percent, compared to the three months ended September 30, 2002. Net income for the nine months ended September 30, 2003 was $135,249, a decrease of $8,140 or 5.68 percent, compared to the same period ended September 30, 2002. The three-month decrease was primarily attributed to the $8,607 decrease in net interest income, a $1,018 decrease in noninterest income, and a $651 increase in noninterest expense. The year-to-date decrease in net income was primarily attributed to an increase of $10,878 in noninterest expense, which was offset by an increase of $4,174 in noninterest income.

- Total assets at September 30, 2003 increased $1,399,477, or 9.52 percent compared to December 31, 2002. This increase was primarily attributed to increased loan and investment volume.

- Bonds and notes outstanding at September 30, 2003 increased $1,262,802, or 9.33 percent, in order to fund the additional loan and investment volume.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst in more detail. The nine 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 September 30, 2003 were $12,278,679, a 2.25 percent increase compared to total loans outstanding of $12,008,041 at December 31, 2002, and a 3.87 percent increase compared to total loans outstanding of $11,820,988 at September 30, 2002. The moderate increase in loans outstanding is the result of a significant increase in loans to associations, substantially offset by a decrease in net participations and secondary mortgage market loans outstanding.

AgFirst's allowance for loan losses at September 30, 2003 of $33,951 is .28 percent of total loans outstanding and 2.62 percent of AgFirst's participations outstanding. By comparison, the allowance as a percentage of participations outstanding was 1.93 percent at December 31, 2002. The increase in the percentage is largely due to a decrease in participations outstanding and a $2,500 provision for loan loss recorded in the first quarter in response to deterioration in certain participation loan sectors.

Credit quality has declined modestly during the period ended September 30, 2003 as a participation loan totaling $19 million was downgraded to "nonaccrual" and two participations, totaling $29.6 million, were downgraded to "substandard." Based on current loss estimates for these loans and an updated loss evaluation for an existing nonaccrual participation that indicates improvement, management has concluded that the allowance is adequate to absorb potential losses on existing loans and that no additional provision for loan loss is warranted as of September 30, 2003.

Liquidity and Funding Sources

Cash and investment securities totaled $3,644,715, or 22.64 percent of total assets, compared to $2,512,937, or 17.09 percent of total assets at December 31, 2002. At September 30, 2003, the Bank had 162 days of coverage as defined by the Farm Credit System's common liquidity policy.

Interest-bearing liabilities, consisting of bonds and notes, increased by $1,262,802, or 9.33 percent, at September 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.

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 its Series 1 Preferred Stock (mandatorily redeemable) 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.

Capital Resources

Total shareholders' equity increased $126,692 from December 31, 2002 to September 30, 2003. This 16.74 percent net increase is primarily attributed to an increase of $125,806 in retained earnings related to net income of $135,249, which was partially offset by paid dividends for preferred stock of $9,443 and a $361 decrease related to net stock issuance/retirement. In addition, the accumulated other comprehensive loss decreased in the amount of $1,247 related to increased market values of investments and derivative instruments.

As of September 30, 2003, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the Farm Credit Administration Regulations. At September 30, 2003, AgFirst's permanent capital ratio was 22.93 percent, core surplus was 13.96 percent, total surplus was 22.71 percent, and net collateral was 106.32 percent.

On October 14, 2003, AgFirst issued $150,000 of Class A Perpetual Non-Cumulative Preferred Stock, Series 2. Dividends on the stock are non-cumulative and will be payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent of the par value of $1 thousand per share. In the event dividends are not declared on the Series 2 Preferred Stock for payment on any dividend Payment Date, then such dividends shall not cumulate and shall cease to accrue and be payable.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended September 30, 2003 was $56,168 compared to $64,775 in the same period of 2002, a decrease of $8,607 or 13.29 percent. For the nine months ended September 30, 2003, net interest income was $188,051 compared to $188,987 for the comparable period of 2002, a decrease of $936 or .50 percent.

The decrease in net interest income for the three months and nine months 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 and nine-month periods ended September 30, 2003 totaled $4,721.

Over the past several years, AgFirst's net interest income has benefited from falling interest rates. In the falling rate environment, AgFirst was able to exercise call options on debt more efficiently than borrowers prepaid loans, which resulted in improving spreads. A rising interest rate environment beginning in June resulted in a sharp decrease in "in the money" call options. However, as expected, loan prepayments remained somewhat above historical averages. As a result, spreads began to contract toward more normal levels.

Noninterest Income

Noninterest income for the three months ended September 30, 2003 was $2,707, a decrease of $1,018 as compared to the same period of 2002. For the nine months ended September 30, 2003, noninterest income was $10,645, an increase of $4,174 as compared to the same period of 2002. The decrease for the quarter is mostly attributed to the $802 decrease in loan fees related to prepayment fees and secondary mortgage market fees and a decrease of $291 in losses recovered on investments. The year-to-date increase is mostly attributed to the $2,696 positive variance in net realized losses on investments recorded in 2002 for $2,467, compared to recoveries of $229 recorded in 2003, $900 in dividend income from other Farm Credit Institutions and $450 in loans fees related to participation loan activity.

Noninterest Expense

Noninterest expense for the three months and nine months ended September 30, 2003 was $20,365 and $60,947, respectively, an increase of $651 and $10,878, respectively, as compared to the corresponding period in 2002. The three-month increase was primarily attributed to the $4,667 loss on sale of rural home loans and $986 in net losses on Secondary Mortgage Marketing Unit (SMMU) activity. These increases were offset by the decreases of $3,205 in called debt expense (due to the decrease in "in the money" call options) and $1,653 in financial assistance expense, which is due to the retirement of a FAC bond in July 2003.

AgFirst purchased rural home loans for resale in the SMMU. Until August 2003, such purchases were not hedged, resulting in the recognition of significant gains as mortgage rates declined. Given the downward-trend in the mortgage rates and the limited volume of purchase commitments, AgFirst determined that its exposure to rising rates (and the resulting potential decrease in the value of the underlying purchase commitments) was an acceptable risk. During the third quarter of 2003, interest rates increased and mortgage values declined significantly, causing AgFirst "commitments to purchase" to lose value. A loss in value was recognized in the third quarter of 2003 as compared to an increase in values throughout 2002. As a result of the recent increase in mortgage values, AgFirst implemented a hedging strategy, which should minimize its exposure to future changes in commitment values.

The year-to-date increase is primarily attributed to the $3,000 write-down of mortgage servicing rights to reflect the current market value, $3,048 in expenses related to called debt, $986 net losses on SMMU activity and a $4,358 decrease in gains on sale of SMMU loans. These increases were offset by a $1,585 decrease in purchased services related to professional fees related to District-wide projects. Purchased service fees incurred in the current three and nine-month period have primarily been related to projects such as the implementation of PeopleSoft Financial Suite, which are being deferred until completion of the first implementation phase.

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2003	December 31, 2002
	(unaudited)	
Assets		
Cash and cash equivalents	$ 534,233	$ 359,819
Investment securities	3,110,482	2,153,118
Loans	12,278,679	12,008,041
Less: allowance for loan losses	33,951	31,155
Net loans	12,244,728	11,976,886
Accrued interest receivable	46,521	50,470
Investments in other Farm Credit System institutions	78,182	78,251
Premises and equipment, net	23,142	18,722
Other assets	63,379	63,924
Total assets	$ 16,100,667	$ 14,701,190
Liabilities		
Bonds and notes	$ 14,801,338	$ 13,538,536
Mandatorily redeemable preferred stock *	225,000	—
Accrued interest payable	52,807	43,732
Patronage distribution payable	—	85,477
Postretirement benefits other than pensions	11,688	10,512
Pension liability	10,371	10,449
Other liabilities	115,926	29,800
Total liabilities	15,217,130	13,718,506
Commitments and contingencies		
Mandatorily redeemable preferred stock *	—	225,839
Shareholders' Equity		
Capital stock and participation certificates	249,083	249,444
Retained earnings	653,479	527,673
Accumulated other comprehensive loss	(19,025)	(20,272)
Total shareholders' equity	883,537	756,845
Total liabilities and equity	$ 16,100,667	$ 14,701,190

* Beginning July 1, 2003, term preferred stock is required to be reported prospectively as a liability in accordance with Statement of Financial Accounting Standards No. 150.

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 September 30, 2003	2002	For the nine months ended September 30, 2003	2002
Interest Income				
Investment securities and other	$ 12,615	$ 15,024	$ 44,057	$ 48,036
Loans	114,428	136,532	355,196	415,607
Total interest income	127,043	151,556	399,253	463,643
Interest Expense	70,875	86,781	211,202	274,656
Net interest income	56,168	64,775	188,051	188,987
Provision for loan losses	—	—	2,500	2,000
Net interest income after provision for loan losses	56,168	64,775	185,551	186,987
Noninterest Income				
Loan fees	2,496	3,298	8,671	8,221
Realized gains (losses) on investments, net	29	320	229	(2,467)
Miscellaneous	182	107	1,745	717
Total noninterest income	2,707	3,725	10,645	6,471
Noninterest Expenses				
Salaries and employee benefits	5,298	5,167	16,515	15,598
Occupancy and equipment	1,963	1,661	5,845	5,454
Other operating expenses	3,724	4,353	10,972	12,557
Intra-System financial assistance expenses	2,195	3,848	11,488	11,432
Called debt expense	1,154	4,359	11,318	8,270
Impairment of servicing assets	—	—	3,000	—
Loss (gain) on sale of rural home loans	4,667	—	(243)	(4,601)
Unrealized loss on SMM activity, net	986	—	986	—
Miscellaneous	378	326	1,066	1,359
Total noninterest expenses	20,365	19,714	60,947	50,069
Net income	$ 38,510	$ 48,786	$ 135,249	$ 143,389

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

Consolidated Statements of Changes in Preferred Stock and Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Preferred Stock and Shareholders' Equity
Balance at December 31, 2001	$ 225,839	$ 281,803	$ 439,104	$ 7,041	$ 953,787
Comprehensive income					
Net income			143,389		143,389
Unrealized gains (losses) on investments available for sale				10,180	10,180
Change in fair value of derivative instruments				(14,309)	(14,309)
Total comprehensive income					139,260
Capital stock/participation certificates issued/retired, net		(2,359)			(2,359)
Preferred stock dividends accrued	14,164		(14,164)		—
Preferred stock dividends paid	(9,443)				(9,443)
Balance at September 30, 2002	$ 230,560	$ 279,444	$ 568,329	$ 2,912	$1,081,245
Balance at December 31, 2002	$ 225,839	$ 249,444	$ 527,673	$ (20,272)	$ 982,684
Comprehensive income					
Net income			135,249		135,249
Unrealized gains (losses) on investments available for sale				1,940	1,940
Change in fair value of derivative instruments				(693)	(693)
Total comprehensive income					136,496
Capital stock/participation certificates issued/retired, net		(361)			(361)
Reclass of preferred stock to liabilities	(225,839)				(225,839)
Preferred stock dividends accrued	9,443		(9,443)		—
Preferred stock dividends paid	(9,443)				(9,443)
Balance at September 30, 2003	$ —	$ 249,083	$ 653,479	$ (19,025)	$ 883,537

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2003	2002
Cash flows from operating activities:		
Net income	$ 135,249	$ 143,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,690	3,086
Provision for loan losses	2,500	2,000
Realized (gains) losses on investments, net	(229)	2,467
Realized (gains) losses on mortgage loans held for sale	(243)	(4,601)
Proceeds from sale of mortgage loans held for sale	756,231	433,016
Purchase of mortgage loans held for sale (net of principal repayment)	(863,098)	(568,164)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	3,949	2,777
(Increase) decrease in investments in other Farm Credit System institutions	69	46
(Increase) decrease in other assets	545	(2,808)
Increase (decrease) in accrued interest and preferred stock dividend payable	8,236	(12,329)
Increase (decrease) in other liabilities	87,224	(63,161)
Total adjustments	(1,126)	(207,671)
Net cash provided by (used in) operating activities	134,123	(64,282)
Cash flows from investing activities:		
Investment securities purchased	(3,735,308)	(1,617,922)
Investment securities sold or matured	2,780,113	1,758,263
Net (increase) decrease in loans	(163,232)	(554,890)
Purchase of premises and equipment, net	(8,110)	(4,769)
Net cash provided by (used in) investing activities	(1,126,537)	(419,318)
Cash flows from financing activities:		
Bonds and notes issued	42,432,489	36,355,365
Bonds and notes retired	(41,170,380)	(35,823,529)
Capital stock and participation certificates issued/retired, net	(361)	(2,359)
Patronage refunds and dividends paid	(85,477)	—
Dividends paid on preferred stock	(9,443)	(9,443)
Net cash provided by (used in) financing activities	1,166,828	520,034
Net increase (decrease) in cash and cash equivalents	174,414	36,434
Cash and cash equivalents, beginning of period	359,819	265,254
Cash and cash equivalents, end of period	$ 534,233	$ 301,688
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ 1,781	$ (1,824)
Increase (decrease) in bonds and notes	2,459	(9,320)
Decrease (increase) in other assets	3,108	10,129
Increase (decrease) in other liabilities	(553)	1,350
Supplemental information:		
Interest paid	$ 202,127	$ 286,985

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 third 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 was reclassified as a liability and dividends are 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 nine months ended September 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 September 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	(2,461)
Balance at 9-30-02	$ 25,155
Balance at 12-31-02	$ 31,155
Provision for loan losses	2,500
Recoveries, net of loans charged off	296
Balance at 9-30-03	$ 33,951

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 $93.1 billion at September 30, 2003.

NOTE 4 — PREFERRED STOCK

On October 14, 2003, AgFirst issued $150,000 of Class A Perpetual Non-Cumulative Preferred Stock, Series 2. Dividends on the stock are non-cumulative and will be payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent of the par value of $1 thousand per share. In the event dividends are not declared on the Series 2 Preferred Stock for payment on any dividend Payment Date, then such dividends shall not cumulate and shall cease to accrue and be payable.