FIRST QUARTER 2003

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F. A. Lowrey
Chief Executive Officer

Paul Lemoine
Chairman of the Board

April 29, 2003

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

As of January 1, 2003, the District consisted of AgFirst, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-four Agricultural Credit Associations.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2003 was $13,761,089, a decrease of $62,000 or .45 percent as compared to December 31, 2002, and an increase of $509,969 or 3.85 percent compared to March 31, 2002. The significant growth rate experienced over the past several years moderated during the first quarter, with the slowdown attributed primarily to adverse weather conditions that have delayed agricultural activities in many areas. Also attributing to the decrease from the 2002 year-end were the bulk sales of rural home loans to Fannie Mae from AgFirst as well as a reduced level of usage of committed credit facilities across the District. Fluctuations in credit facility usage around fiscal year-end are normal in the industry and are largely the result of borrower tax management activities.

Credit quality remained relatively consistent during the first quarter of 2003 compared to December 31, 2002 and March 31, 2002. Nonaccrual loan assets for the combined District at March 31, 2003 were .79 percent of total loans outstanding as compared to .82 percent at December 31, 2002 and .62 percent at March 31, 2002. The allowance for loan losses at March 31, 2003 of $316,720, or 2.30 percent of gross loan volume, is considered by management to be adequate to absorb potential losses on existing loans. 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, 2003, AgFirst and all District Associations exceeded all regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled $2,639,797 or 16.10 percent of total assets at March 31, 2003, compared to $2,597,575 or 15.81 percent as of December 31, 2002. Interest-bearing liabilities, consisting of bonds and notes, decreased by $59,690, or .44 percent, compared to bonds and notes outstanding at December 31, 2002. Interest-bearing liabilities decreased primarily due to the decrease in loan volume previously mentioned.

Capital Resources

Total shareholders' equity increased $46,510 from December 31, 2002 to March 31, 2003. The increase was primarily the result of $82,473 related to net income for the quarter and stock issuances of $3,033, which were partially offset by retirements of surplus of $22,302, stock retirements of $4,337, accrued/paid stock dividends of $78, cash patronage payments of $5,038, and accumulated other comprehensive income of $2,520.

Key financial condition comparisons:

	3/31/03	**12/31/02**
Shareholders' Equity to Assets	14.20%	13.88%
Total Liabilities to Shareholders' Equity	5.94:1	6.10:1
Allowance for Loan Losses to Loans	2.30%	2.25%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2003 was $143,582 compared to $131,891 in the same period of 2002. The $11,691 increase resulted from the growth in accruing loan volume (discussed above) and AgFirst's ability to exercise call options on debt in a favorable interest rate environment, offset somewhat by lower earnings on assets funded with net worth.

Beginning in 2001, and continuing into 2003, AgFirst executed call options on a significant volume of fixed-rate debt, replacing the called debt with lower-cost, fixed-rate debt. Although loan prepayment activity offsets a portion of the benefit achieved by calling debt, the efficiency of calling large blocks of debt results in a significant improvement in net interest margin.

The lower interest rates that enable AgFirst to exercise call options on debt have a negative impact on Association net interest income. In funding Association loans, each Association's net worth is primarily used to fund variable rate loans. Such a funding strategy preserves the market value of the Associations' net worth in any rate environment, but exposes the Associations to variances in net interest income as short-term rates rise and fall. In other words, from a stockholder's point-of-view, his or her investment in an Association behaves like a variable rate instrument.

Noninterest Income

Noninterest income for the three months ended March 31, 2003 was $17,600, an increase of $4,317 as compared to the same period in 2002. The increase was primarily attributed to a $2,953 increase in loan fees, which included prepayment penalties, as well as fees related to secondary mortgage market activities. In addition, AgFirst realized a $2,821 gain related to the sale of $221,317 of rural home loans to Fannie Mae during the quarter compared to $4 for the first quarter of 2002. These positive variances were partially offset by a decrease of $2,299 in interest income related to District Association federal tax settlement refunds.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2003 was $72,940, an increase of $7,827 as compared to the corresponding period in 2002. This increase was primarily attributed to the increase of $5,174 in salaries and employee benefits, which includes increases of $2,522 in retirement expense and $1,191 in postretirement healthcare expense. In addition, increases of $3,012 in Farm Credit System Insurance Corporation premiums and $3,570 related to called debt expense were realized. These increases were offset by the $3,537 positive variance in net realized losses on investments recorded in 2002 compared to recoveries recorded in 2003. During the first quarter of 2002, $3,423 was recorded to write-off the remaining principal balance of an investment, compared to recoveries of $114 realized on the investment in the first quarter of 2003.

Provision for Income Taxes

The provision for income taxes for the three months ended March 31, 2003 was $313. This represents a decrease of $3,375 in the income tax provision as compared to the same period in 2002. The decrease in provision for this period is primarily attributed to five Associations reorganizing to form ACA Holding Company structures in the first quarter of 2002, which included holding company related deferred tax asset write-offs of approximately $6.9 million. These write-offs were offset by decreases in federal tax effective rates related to the formation of tax-exempt Federal Land Credit Associations (FLCAs) and the recording of approximately $4 million in IRS settlement refunds in the first quarter of 2002. In the first quarter of 2003, one District ACA reorganized as a holding company structure and did not record a deferred tax asset write-off. In addition, minimal refund amounts were recorded by Associations during the first three months of the current year.

Key results of operations comparisons:

	Annualized for the three months ended 3/31/03	**For the year ended 12/31/02**
Return on Average Assets	2.04%	2.04%
Return on Average Shareholders' Equity	14.49%	13.28%
Net Interest Income as a Percentage of Average Earning Assets	3.54%	3.63%
Chargeoffs, Net of (Recoveries), to Average Loans	(.002)%	.12%

Combined Balance Sheets

(dollars in thousands)	March 31, 2003	December 31, 2002
	(unaudited)	
Assets		
Cash and cash equivalents	$ 374,200	$ 444,457
Investment securities	2,265,597	2,153,118
Loans	13,761,089	13,823,089
Less: allowance for loan losses	316,720	311,180
Net loans	13,444,369	13,511,909
Accrued interest receivable	128,146	131,638
Investments in other Farm Credit System institutions	18,627	18,736
Premises and equipment, net	78,026	77,361
Other property owned	5,624	4,828
Other assets	77,140	84,954
Total assets	$ 16,391,729	$ 16,427,001
Liabilities		
Bonds and notes	$ 13,478,846	$ 13,538,536
Accrued interest payable	40,469	43,733
Dividends and patronage refunds payable	6,521	64,180
Minimum pension liability	67,110	61,822
Other liabilities	241,157	212,335
Total liabilities	13,834,103	13,920,606
Commitments and contingencies		
Preferred Stock	230,560	225,839
Shareholders' Equity		
Protected borrower equity	13,702	15,486
Capital stock and participation certificates	125,042	124,541
Retained earnings		
Allocated	738,854	756,525
Unallocated	1,562,643	1,494,659
Accumulated other comprehensive income	(113,175)	(110,655)
Total shareholders' equity	2,327,066	2,280,556
Total liabilities and equity	$ 16,391,729	$ 16,427,001

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, 2003	2002
Interest Income		
Investment securities and other	$ 16,080	$ 16,705
Loans	198,574	209,902
Total interest income	214,654	226,607
Interest Expense	71,072	94,716
Net interest income	143,582	131,891
Provision for loan losses	5,456	3,550
Net interest income after provision for loan losses	138,126	128,341
Noninterest Income		
Loan fees	11,141	8,188
Fees for financially related services	909	833
Gain on sale of rural home loans	2,821	—
Interest related to IRS refunds	16	2,315
Miscellaneous	2,713	1,947
Total noninterest income	17,600	13,283
Noninterest Expenses		
Salaries and employee benefits	41,252	36,078
Occupancy and equipment	5,744	5,326
Insurance Fund premium	3,998	986
Other operating expenses	12,855	13,480
Intra-System financial assistance expenses	3,859	3,904
Realized losses (gains) on investments, net	(114)	3,423
Call debt expense	4,963	1,393
Miscellaneous	383	523
Total noninterest expenses	72,940	65,113
Income before income taxes and cumulative effect of a change in accounting principle	82,786	76,511
Provision for income taxes	313	3,688
Net income	$ 82,473	$ 72,823

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	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, 2001	$225,839	$ 19,261	$ 127,271	$ 733,378	$ 1,393,592	$ 7,041	$ 2,506,382
Comprehensive income							
Net income					72,823		72,823
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(1,424)	(1,424)
Change in fair value of derivative instruments						1,412	1,412
Total comprehensive income							72,811
Protected borrower equity retired		(2,194)					(2,194)
Capital stock/participation certificates issued/retired, net			(3,261)				(3,261)
Dividends declared/paid			23		(109)		(86)
Preferred stock dividends accrued	4,721				(4,721)		—
Patronage distribution							
Cash					(2,424)		(2,424)
Nonqualified allocated retained earnings				11	(11)		—
Retained earnings retired				(37,817)			(37,817)
Patronage distribution adjustment				2,713	(2,216)		497
Balance at March 31, 2002	$230,560	$ 17,067	$ 124,033	$ 698,285	$ 1,456,934	$ 7,029	$ 2,533,908
Balance at December 31, 2002	$225,839	$ 15,486	$ 124,541	$ 756,525	$ 1,494,659	$(110,655)	$ 2,506,395
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)
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	$230,560	$ 13,702	$ 125,042	$ 738,854	$ 1,562,643	$(113,175)	$ 2,557,626

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, 2003	2002
Cash flows from operating activities:		
Net income	$ 82,473	$ 72,823
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,227	2,954
Provision for loan losses	5,456	3,550
(Gains) losses on other property owned, net	(43)	60
Realized (gains) losses on investments, net	(114)	3,423
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	3,492	1,891
(Increase) decrease in investments in other Farm Credit System institutions	109	(115)
(Increase) decrease in other assets	7,814	11,291
Increase (decrease) in accrued interest payable	(3,264)	14,466
Increase (decrease) in other liabilities	33,586	29,826
Total adjustments	50,263	67,346
Net cash provided by (used in) operating activities	132,736	140,169
Cash flows from investing activities:		
Investment securities purchased	(931,831)	(600,266)
Investment securities sold or matured	818,394	643,369
Net (increase) decrease in loans	60,773	(375,457)
Purchase of premises and equipment, net	(3,892)	(4,261)
Proceeds from sale of other property owned	1,082	711
Net cash provided by (used in) investing activities	(55,474)	(335,904)
Cash flows from financing activities:		
Bonds and notes issued	15,774,112	10,338,336
Bonds and notes retired	(15,835,250)	(10,062,400)
Protected borrower equity retired	(1,784)	(2,194)
Capital stock and participation certificates issued/retired, net	480	(3,261)
Patronage refunds and dividends paid	(62,775)	(65,032)
Retained earnings retired	(22,302)	(37,817)
Net cash provided by (used in) financing activities	(147,519)	167,632
Net increase (decrease) in cash and cash equivalents	(70,257)	(28,103)
Cash and cash equivalents, beginning of period	444,457	339,541
Cash and cash equivalents, end of period	$ 374,200	$ 311,438
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 383	$ 745
Loans transferred to other property owned	1,694	2,091
Patronage refund and dividends payable	2,508	2,510
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ (1,366)	$ (373)
Increase (decrease) in bonds and notes	384	(817)
Decrease (increase) in other assets	(736)	193
Increase (decrease) in other liabilities	(418)	(788)
Supplemental information:		
Interest paid	$ 74,336	$ 80,250
Taxes paid, net	131	(8,070)

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 combined Bank as of and for the year ended December 31, 2002, are contained in the 2002 Annual Report to Stockholders. These unaudited first quarter 2003 financial statements should be read in conjunction with the 2002 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, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003.

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, 2003, 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 12-31-01	$ 301,615
Provision for loan losses	3,550
Loans (charged off), net of recoveries	(880)
Balance at 3-31-02	$ 304,285
Balance at 12-31-02	$ 311,180
Provision for loan losses	5,456
Recoveries, net of loans charged off	84
Balance at 3-31-03	$ 316,720

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 $89.8 billion at March 31, 2003.

Actions are pending against AgFirst and 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 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst follows:

Balance Sheet Data

	3/31/03	**12/31/02** *(Audited)*
Cash and investment securities	$ 2,588,670	$ 2,512,937
Loans	11,848,477	12,008,041
Less: allowance for loan losses	33,655	31,155
Net loans	11,814,822	11,976,886
Other assets	194,018	211,367
Total assets	$ 14,597,510	$ 14,701,190
Bonds and notes	$ 13,478,846	$ 13,538,536
Other liabilities	87,343	179,970
Total liabilities	13,566,189	13,718,506
Preferred stock	230,560	225,839
Capital stock and participation certificates	249,444	249,444
Retained earnings	574,109	527,673
Accumulated other comprehensive income (loss)	(22,792)	(20,272)
Total shareholders' equity	800,761	756,845
Total liabilities and equity	$ 14,597,510	$ 14,701,190

NOTE 4 — BANK ONLY FINANCIAL DATA *(continued)*

Statement of Income Data

	For the three months ended March 31, 2003	2002
Interest income	$ 137,368	$ 155,814
Interest expense	71,048	94,706
Net interest income	66,320	61,108
Provision for loan losses	2,500	1,000
Net interest income after provision for loan losses	63,820	60,108
Noninterest income (expense), net	(12,663)	(16,648)
Net income	$ 51,157	$ 43,460