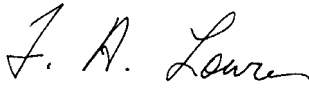



FIRST QUARTER 2005

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F. A. Lowrey
Chief Executive Officer


Robert G. Sexton
Chairman of the Board

April 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 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, 2005. These comments should be read in conjunction with the accompanying financial statements and the 2004 Annual Report of AgFirst Farm Credit Bank and District Associations.

As of March 31, 2005, the District consisted of AgFirst, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-three Agricultural Credit Associations.

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 may not be 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, 2005 was \$14,880,339, an increase of \$44,061, or 0.30 percent as compared to December 31, 2004, and an increase of \$643,395 or 4.52 percent compared to March 31, 2004. The relatively modest increase as compared to December 31, 2004 reflects seasonal softness in loan originations. The 4.52% year-over-year increase in loan volume is somewhat lower than prior years' increases, due primarily to strong borrower liquidity, which reduced their need to borrow.

During the third quarter of 2004, a series of five hurricanes caused significant damage across the AgFirst District. Florida, Puerto Rico and parts of Georgia, Alabama and North Carolina were the areas most impacted. In certain areas, crop and commodity damage was severe, but no long-term negative impact is anticipated as the risk of loss appears to be mitigated by insurance proceeds, disaster relief and the overall financial health of the borrowers' balance sheets.

Nonaccrual loan assets for the combined District at March 31, 2005 were 0.60 percent of total loans outstanding as compared to 0.69 percent at December 31, 2004 and 0.83 percent at March 31, 2004. Loan classifications as of March 31, 2005 remained relatively stable compared to December 31, 2004 and March 31, 2004, as illustrated in the following chart:

Asset Quality as of:			
Classification	March 31, 2005	December 31, 2004	March 31, 2004
Acceptable	94.95%	94.50%	93.15%
OAEM *	3.02%	3.32%	4.43%
Substandard	1.81%	1.99%	2.31%
Doubtful/loss	0.22%	0.19%	0.11%

* Other Assets Especially Mentioned

The allowance for loan losses at March 31, 2005 of \$93,856, or 0.63 percent of gross loan volume, reflects management's estimate of losses inherent in the portfolio. By comparison, the allowance for losses at December 31, 2004 was \$95,419, or 0.64 percent of gross loan volume.

Liquidity and Funding Sources

As of March 31, 2005, AgFirst and all District Associations exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled \$3,772,996 or 19.85 percent of total assets at March 31, 2005, compared to \$3,813,829 or 20.08 percent as of December 31, 2004. At March 31, 2005, AgFirst had 194 days of liquidity coverage as defined by the System's common liquidity policy.

Capital Resources

Total District shareholders' equity increased \$40,491 from December 31, 2004 to March 31, 2005. The increase was primarily the result of \$88,623 in net income, offset by a net reduction in stock and participation certificates of \$2,560, retirements of surplus of \$35,544, dividends paid of \$60, and patronage distribution of \$5,171.

As of March 31, 2005, AgFirst and each of the District Associations exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the Farm Credit Administration Regulations.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2005 was \$144,555, an increase of \$5,002 or 3.58 percent compared to the three months ended March 31, 2004. The increase is primarily attributed to the increase in loan volume referenced above and higher yields on investment securities.

Provision for Loan Losses

The provision for loan losses for the three months ended March 31, 2005 was a reversal in the provision of \$1,265, as compared to \$150 provision expense for the same period of the prior year. This variance was due to AgFirst and the ACAs recording reversals to the provisions of \$571 and \$694, respectively, for the first quarter 2005. The \$571 net provision reversal on AgFirst was the net change related to three loans in the Participation/Syndication portfolio. The ACAs' net provision reversal of \$694 was the result of a number of loan-level adjustments by several of the ACAs.

Noninterest Income

Noninterest income for the three months ended March 31, 2005 was \$12,553, a decrease of \$3,561 compared to the same period in 2004. The decrease in noninterest income was primarily the result of a \$3,757 gain recorded in 2004 on the sale of the Farm Credit Leasing Corporation stock. In addition, there were increases of \$314 in loan fees, \$166 in fees for financially related services, \$87 in gains on sales of investments, and \$219 in gains on the sale of rural home loans. Other noninterest income also included decreases in gains/(losses) on sale of assets of \$504 compared to the same period last year.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2005 was \$69,680, a decrease of \$934, as compared to the corresponding period in 2004. The three-month decrease was primarily attributed to the decreases in called debt expense of \$1,675, and \$2,046 in the Insurance Fund premium. These decreases were offset by increases in salaries and employee benefits of \$427, occupancy and equipment of \$316, other operating expenses of \$1,767, and Intra-System financial assistance expenses of \$210.

Provision for Income Taxes

The provision for income taxes for the three months ended March 31, 2005 was \$70, compared to \$337 for the same period in 2004.

Key results of operations comparisons:

	Annualized for the three months ended March 31, 2005	For the year ended December 31, 2004
Return on Average Assets	1.87%	2.96% *
Return on Average Shareholders' Equity	11.67%	19.31% *
Net Interest Income as a Percentage of Average Earning Assets	3.12%	3.16%
Chargeoffs, Net of (Recoveries), to Average Loans	0.01%	0.05%

* *The return on average assets and the return on average shareholders' equity was higher for the year ended December 31, 2004 due to the \$215 million loan loss reversal in the fourth quarter of 2004 that resulted from a change in allowance methodologies.*

Combined Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2005	December 31, 2004
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash and cash equivalents	\$ 442,736	\$ 522,862
Investment securities	3,330,260	3,290,967
Loans	14,880,339	14,836,278
Less: allowance for loan losses	93,856	95,419
Net loans	14,786,483	14,740,859
Accrued interest receivable	143,280	131,402
Investments in other Farm Credit System institutions	8,382	8,229
Premises and equipment, net	99,192	96,603
Other property owned	3,623	3,433
Deferred tax assets, net	2,601	2,229
Other assets	191,504	198,832
Total assets	\$ 19,008,061	\$ 18,995,416
Liabilities		
Bonds and notes	\$ 15,350,199	\$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividends payable	77,331	65,854
Dividends and patronage refunds payable	8,452	81,607
Postretirement benefits other than pensions	95,212	92,970
Other liabilities	211,731	127,955
Total liabilities	15,967,925	15,995,771
Commitments and contingencies	—	—
Shareholders' Equity		
Perpetual preferred stock	150,000	150,000
Protected borrower equity	8,282	10,123
Capital stock and participation certificates	124,402	125,089
Retained earnings		
Allocated	816,096	849,626
Unallocated	1,942,822	1,861,476
Accumulated other comprehensive income (loss)	(1,466)	3,331
Total shareholders' equity	3,040,136	2,999,645
Total liabilities and equity	\$ 19,008,061	\$ 18,995,416

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

Combined Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2005	2004
Interest Income		
Investment securities and other	\$ 29,467	\$ 15,123
Loans	229,478	196,165
Total interest income	258,945	211,288
Interest Expense		
	114,390	71,735
Net interest income	144,555	139,553
Provision for (reversal of) loan losses	(1,265)	150
Net interest income after provision for loan losses	145,820	139,403
Noninterest Income		
Loan fees	8,766	8,452
Fees for financially related services	1,077	911
Realized gains on investments, net	100	13
Gain on sale of rural home loans	656	437
Other noninterest income	1,954	6,301
Total noninterest income	12,553	16,114
Noninterest Expenses		
Salaries and employee benefits	44,565	44,138
Occupancy and equipment	6,618	6,302
Insurance Fund premium	1,403	3,449
Other operating expenses	14,288	12,521
Intra-System financial assistance expenses	1,864	1,654
Called debt expense	475	2,150
Other noninterest expense	467	400
Total noninterest expenses	69,680	70,614
Income before income taxes	88,693	84,903
Provision for income taxes	70	337
Net income	\$ 88,623	\$ 84,566

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

<i>(dollars in thousands)</i>	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
				Allocated	Unallocated		
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
Balance at December 31, 2004	\$ 150,000	\$ 10,123	\$ 125,089	\$ 849,626	\$ 1,861,476	\$ 3,331	\$ 2,999,645
Comprehensive income							
Net income					88,623		88,623
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(8,308)	(8,308)
Change in fair value of derivative instruments						3,511	3,511
Total comprehensive income							83,826
Protected borrower equity retired		(1,841)					(1,841)
Capital stock/participation certificates issued/retired, net			(719)				(719)
Dividends declared/paid			32		(92)		(60)
Patronage distribution							
Cash					(4,172)		(4,172)
Retained earnings retired				(35,544)			(35,544)
Patronage distribution adjustment				2,014	(3,013)		(999)
Balance at March 31, 2005	\$ 150,000	\$ 8,282	\$ 124,402	\$ 816,096	\$ 1,942,822	\$ (1,466)	\$ 3,040,136

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

Combined Statements of Cash Flows

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended	
	2005	March 31, 2004
Cash flows from operating activities:		
Net income	\$ 88,623	\$ 84,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,431	3,425
Provision for loan losses	(1,265)	150
(Gains) on sale of Farm Credit Leasing Corporation stock	—	(3,757)
(Gains) losses on other property owned, net	16	(53)
Realized (gains) losses on investments, net	(100)	(13)
Realized (gains) losses on mortgage loans held for sale	(656)	(437)
Proceeds from sale of mortgage loans held for sale	992	102,507
Originations of mortgage loans held for sale (net of principal repayment)	(55,298)	(83,067)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(11,878)	(3,258)
(Increase) decrease in investments in other Farm Credit System institutions	(153)	(118)
(Increase) decrease in deferred tax assets, net	(372)	(56)
(Increase) decrease in other assets	7,328	(2,376)
Increase (decrease) in accrued interest payable	11,477	(5,837)
Increase (decrease) in postretirement benefits other than pensions	2,242	2,991
Increase (decrease) in minimum pension liability	—	10,729
Increase (decrease) in other liabilities	106,941	(16,222)
Total adjustments	62,705	4,608
Net cash provided by (used in) operating activities	151,328	89,174
Cash flows from investing activities:		
Investment securities purchased	(520,037)	(1,074,914)
Investment securities sold or matured	472,536	968,806
Proceeds from sale of Farm Credit Leasing Corporation stock	—	12,834
Net (increase) decrease in loans	9,422	111,985
Purchase of premises and equipment, net	(6,020)	(4,744)
Proceeds from sale of other property owned	1,013	150
Net cash provided by (used in) investing activities	(43,086)	14,117
Cash flows from financing activities:		
Bonds and notes issued	9,122,935	13,449,991
Bonds and notes retired	(9,192,500)	(13,490,609)
Protected borrower equity retired	(1,841)	(1,508)
Capital stock and participation certificates issued/retired, net	(719)	(920)
Patronage refunds and dividends paid	(80,699)	(65,993)
Retained earnings retired	(35,544)	(13,543)
Net cash provided by (used in) financing activities	(188,368)	(122,582)
Net increase (decrease) in cash and cash equivalents	(80,126)	(19,291)
Cash and cash equivalents, beginning of period	522,862	494,339
Cash and cash equivalents, end of period	\$ 442,736	\$ 475,048
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	\$ 161	\$ 55
Loans transferred to other property owned	1,342	1,155
Patronage refund and dividends payable	4,232	3,043
Change in unrealized gains (losses) on investments, net	(8,308)	7,601
Change in fair value of derivative instruments	3,511	2,248
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	\$ 17	\$ (132)
Increase (decrease) in bonds and notes	(24,402)	8,408
Decrease (increase) in other assets	968	(9,011)
Increase (decrease) in other liabilities	19,925	(818)
Supplemental information:		
Interest paid	\$ 102,913	\$ 77,572
Taxes paid, net	619	671

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 between 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, 2004, are contained in the 2004 Annual Report to Stockholders. These unaudited first quarter 2005 financial statements should be read in conjunction with the 2004 Annual Report to Stockholders.

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, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

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, 2005, 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, 2003	\$316,735
Provision for loan losses	150
Loans (charged off), net of recoveries	<u>(183)</u>
Balance at March 31, 2004	<u>\$316,702</u>
Balance at December 31, 2004	\$ 95,419
Provision for (reversal of) loan losses	(1,265)
Loans (charged off), net of recoveries	<u>(298)</u>
Balance at March 31, 2005	<u>\$ 93,856</u>

As discussed in the 2004 Annual Report, the Bank and its affiliated Associations recorded loan loss reversals of \$215 million in the fourth quarter of 2004 that resulted from a change in allowance methodologies.

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 \$100.8 billion at March 31, 2005.

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	
	2005	2004
Service cost	\$ 3,374	\$ 3,473
Interest cost	6,525	5,701
Expected return on plan assets	(7,905)	(5,769)
Amortization of prior service costs	158	162
Recognized net (gain) loss	3,039	2,211
Net periodic benefit cost	<u>\$ 5,191</u>	<u>\$ 5,778</u>

As of March 31, 2005, no contributions had been made for 2005 to the defined benefit plans. 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.

	Other Benefits	
	2005	2004
Service cost	\$ 727	\$ 926
Interest cost	2,143	2,312
Expected return on plan assets	—	—
Amortization of prior service costs	(70)	(46)
Recognized net (gain) loss	952	1,299
Net periodic benefit cost	<u>\$ 3,752</u>	<u>\$ 4,491</u>

Contributions of \$1,822 were made to the other postretirement benefit plan during the first quarter of 2005. The District anticipates contributing an additional \$4,283 during the remainder of 2005 to the other postretirement benefit plans.

The District also sponsors supplemental retirement and deferred compensation plans for certain key employees. The expenses of these plans are included in the retirement costs above. The District anticipates making contributions of \$436 to these supplemental retirement and deferred compensation plans during 2005.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheet Data

	3/31/05	12/31/04
	<i>(unaudited)</i>	<i>(audited)</i>
Cash and investment securities	\$ 3,729,340	\$ 3,748,672
Loans	12,821,486	12,908,249
Less: allowance for loan losses	14,500	14,800
Net loans	12,806,986	12,893,449
Other assets	231,960	245,402
Total assets	\$ 16,768,286	\$ 16,887,523
Bonds and notes	\$ 15,350,199	\$ 15,402,385
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	135,266	235,842
Total liabilities	15,710,465	15,863,227
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	226,200	226,200
Retained earnings	682,688	644,366
Accumulated other comprehensive income (loss)	(1,067)	3,730
Total shareholders' equity	1,057,821	1,024,296
Total liabilities and equity	\$ 16,768,286	\$ 16,887,523

Statement of Income Data

	For the three months ended March 31,	
	2005	2004
Interest income	\$ 163,720	\$ 126,503
Interest expense	114,354	71,702
Net interest income	49,366	54,801
Provision for (reversal of) loan losses	(571)	—
Net interest income after provision for loan losses	49,937	54,801
Noninterest expense, net	(11,611)	(7,948)
Net income	\$ 38,326	\$ 46,853