A Year of Growth

AgFirst Farm Credit Bank
Two Thousand Annual Report

Collectively, our results tell a story of growth: growth in earnings, in assets, and in each of our lines of business.

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Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of AgFirst Farm Credit Bank (the Bank) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all consolidated financial statements, and that the assets of the Bank are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Bank maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the chief executive officer.

The consolidated financial statements have been examined by independent public accountants, whose report appears elsewhere in this annual report. The Bank is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that the 2000 Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

William S. Jackson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Leon T. Amerson
Chief Financial Officer

February 20, 2001

Profile of AgFirst Farm Credit Bank

Who we are

AgFirst Farm Credit Bank is part of the nationwide Farm Credit System, the largest agricultural lending organization in the United States. We provide funding and financial services for 24 farmer-owned financial cooperatives in 15 eastern states and Puerto Rico. These cooperatives, called Agricultural Credit Associations, provide real estate and production financing to more than 79,000 farmers, rural homeowners and agri-businesses.

How we began

AgFirst traces its origins to the establishment of the Farm Credit System in 1916. For many years, we were known as the Federal Land Bank and Federal Intermediate Credit Bank of Columbia. Although our name has changed, our mission today is the same as it was in 1916: to improve the income and well-being of American farmers and ranchers by providing them sound, adequate and constructive credit.

How we are funded

AgFirst and all of the banks in the Farm Credit System obtain their funds through the sale of notes and bonds to the investing public. Because the System issues large volumes of securities and its securities carry agency status, AgFirst and the associations it serves enjoy a dependable and competitively priced source of capital.

How we are organized

AgFirst is a federated cooperative; that is, we are a cooperative owned by other cooperatives. Like most cooperatives, we are owned and governed by our patrons, and our patrons benefit from their use of our services. AgFirst's patrons are 24 Agricultural Credit Associations (ACAs). These ACAs own stock in the bank, elect its board of directors and, at times, vote on corporate matters. As a cooperative, AgFirst can share its profits with its member-associations. Historically, we have shared a substantial portion of our earnings with our affiliated associations.

What we do

AgFirst provides funding and services for its affiliated associations and participates with them in large loan transactions. We also partner with commercial banks, insurance companies, and other Farm Credit institutions in loan participations and syndications related to food and agriculture. Through its Capital Markets Unit, AgFirst acts as an arranger, lead lender or participant in credit facilities for many large agribusinesses throughout the nation.

AgFirst's Secondary Mortgage Market Unit purchases rural home and agricultural loans from its affiliated associations, as well as from mortgage lenders throughout the United States. As a Fannie Mae- and Farmer Mac-approved lender and servicer, AgFirst pools and sells these loans and services them after they are sold.

Products we offer

From cattle to catfish and cotton to corn, our associations finance a variety of ag operations. For that reason, AgFirst offers a wide range of loan and interest rate products including:

- Lines of Credit which enable borrowers to take advances at their choice of Prime, LIBOR, or fixed.
- AgriLine®, a totally automated system which enables borrowers to write their own loan advances by check.
- *FastCash,* another automated system that enables associations to send loan advances to their borrowers' checking accounts overnight through the Automated Clearing House system.
- AutoDraft, a product that automatically drafts borrowers' loan payments and is available for all loan types and payment frequencies.
- Account Access, which provides loan and payment information to borrowers via a secure Internet site, and LoanLine, which provides the same information by phone.
- AutoBorrow, a cash management product for commercial borrowers developed by AgFirst, in partnership with Bank of America.

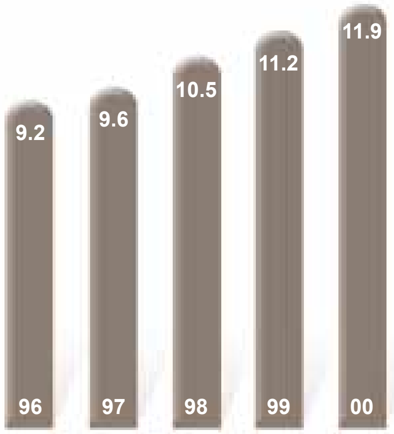
Five Year Summary

of Selected Consolidated Financial Data

(unaudited)

	December 31,				
(dollars in thousands)	**2000**	**1999**	**1998**	**1997**	**1996**
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 241,588	$ 342,874	$ 306,914	$ 199,446	$ 236,466
Investment securities	2,000,086	2,101,764	1,627,010	1,191,007	1,219,922
Loans	9,496,503	8,572,817	8,367,205	8,084,566	7,594,293
Less: allowance for loan losses	21,416	19,466	12,467	10,267	8,467
Net loans	9,475,087	8,553,351	8,354,738	8,074,299	7,585,826
Other assets	197,338	193,144	186,064	167,522	180,982
Total assets	$ 11,914,099	$ 11,191,133	$ 10,474,726	$ 9,632,274	$ 9,223,196
Obligations with maturities of one year or less	$ 6,556,988	$ 6,126,495	$ 7,275,126	$ 6,283,908	$ 5,736,955
Obligations with maturities greater than one year	4,669,337	4,416,259	2,570,974	2,722,800	2,890,225
Total liabilities	11,226,325	10,542,754	9,846,100	9,006,708	8,627,180
Capital stock and participation certificates	301,189	300,088	305,406	307,181	299,551
Retained earnings	388,035	359,325	329,305	314,213	295,570
Accumulated other comprehensive income (loss)	(1,450)	(11,034)	(6,085)	4,172	895
Total members' equity	687,774	648,379	628,626	625,566	596,016
Total liabilities and members' equity	$ 11,914,099	$ 11,191,133	$ 10,474,726	$ 9,632,274	$ 9,223,196
Consolidated Statement of Income Data					
Net interest income	$ 135,164	$ 145,814	$ 127,775	$ 117,569	$ 112,500
Provision for loan losses	2,500	7,050	2,200	1,800	2,250
Noninterest income (expense), net	(42,621)	(52,200)	(53,890)	(43,717)	(41,770)
Net income	$ 90,043	$ 86,564	$ 71,685	$ 72,052	$ 68,480
Consolidated Key Financial Ratios					
Rate of return on average:					
Total assets	0.81%	0.81%	0.71%	0.77%	0.75%
Total members' equity	12.72%	12.76%	10.86%	11.28%	11.22%
Net interest income as a percentage of average earning assets	1.23%	1.38%	1.28%	1.27%	1.25%
Net chargeoffs to average loans	0.01%	—	—	—	—
Total members' equity to total assets	5.77%	5.79%	6.00%	6.49%	6.46%
Debt to members' equity (:1)	16.32	16.26	15.66	14.40	14.47
Allowance for loan losses to loans	0.23%	0.23%	0.15%	0.13%	0.11%
Permanent capital ratio	16.92%	18.86%	20.87%	23.77%	22.11%
Total surplus ratio*	15.50%	16.72%	18.71%	19.62%	—
Core surplus ratio*	10.42%	10.89%	11.78%	11.51%	—
Collateral ratio*	104.95%	104.93%	105.07%	105.48%	—
Net Income Distribution					
Cash patronage	$ 61,333	$ 59,697	$ 59,417	$ 56,561	$ 54,294

** FCA Regulations first required total surplus, core surplus and collateral ratios, effective March, 1997.*



Total Assets
dollars in billions

Message from the Chairman of the Board and Chief Executive Officer

Another Record Year

AgFirst had another record year in 2000. Our financial results exceeded our expectations. Collectively, our results tell a story of growth: growth in earnings, in assets, and in each of our lines of business. In 2000:

- Our net income grew to $90 million, four percent over 1999's earnings. More significantly, from 1996 to 2000, our earnings have increased by $21.6 million, more than 31 percent.
- Our loan portfolio grew by 10.8 percent, and the growth came from each of our lines of business: our affiliated retail lenders, our Capital Markets Unit, and our Secondary Mortgage Market Unit. Even as we grew, our credit quality remained high.
- Our return on average members' equity was 12.72 percent, an excellent return for a cooperative institution, and we paid a patronage refund to our affiliated associations of more than $61 million.

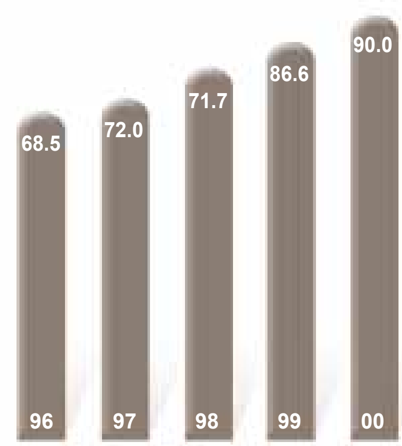
As we look to 2001, we know our goals will be the same as they were in 2000: stable, high quality earnings, high credit quality, efficient operations, and a high level of customer satisfaction.

A Year of Milestones

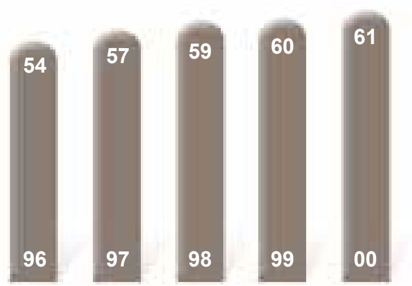
We made significant progress in executing our corporate strategy in 2000. In partnership with our affiliated associations, we achieved several milestones.

- We began the year with a successful Y2K transition. As the operations center for our 24 associations, we know we must provide dependable service at all times, even in the event of a hurricane or other disaster. We are using many of the lessons learned during our preparation for Y2K to supplement and strengthen our disaster recovery procedures.
- We provided operational support for four successful association mergers.
- We expanded our Capital Markets activity in 2000. At year-end, our participation portfolio had grown to almost $1.4 billion, with $700 million in available commitments. During the year, we sold more than $248 million in participations to our associations. In doing so, we diversified our own portfolio and enabled our associations to spread their credit concentrations and realize additional income.
- Our Secondary Mortgage Market Unit (SMMU) continued to make significant inroads throughout the nation, buying and selling rural housing, part-time farm and agricultural loans. In 2000, we purchased almost 1,000 loans totaling $130.4 million. In the first quarter of 2001, activity in this unit has increased sharply.

  Our SMMU servicing portfolio has grown significantly, as well. At the close of 2000, we were servicing more than 4,000 loans for $568.4 million, as compared to 2,934 loans for $423.4 million at year-end 1999.



Net Income
dollars in millions

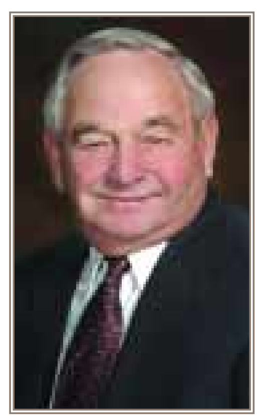


Patronage Paid to Associations
dollars in millions

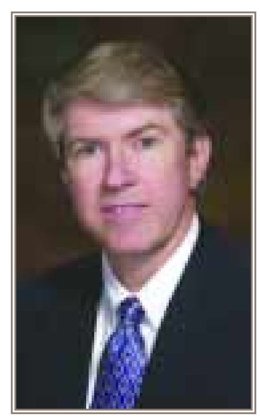
- We enhanced our communications network to make it easier for borrowers to do business with their associations and our associations, the bank.
- We made significant progress in the development of a new credit delivery system, as well as a new human resource management system for the bank and associations.
- We introduced several new products during the year, including:
    - Account Access, the first phase of our E-Commerce initiative. Developed entirely by our in-house web development team, Account Access provides loan and payment information to borrowers via a secure Internet site.
    - A districtwide Intranet, which enables the bank and associations to publish policy and procedure manuals, training manuals, tutorials, newsletters and other documents traditionally distributed in hard-copy form.
    - Home equity loans for farmers, and,
    - Special lines of credit for consumer purposes.

Synergy = Success

We are proud of all that the bank achieved in 2000, and we thank all of the AgFirst employees who worked hard to help us reach our goals. We also thank our customers – our affiliated associations – for their support throughout this year of challenges and changes. The synergy we create when working together is unbeatable and is, in large measure, the reason behind our mutual success. We look forward to accomplishing even more – together – in 2001.

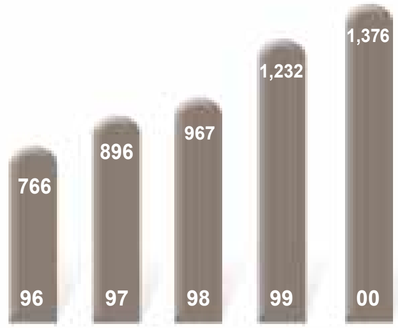


William S. Jackson
Chairman of the Board



F. A. (Andy) Lowrey
Chief Executive Officer

February 20, 2001



Participations/Syndications Year-End Volume
dollars in millions

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

(dollars in thousands, except as noted)

The following commentary reviews the financial condition and results of operations of AgFirst for the years ended December 31, 2000, December 31, 1999 and December 31, 1998. This information should be read in conjunction with the accompanying consolidated financial statements, the notes to the consolidated financial statements and other sections of this annual report. See Note 1 – *Organization and Operations* in the December 31, 2000 notes to the consolidated financial statements for a discussion of the operations of AgFirst.

Financial Overview

The following information provides an overview, in capsule form, of AgFirst's financial results for the year 2000 as compared to the years 1999 and 1998:

- The aggregate principal amount of loans outstanding at December 31, 2000 was $9.5 billion compared to $8.6 billion at December 31, 1999, and $8.4 billion at December 31, 1998, reflecting increases of 10.8 percent in 2000 and 2.5 percent in 1999.
- Net interest income for the year ended December 31, 2000 was $10.7 million lower than for the year ended December 31, 1999. However, the decrease in net interest income was more than offset by a $10 million decrease in Financial Assistance Corporation (the FAC) expense and a $4.6 million decrease in provision for loan losses, resulting in an increase from 1999 to 2000 in net income of $3.5 million. Net income improved by $14.9 million from 1998 to 1999 due primarily to an $18.0 million increase in net interest income, partially offset by an increase in provisions for loan losses.
- AgFirst's ratio of total members' equity to total assets decreased from 5.79 percent at December 31, 1999 and 6.00 percent at December 31, 1998 to 5.77 percent at December 31, 2000 — primarily attributable to an increase in loans outstanding.
- AgFirst's return on average total assets and return on average members' equity for the year ended December 31, 2000 were .81 percent and 12.72 percent, respectively, compared to .81 percent and 12.76 percent for the year ended December 31, 1999 and .71 percent and 10.86 percent for the year ended December 31, 1998.

Strategic Initiatives

AgFirst is involved in several major initiatives to better position itself and the District Associations in the marketplace.

Support Services

AgFirst has established as a strategic objective providing District Associations with support services (information systems, accounting, human resources, marketing, etc.) that are responsive and competitive in cost and effectiveness compared to services offered by competing lenders or service providers. In furtherance of this objective, AgFirst has developed and, during the year 2000, completed several key technology projects and has additional projects underway.

- During 2000, AgFirst improved communications with and between the District Associations through the implementation of a frame-relay network. The improved communications network provides improved file transfer capability, quicker response times for various systems, and the development of internet/intranet capabilities. Additional initiatives are underway to further enhance the network, as technology continues to advance.
- A credit delivery project was initiated for the District Associations to provide a more robust and efficient front-end loan origination system for Association loan officers.
- AgFirst is systematically pursuing upgrades of several significant systems, including its loan accounting systems and general ledger, to take advantage of improvements in technology.

Capital Markets Services

As a result of the current trend in consolidation of agribusiness companies into larger entities, AgFirst and the District Associations have a greater need to be able to diversify their risks through loan syndications and loan participations. During 2000, AgFirst reorganized its lending staff to accommodate increased activity in the buying and selling of loan participations within and outside of the System. At the same time, this business unit initiated sub-participation lending activity with the District Associations to provide a means for the District Associations to spread their credit concentration risk and realize non-patronage sourced interest and fee income, which may help strengthen their capital positions.

Credit and operational resources devoted to these capital market services are being increased in proportion to the growing demand for such services. AgFirst's capacity to assist the District Associations in arranging and accounting for loan participations with each other is also an area of strategic focus.

Association Consolidation Activity

As of January 1, 2001, AgFirst had Direct Note lending relationships with twenty-four District Associations. During the course of 2000, several District Associations consolidated. District Association consolidation activity for 2000 and 2001 included:

- Tar Heel Farm Credit, ACA and East Carolina Farm Credit, ACA to form East Carolina Farm Credit, ACA – effective July 1, 2000
- Keystone Farm Credit, ACA, Delaware Farm Credit, ACA, Central Maryland Farm Credit, ACA, Marva Farm Credit, ACA, and Chesapeake Farm Credit, ACA to form MidAtlantic Farm Credit, ACA – effective July 1, 2000
- Edisto Farm Credit, ACA and Palmetto Farm Credit, ACA to form Palmetto Farm Credit, ACA – effective July 1, 2000
- West Virginia Farm Credit, ACA, Roanoke Farm Credit, ACA, Southwest Virginia Farm Credit, ACA, and Blue Ridge Farm Credit, ACA to form Farm Credit of the Virginias, ACA – effective January 1, 2001

Management's Discussion & Analysis of Financial Condition & Results of Operations (continued)

District Associations have consolidated to seek opportunities to reduce commodity and geographic concentrations and improve operating efficiency. In response to the growing size and complexity of the newly consolidated entities, AgFirst undertook a Bank-wide organizational study in 1999 to ensure that it is positioned to adequately support the new Association structures.

ACA Holding Company Structure

As of January 1, 2001, the District Associations consisted of twenty-four ACAs. To take advantage of a Federal income tax-exemption of income on regulatory-defined long-term real estate mortgage loan activity, most of the District Associations will reorganize, with each adopting a structure consisting of a parent ACA, with a subsidiary Federal Land Credit Association (FLCA) and Production Credit Association (PCA). As service provider to the District Associations, AgFirst is committed to providing the necessary operational support to facilitate the new structures. Each FLCA as a holder and originator of long-term real estate mortgages is a tax-exempt organization.

Secondary Market Activity

AgFirst operates a Secondary Mortgage Marketing Unit (the SMMU) to facilitate the purchase of loans for eventual resale into the secondary market through Fannie Mae and Farmer Mac programs. AgFirst purchases eligible loans from originators throughout the United States and (i) immediately sells the loans to Fannie Mae or Farmer Mac, (ii) immediately places the loans under a long-term, standby commitment to purchase by Fannie Mae or Farmer Mac or (iii) temporarily holds the loans until sales, or long-term standby commitments to sell, can be efficiently executed. In all cases, AgFirst retains the servicing rights associated with the loans.

At December 31, 2000, the SMMU had contracts with 26 of the 27 then-existing District Associations, 21 System Associations affiliated with other System Banks and approximately 300 non-System institutions. SMMU servicing volume has steadily increased to 4,032 loans as of December 31, 2000 compared to 2,934 loans at December 31, 1999 and 1,928 loans at December 31, 1998, and is expected to continue increasing.

Results of Operations

AgFirst net income totaled $90,043 for the year ended December 31, 2000, an increase of $3,479 over 1999, while 1999 income increased $14,879 over 1998. Major components of the changes in net income for the referenced periods are outlined in the following table.

(dollars in thousands)	Year Ended December 31, 2000	1999
Net income (for prior year)	$ 86,564	$ 71,685
Increase (decrease) due to:		
Total interest income	94,796	15,195
Total interest expense	(105,446)	2,844
Net interest income	(10,650)	18,039
Provision for loan losses	4,550	(4,850)
Noninterest income	(1,293)	2,071
Noninterest expense	10,872	(381)
Total increase (decrease) in net income	3,479	14,879
Net income	$ 90,043	$ 86,564

A discussion of the major components of these changes in net income follows.

Interest Income

Total interest income for the year ended December 31, 2000 was $775,601, an increase of $94,796 as compared to the same period of 1999. This increase is primarily attributed to the increase in interest rates over the past year as well as the increase in average earning assets from the prior year to the present year.

Total interest income for 1999 was $680,805, an increase of $15,195 over the same period of 1998. This increase was primarily attributed to an increase in earning assets, offset somewhat by decreases in interest rates. The following table illustrates the impact that volume and yield changes had on interest income over these periods.

(dollars in thousands)	Year Ended December 31, 2000-1999	1999-1998
Increase in average earning assets	$ 411,260	$ 628,967
Average yield (prior year)	6.43%	6.69%
Interest income variance attributed to change in volume	26,457	42,394
Average earning assets (current year)	10,994,056	10,582,796
Increase (decrease) in average yield	.62%	(.26%)
Interest income variance attributed to change in yield	68,339	(27,199)
Net change in interest income	$ 94,796	$ 15,195)

Interest Expense

Total interest expense for the year ended December 31, 2000 was $640,437, an increase of $105,446 as compared to the same period of 1999. The increase is due to interest rate increases during the past year and an increase in the average daily balance of interest-bearing liabilities.

Total interest expense for the year ended December 31, 1999 was $534,991 a decrease of $2,844 over the same period of 1998. Average funding costs declined in 1999 as a result of lower interest rates and the realization of a full year of savings from calling higher coupon debt and reissuing at lower interest rates in 1998. The decrease in interest expense due to lower rates was partially offset by an increase in average debt outstanding, which funded the increase in earning assets mentioned previously. The following table illustrates the impact that volume and rate changes had on interest expense.

(dollars in thousands)	Year Ended December 31, 2000-1999	1999-1998
Increase in average interest-bearing liabilities	$ 364,475	$ 617,775
Average rate (prior year)	5.38%	5.77%
Interest expense variance attributed to change in average interest-bearing liabilities	19,611	35,933
Average debt outstanding (current year)	10,307,141	9,942,666
Increase (decrease) in average rate	.83%	(.39%)
Interest expense variance attributed to change in rate	85,835	(38,777)
Net change in interest expense	$ 105,446	$ (2,844)

Net Interest Income

Net interest income decreased for the year ended December 31, 2000 compared to the same period of 1999. Call options executed in previous years resulted in higher-than-normal net interest income in 1999 and 1998. During late 1999 through 2000, interest rate spreads generally decreased as compared to prior years. Net interest income increased over 1998 primarily due to steady growth in earning assets. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income also depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following table sets forth certain information relating to AgFirst's consolidated average balance sheets and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

Analysis of Net Interest Income

(dollars in thousands)	December 31, 2000 Average Balance	December 31, 2000 Interest Income/(Expense)	December 31, 1999 Average Balance	December 31, 1999 Interest Income/(Expense)	December 31, 1998 Average Balance	December 31, 1998 Interest Income/(Expense)
Assets:						
Interest Earning Assets						
Loans	$ 8,756,545	$ 627,511	$ 8,493,912	$ 565,523	$ 8,266,579	$ 572,690
Cash & Investments	2,237,511	148,090	2,088,884	115,282	1,687,250	92,920
Total Interest Earning Assets	$ 10,994,056	$ 775,601	$ 10,582,796	$ 680,805	$ 9,953,829	$ 665,610
Noninterest Earning Assets	163,225		165,139		144,287	
Total Assets	$ 11,157,281		$ 10,747,935		$ 10,098,116	
Liabilities and Members' Equity:						
Interest Bearing Liabilities	$ 10,307,141	$ (640,437)	$ 9,942,666	$ (534,991)	$ 9,324,891	$ (537,835)
Noninterest Bearing Liabilities	142,480		126,803		112,832	
Total Liabilities	$ 10,449,621		$ 10,069,469		$ 9,437,723	
Members' Equity	707,660		678,466		660,393	
Total Liabilities and Members' Equity	$ 11,157,281		$ 10,747,935		$ 10,098,116	
NET INTEREST INCOME		$ 135,164		$ 145,814		$ 127,775

	2000 Average Yield	1999 Average Yield	1998 Average Yield
Loans	7.17%	6.66%	6.93%
Cash & Investments	6.62%	5.52%	5.51%
Total Interest Earning Assets	7.05%	6.43%	6.69%
Interest Bearing Funds	6.21%	5.38%	5.77%
NET YIELD ON EARNING ASSETS (1)	1.23%	1.38%	1.28%
NET INTEREST SPREAD (2)	0.84%	1.05%	0.92%

(1) Net yield on earning assets represents net interest income divided by average interest-earning assets.
(2) Interest rate spread represents the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

Provision for Loan Losses

For the year ended December 31, 2000, AgFirst recorded a provision for loan losses of $2,500, a decrease of $4,550 as compared to the same period of 1999. For the year ended December 31, 1999, AgFirst recorded a provision for loan losses of $7,050, an increase of $4,850 from 1998. This fluctuation is due to a significant increase in participation loan volume during 1999. The provisions did not have a significant impact on the level of allowance as a percentage of loans outstanding.

Noninterest Income

Noninterest income for the year ended December 31, 2000 was $6,631, a decrease of $1,293 primarily due to a decrease in miscellaneous income. Noninterest income totaled $7,924 in 1999 compared to $5,853 in 1998. The increase in 1999 was primarily due to an increase in loan fees and miscellaneous income. Loan fee income increased primarily as a result of increases in servicing fees on participation and secondary mortgage loans and the collection of prepayment penalties from increased refinancing activity.

Noninterest Expense

Noninterest expense for the year ended December 31, 2000 was $49,252 a decrease of $10,872 over the same period of 1999. The decrease was primarily attributed to a decrease in intra-system financial assistance expense from $27,317 for the year ended December 31, 1999 to $17,317 for the year ended December 31, 2000.

Noninterest expense increased to $60,124 in 1999, from $59,743 in 1998. The upward trend in noninterest expense was primarily attributed to increases in purchased services necessary to implement the technology initiatives.

AgFirst intra-System financial assistance expense for the year ended December 31, 2000 was $17,317 as compared to $27,317 for the year ended December 31, 1999 and $26,392 for the year ended December 31, 1998. The higher amounts in 1998 and 1999 were attributed to the call of FAC bonds during 1999 and 1998 as described below. Under the Farm Credit Act, the System Banks are required to fund bonds issued by the FAC upon maturity. Although generally accepted accounting principles (GAAP) require recognition of the obligation to fund these bonds, the Farm Credit Act states that this obligation will not be considered the liability of any System Bank for financial reporting purposes. In 1998, AgFirst entered into two agreements with the other System Banks and the FAC to call two of the FAC callable debt issues used to provide financial assistance (a $240 million issuance and an $89 million issuance) and to fund Capital Preservation Agreement (intra-System assistance agreements terminated in 1988) accruals (a $157 million issuance). The System Banks were required to pre-fund the amounts representing the difference between the amounts previously funded and the amounts needed to call the debt. AgFirst expensed $5.9 million in 1998, related to the calling of the $240 million issuance, and $11.4 million in 1999, related to the calling of the $157 million issuance, and $2.7 million in 2000, related to the calling of the $89 million issuance, representing its pro rata shares of the additional funding required. Ongoing financial assistance expense is expected to be significantly lower as AgFirst recognizes the cost savings associated with calling these bonds. See Note 10 – *Intra-system Financial Assistance* in the December 31, 2000 notes to the consolidated financial statements for further information.

Management's Discussion & Analysis of Financial Condition & Results of Operations (continued)

Financial Condition

Loans

AgFirst's portfolio consists of Direct Notes receivable from District Associations which own stock in AgFirst, participations purchased, loans purchased in the secondary market and loans to other financing institutions. See Note 1(B), *Operations* and Note 4, *Loans and Allowance for Loan Losses*, in the accompanying December 31, 2000 notes to the consolidated financial statements for further discussions. The following table illustrates the percentages in each category to the total loan portfolio:

	At December 31,		
	2000	**1999**	**1998**
Direct Notes receivable from District Associations	82.1%	83.0%	85.9%
Participations purchased	14.5	14.2	11.6
Loans purchased in the secondary market	3.3	2.7	1.6
Other	.1	.1	.9
Total	100.0%	100.0%	100.0%

As the table above illustrates, over 82 percent of AgFirst's loan portfolio consists of Direct Notes receivable from District Associations. The Direct Notes are secured by all assets of the District Associations and lending terms are specified in a separate General Financing Agreement between AgFirst and each District Association which is a borrower. Each District Association is a Federally chartered instrumentality of the United States and is regulated by the FCA. See Note 1, *Organization and Operations*, in the accompanying notes to the consolidated financial statements for a discussion of the Farm Credit System.

Gross loans outstanding at December 31, 2000 totaled $9.5 billion, as compared with $8.6 billion at December 31, 1999, and $8.4 billion at December 31, 1998. The upward trend in volume is attributed to growth in District Association loans, which is evidenced in the increase in AgFirst's Direct Note volume. Additionally, loans purchased in the secondary market increased as did participation loans in 2000.

The diversity of income sources supporting District Association loan repayment mitigates credit risk to AgFirst. In addition, the risk-bearing capacity of the District Associations is assessed annually by AgFirst management and is currently deemed to be adequate to absorb most credit-related shocks. Each District Association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area. District Associations are subject to minimum capital regulations of and examination by the FCA, certain regulations governing loan underwriting/portfolio management, and audit by independent accountants annually.

Although AgFirst's loans to District Associations are evidenced by Direct Notes that are with full recourse to the borrowing District Associations, the District Associations' ability to repay is, of course, significantly dependent upon repayment of loans made by them to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the District Associations that are direct borrowers and the underlying borrowers from the District Associations.

The following table shows AgFirst's direct and indirect credit exposure by major commodity segment, based upon the primary agribusiness of the underlying borrower. As this table illustrates, the District credit portfolio has concentrations of five percent or more in only seven commodity groups as of December 31, 2000.

	Percent of Portfolio		
Commodity Group	**2000**	**1999**	**1998**
Poultry	15%	15%	15%
Cattle	8	8	9
Forestry	8	8	8
Country Home	8	6	6
Dairy	7	7	7
Grain	7	9	8
Swine	6	8	9
Nursery/Greenhouse	4	4	4
Tobacco	4	4	5
Citrus	3	3	4
Cotton	3	3	4
Utilities	3	2	1
Other	24	23	20
Total	100%	100%	100%

Significant direct and indirect income-sourced concentrations in agricultural production exist in the poultry sector, comprised mostly of broiler chicken production; however, credit risk is mitigated through portfolio diversification and credit underwriting which includes specific Board approved policies.

AgFirst directly and indirectly finances a large number of different commodities. During 2000 and 1999, commercial farming operations in the District have received program and emergency Federal government direct payments resulting from provisions of the Freedom to Farm Act and other Federal legislation. However, AgFirst's market area is much less dependent on government payments as an income source for its borrowers than is the case in several other areas of the United States, principally the areas with concentration of wheat, corn, and soybean production.

The agribusiness and farming economy outlook for 2001 is less favorable than has been the case for the past two years due in part to higher energy costs. At the same time, commodity prices are not expected to experienc significant increases based on current futures prices. However, loan performance for the year ended December 31, 2000 remained very strong within the AgFirst and District Associations' portfolios. District Associations' portfolios are reviewed for credit quality and credit administration by the FCA at least once every eighteen months and by independent credit reviewers employed by AgFirst. The FCA reviews AgFirst's portfolio annually.

AgFirst and District Association loan portfolio stability is enhanced by the diversity of income sources that support the scheduled repayments on loan District Association data compiled in loan files indicate that approximatel 60 percent of borrowers (comprising approximately 40 percent of total lo volume) are part-time farmers or non-farm rural residents whose income is predominantly dependent on non-farm income. Income derived from sources such as timber, nursery/greenhouse operations and sod production further reduces the District Associations' dependence on traditional agriculture, which further decreases volatility in the loan portfolio.

While 13.3 percent of loan volume outstanding in District Associations represents loans above $5,000 in size (representing the commercial and corporate side of agribusiness), approximately 56 percent of the outstandin volume is comprised of loans under $500. Loans less than $100 make up percent of the District Association outstanding portfolio. The positive impact of the diversified income sources of its borrowers is a key part of AgFirst's stable credit quality and past solid financial performance.

At December 31, 2000, AgFirst's Direct Notes from the District Associations and participations purchased from District Associations represented approximately 91 percent of the AgFirst portfolio. District Associations serve all or a portion of fifteen states and the Commonwealt of Puerto Rico. This wide geographic dispersion assures a natural risk-reducing factor within AgFirst and District Association portfolios. Only North Carolina has loan volume representing more than 15 percent of total District Association volume, and only three other states represent concentrations in excess of 10 percent. The following factors tend to mitigate geographic exposure (as determined by location of the District Associations):

- Geographic location represents the source of loan origination, not necessarily the location of the borrowers' operating assets.
- Each state has some degree of commodity diversification, and District Association borrowers tend to have significant levels of off-farm-income. This is particularly important in the rapidly growing Southeastern area of the U.S.

Following is the combined geographic dispersion of these District Association portfolios, based upon the location of Borrower, by percentage of loans outstanding:

	December 31, 2000	1999	1998
North Carolina	18%	20%	21%
Florida	14	14	14
Georgia	13	13	13
Virginia	12	13	12
Pennsylvania	9	9	10
South Carolina	8	7	6
Maryland	7	6	6
Ohio	5	4	4
Alabama	3	3	3
Kentucky	2	2	2
Mississippi	2	2	2
Delaware	2	2	2
Puerto Rico	2	2	2
West Virginia	1	1	1
Louisiana	1	1	1
Tennessee	1	1	1
Total	100%	100%	100%

Credit quality of AgFirst's loan portfolio at December 31, 2000 has slightly increased compared to that of December 31, 1999 and that of December 31, 1998. The Direct Notes of all District Associations were performing and all were classified in the highest two credit classifications. Nonaccruing loan assets were $902 at December 31, 2000 compared to $12,287 at December 31, 1999, and $22,821 at December 31, 1998. No nonaccrual loans were represented by Direct Notes as of December 31, 2000. See Note 4, *Loans and Allowance for Loan Losses*, in the December 31, 2000 notes to the consolidated financial statements for additional information concerning diversification, allowance levels and impaired loans.

Credit quality statistics (based upon principal balances) for AgFirst at December 31, 2000 are summarized below:

(dollars in thousands)	AgFirst Classification	Total Amount	Total Portfolio	Criticized Loans As a % of Each Portfolio
Association Direct Notes	OAEM	$ 719,749	$ 7,802,732	9.22%
Participation Loans			1,375,691	
	OAEM	84,641	—	6.15%
	Substandard	775	—	.06%
Secondary Mortgage Market Loans	Substandard	126	315,526	.04%
Other	—	—	2,554	—
Total		$ 805,291	$ 9,496,503	8.48%

Note: Other Assets Especially Mentioned (OAEM) loan assets are considered fully collectible but have potential weaknesses. There may be minor differences between acceptable and OAEM loan assets.

Liquidity and Funding Sources

AgFirst maintains adequate sources of liquidity to satisfy its daily cash needs. In addition to normal cash flow associated with lending operations, AgFirst has two primary sources of liquidity: investments and the issuance of Systemwide Debt Securities.

Investments, Cash and Cash Equivalents

FCA Regulations provide that a FCB may hold certain eligible investments, in an amount not to exceed 30 percent of its total outstanding loans, in order to satisfy the FCA's liquidity reserve requirement, manage surplus short-term funds and manage interest rate risk. AgFirst maintains an investment portfolio comprised of high-quality investments. The primary short-term nature of the portfolio ensures that a portion of the portfolio will mature on a frequent basis, providing access to a stable source of operating funds. In addition, the high-quality nature of the portfolio guarantees that investments can be converted to cash quickly, without significant risk of loss.

Cash and investment securities totaled $2.24 billion at December 31, 2000, compared to $2.44 billion at December 31, 1999 and $1.93 billion at December 31, 1998. The increase in 1999 was attributed to an effort to further diversify earning assets and to increase liquid investments in contingency for Year 2000 compliance.

Systemwide Debt Securities

The primary source of funds for AgFirst is the sale of Systemwide Debt Securities through the Funding Corporation.

At December 31, 2000, AgFirst had $11.01 billion in total debt outstanding compared to $10.33 billion at December 31, 1999 and $9.67 billion at December 31, 1998. These increases were primarily due to the increases in loans and investments discussed earlier. Refer to Note 7, *Bonds and Notes* in the notes to the consolidated financial statements, for additional information related to debt outstanding.

Asset/Liability Management

AgFirst adheres to a philosophy that all loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, all District Association variable rate and adjustable rate loans are indexed to market rates, and fixed rate loans are priced based on market rates at closing.

See Note 1(B) in the December 31, 2000 notes to the consolidated financial statements for details of the Bank's participations purchased and the lending relationship with the Associations.

Loan products offered by the District Associations include prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three- and five-year adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, including fixed payment (standard amortization) and level payment (level principal plus interest), with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, "custom" repayment plans may be negotiated to fit a borrower's unique circumstances.

Interest rate risk is effectively transferred from the District Associations to AgFirst through a match-funding process. Direct Notes receivable from the District Associations are structured such that advances under the Direct Notes have repricing characteristics (term, payment frequency, index, etc.) that match the underlying loan advances to the Eligible Borrowers. By matching the terms of the advances to the terms of the underlying asset, the interest rate risk is effectively transferred

Management's Discussion & Analysis of Financial Condition & Results of Operations (continued)

from the District Associations to AgFirst. Accordingly, AgFirst effectively manages interest rate risk for the District Associations. The objective of AgFirst's asset/liability management process is to generate a stable and adequate level of net interest income in any interest rate environment. AgFirst uses a variety of sophisticated analytical techniques to manage the complexities associated with offering numerous loan options. These include interest rate sensitivity gap analysis to monitor the repricing characteristics of AgFirst's interest-earning assets and interest-bearing liabilities and interest rate sensitivity analysis to determine the change in net interest income and in the market value of equity due to changes in interest rates. The following tables represent AgFirst's projected change in net interest income and market value of equity for various rate movements as of December 31, 2000.

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
400 BP Shock	$118,373	(12.01%)
200 BP Shock	127,445	(5.27%)
0 BP	134,530	—
-200 BP Shock	171,399	27.41%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities	Equity	% Change
Book Value	$11,741,818	$11,060,457	$681,361	—
400 BP Shock	11,053,784	10,671,068	382,717	(38.20%)
200 BP Shock	11,363,140	10,870,187	492,953	(20.40%)
0 BP	11,662,047	11,042,798	619,250	—
-200 BP Shock	11,908,336	11,139,622	768,713	24.14%

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2000. The amount of assets and liabilities shown, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity and anticipated prepayments and, in the case of liabilities, the exercise of call options.

Sensitivities to Changes in Interest Rates

December 31, 2000

	Repricing/Maturity Gap Analysis			
(Dollars in Thousands)	Less than or Equal to to 1 Year	Greater than 1 Year Less than 5 Years	Greater than or Equal to 5 Years	Total
Short and Intermediate-Term Loans				
Fixed	$ 1,644,535	$ 1,201,220	$ 429,284	$ 3,275,039
Variable	2,892,211	—	—	2,892,211
Total Short and Intermediate-Term Loans	4,536,746	1,201,220	429,284	6,167,250
Long-Term Real Estate Loans				
Fixed	848,239	1,108,182	724,990	2,681,411
Variable	511,400	134,755	1,687	647,842
Total Long-Term Real Estate Loans	1,359,639	1,242,937	726,677	3,329,253
Total Loans	5,896,385	2,444,157	1,155,961	9,496,503
Cash and Investments	2,112,971	128,703	—	2,241,674
TOTAL INTEREST EARNING ASSETS	$ 8,009,356	$ 2,572,860	$ 1,155,961	$ 11,738,177
Source of Funds				
Interest Bearing Liabilities	$ 8,470,557	$ 2,368,500	$ 175,500	$ 11,014,557
Interest Rate Swaps	650,000	(650,000)	—	—
TOTAL SOURCE OF FUNDS	$ 9,120,557	$ 1,718,500	$ 175,500	$ 11,014,557
Interest Rate Sensitivity Gap	$ (1,111,201)	$ 854,360	$ 980,461	$ 723,620
Sensitivity Gap as a % of Total Earning Assets	(9.47%)	7.28%	8.35%	
Cumulative Gap	$ (1,111,201)	$ (256,841)	$ 723,620	
Cumulative Gap as a % of Total Earning Assets	(9.47%)	(2.19%)	6.16%	
Rate Sensitive Assets/Rate Sensitive Liabilities	0.88	1.50	6.59	

At December 31, 2000, AgFirst had outstanding interest rate swaps with notional amounts totaling $1.812 billion and purchased interest rate caps with notional amounts totaling $441 million. These derivative transactions were executed to reduce interest rate risk and/or reduce funding costs. AgFirst policy prohibits the use of derivatives for speculative purposes. Refer to Note 14, *Financial Instruments with Off-Balance-Sheet Risk*, for additional information. The following table shows the activity in derivatives during the year ended December 31, 2000.

Disclosures for Derivative Financial Instruments

Notional amounts *(dollars in millions)*	**Receive Fixed**	**Pay Fixed**	**Amortizing Floating for Floating**	**Interest Rate Caps**	**Total**
Balance at December 31, 1999	$ 830	$ 50	$ 890	$636	$ 2,406
Additions	166	—	—	—	166
Maturities/amortizations	—	50	74	195	319
Terminations	—	—	—	—	—
Balance at December 31, 2000	$ 996	$ —	$ 816	$441	$ 2,253

Various uses of interest rate swaps at December 31, 2000

(dollars in millions)	
Interest rate swaps utilized to create synthetic floating-rate debt to achieve a lower cost of funding	$ 966
Asset/liability management purposes	846
Total interest rate swaps outstanding	$ 1,812

Capital

Total members' equity at December 31, 2000 was $687,774 compared to $648,379 and $628,626 at December 31, 1999 and 1998, respectively. The increasing trend in members' equity is attributed to increases in retained earnings, offset somewhat by a decrease in outstanding capital stock as the result of the retirement and redemption by AgFirst of its capital stock.

Capital adequacy is evaluated using a number of ratios. FCA Regulations establish minimum standards for the following ratios:

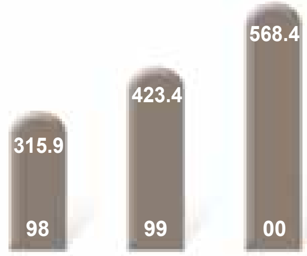
- Permanent capital to risk-adjusted assets (7.00 percent)
- Total surplus to risk-adjusted assets (7.00 percent)
- Core surplus to risk-adjusted assets (3.50 percent)
- Net Collateral to total liabilities (103 percent)

For all periods presented throughout, AgFirst exceeded minimum standards for all of these ratios.

Refer to Note 8, *Members' Equity*, in the notes to the consolidated financial statements for additional information.

Legal Proceedings

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against the Bank would be immaterial in relation to the financial position of the Bank. Refer to Note 13, *Commitments and Contingencies*, in the notes to the consolidated financial statements for additional information.



Secondary Marketing Loans Serviced
dollars in millions

Additional Disclosures

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 to the financial statements, *"Organization and Operations,"* included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report to shareholders.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Columbia, South Carolina:

Location	Description
1401 Hampton Street	Bank building and adjacent parking
1441 Hampton Street	Price Brothers, Inc.
1447 Hampton Street	Willis Chiro-Med
1428 Taylor Street	Bandgap Technologies, Inc.
1436 Taylor Street	Enterprise Car Rentals

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 13 to the consolidated financial statements, *"Commitments and Contingencies,"* included in this annual report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 8 to the financial statements, *"Members' Equity,"* included in this annual report to shareholders.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 7, 10 and 13 to the financial statements included in this annual report to shareholders.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this annual report to shareholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the directors and senior officers of the reporting entity.

The business experience for the past five years for senior officers is with the Farm Credit System.

Senior Officer	Position
F. A. (Andy) Lowrey	President and Chief Executive Officer
Larry R. Doyle	Executive Vice President
Thomas S. Welsh	Executive Vice President

The total amount of compensation earned by the CEO and the highest paid officers as a group (including the CEO) during the years ended December 31, 2000, 1999 and 1998, is as follows:

Name of Individual or No. in Group	Year	Annual Salary	Annual Bonus	Total
F. A. (Andy) Lowrey	2000	$ 294,945	$ 73,736	$ 368,681
F. A. (Andy) Lowrey	1999	$ 280,900	$ 70,225	$ 351,125
F. A. (Andy) Lowrey	1998	$ 262,962	$ 52,592	$ 315,554
5 Officers	2000	$ 942,262	$ 201,102	$ 1,143,364
5 Officers	1999	$ 890,178	$ 190,412	$ 1,080,590
5 Officers	1998	$ 799,119	$ 161,873	$ 960,992

In addition to a base salary, senior officers earn additional compensation under the Bank's Corporate Bonus Plan. The plan is designed to motivate employees to exceed specific performance targets related to return on equity (ROE), System CIPA score, FCA rating on quality of management and customer satisfaction rating. Those covered by the plan include all employees. Bonuses are shown in the year earned. Payment of the 2000 bonus was made in the first quarter of 2001.

Disclosure of the total compensation in 2000 to any senior officer, or to any other individual included in the total whose compensation exceeds $50,000, is available to stockholders upon request.

Additional Disclosures (continued)

AgFirst *Farm Credit Bank* Board of Directors
(as of December 31, 2000)

Name	Position	Term of Office
William S. Jackson	Chairman	December 31, 2000
F. Merrel Lust	Vice Chairman	December 31, 2001
E. McDonald Berryman	Director	December 31, 2001
William C. Bess, Jr.	Director	December 31, 2001
Dr. Chester D. Black	Director	December 31, 2002
Robert A. Carson	Director	December 31, 2002
R. Tommy Clay, Sr.	Director	December 31, 2000
Douglas L. Flory	Director	December 31, 2003
Don W. Freeman	Director	December 31, 2001
Robert L. Holden, Sr.	Director	December 31, 2002
James A. Kinsey	Director	December 31, 2000
Richard Kriebel	Director	December 31, 2003
Paul Lemoine	Director	December 31, 2003
T. Edward Lippy	Director	December 31, 2001
Eugene W. Merritt, Jr.	Director	December 31, 2002
Dale W. Player	Director	December 31, 2003
J. Dan Raines, Jr.	Director	December 31, 2001
Robert G. Sexton	Director	December 31, 2003
Robert E. Strayhorn	Director	December 31, 2000

William S. Jackson, Chairman of the Board, is a dairy farmer and dairy farm storeowner from New Salem, Pennsylvania. He is a member of the Pennsylvania Farmers Bureau, Chairman of the Brownsville General Hospital, member of the Brownsville Chamber of Commerce Board and board member of Fayette County Pennsylvania Development. During 2000, he served 30.5 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

F. Merrel Lust, Vice Chairman of the Board, is from Marion, Ohio, and grows corn, soybeans, and wheat on a 5,900-acre operation in partnership with his twin brother, his son and his nephew. He currently serves as a member of the board of Ag Credit ACA. During 2000, he served 30 days at Bank board meetings and 20 days at other official board functions, and was paid $23,864 in compensation.

E. McDonald Berryman is a farmer from Elberon, Virginia. His farming operations consist of 3,000 acres of row crops including peanuts, corn, wheat, soybean, milo and sows, farrow to finish and 1,000 acres of growing timber. He also serves as director of Wakefield Growers Gin and is President of Peanut Farmers LLC in Franklin, Virginia. During 2000, he served 30 days at Bank board meetings and 14 days at other official board functions, and was paid $23,864 in compensation.

William C. Bess, Jr. from Lincolnton, North Carolina, is co-owner of Farmers & Builders Supply Co. and has brood cow operations. He serves as a director of Carolina Farm Credit, ACA and is a member of the national Farm Credit Council Board. During 2000, he served 30 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Dr. Chester D. Black of Raleigh, North Carolina, serves as the board's outside director. Dr. Black previously served as director of the North Carolina Agriculture Extension Service at North Carolina State University. During 2000, he served 27 days at Bank board meetings and 9 days at other official board functions, and was paid $23,864 in compensation.

Robert A. Carson, a row crop farmer in the Mississippi Delta, is active in a number of agriculture organizations. He is a director of the Delta Council and Plains Yazoo Cotton Oil Mill. He is also a member of the national Farm Credit Council Board. During 2000, he served 30.5 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

R. Tommy Clay, Sr., a graduate of the University of Florida, operates a cattle ranch in Putnam County, Florida, and is also involved in real estate development. For more than three decades he has also served as a director of the Putnam County Fair and the Rodeheaver Boys Ranch. During 2000, he served 30 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Douglas L. Flory is a general livestock, hay and poultry farmer from Grottoes, Virginia. He serves on the board of directors of Blue Ridge Farm Credit, ACA. During 2000, he served 30.5 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Don W. Freeman is a farmer-rancher from Lowndesboro, Alabama. He is a director of both Lowndes County Alabama Farmers Federation and Lowndes County Cattlemen Association, and is past president of the Alabama Chapter of the American Society of Farm Managers and Rural Appraisers. During 2000, he served 30 days at Bank board meetings and 13 days at other official board functions, and was paid $23,864 in compensation.

Robert L. Holden, Sr. is co-owner and operator of a dairy, an 850-acre row-crop farm, and a 200,000 broiler operation in Whigham, Georgia. He is a director of the Southwest Georgia Farm Credit, ACA, a director of Georgia Milk Producers, and Georgia Farm Bureau. During 2000, he served 30.5 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

James A. Kinsey operates a livestock farm in Flemington, West Virginia. He is a director of the West Virginia Farm Credit, ACA, a member of the National Cattlemen's and American Angus Association and is the Taylor County Commissioner. He also serves on the Board of Directors of Southern States Cooperative, and is a member of the Michigan Livestock Exchange. During 2000, he served 30 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Richard Kriebel is a contract crop farmer from Benton, Pennsylvania, raising contract forage and grain for total mixed rations to other dairymen in the area. His crops consist of 540 owned-and-leased acres (235 acres of corn and 305 acres of hay). He is a director of *Ag***Choice** ACA, and a former member of the Columbia County Extension and the

Columbia County Planning Commission. During 2000, he served 30 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Paul Lemoine, a cattle and row crop farmer from Plaucheville, Louisiana, works with Southern States Cooperative as a crop sales consultant. He is a member of the Louisiana Cattlemen's Association and the Avoyelles Parish Farm Bureau. During 2000, he served 30 days at Bank board meetings and 13 days at other official board functions, and was paid $23,864 in compensation.

T. Edward Lippy from Hampstead, Maryland**,** is an equal partner and owner of Lippy Brothers, Inc., a 9,000-acre cash grain and vegetable family farm operation. He is a director of the Carroll County Farm Bureau and a director of Hanover Foods, Inc. During 2000, he served 29.5 days at Bank board meetings and 14 days at other official board functions, and was paid $23,864 in compensation.

Eugene W. Merritt, Jr. from Easley, South Carolina, is co-owner of an ornamental tree farm, and is a landscape contractor. The Clemson University graduate also operates a 400-acre timber and grass farm. He serves on the board of Palmetto Farm Credit, ACA. During 2000, he served 30 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Dale W. Player is co-owner of a 1,850-acre row crop operation, with cotton being the primary crop. He is a director of Pee Dee Farm Credit, ACA, member of the South Carolina Cotton Board of Directors, and director of the Carolinas Cotton Cooperative. During 2000, he served 30 days at Bank board meetings and 14 days at other official board functions, and was paid $23,864 in compensation.

J. Dan Raines, Jr. is a farmer from Ashburn, Georgia. His farming operations include beef cattle and fresh market vegetables. A graduate of the University of Georgia, he also operates a packing shed. He is a director on the board of *Ag***Georgia** *Farm Credit, ACA* and the Federal Agricultural Mortgage Corporation (Farmer Mac). During 2000, he served 27 days at Bank board meetings and 14 days at other official board functions, and was paid $23,864 in compensation.

Robert G. Sexton, a citrus grower, is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association, President of Florida Citrus Packers, President of Indian River Citrus League, and a director of Seald Sweet Growers and Highland Exchange Service Co-op. He also serves as a director of Farm Credit of South Florida, ACA. In addition, he is a member of the Indian River Farm Bureau and a member of the Marketing and Advisory Committees of the Florida Department of Citrus. During 2000, he served 30.5 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Robert E. Strayhorn is a farmer from Chapel Hill, North Carolina. His farming operations include brood cows, feeder calves, timber and row crops. He serves as a director on the board of Carolina Farm Credit, ACA, chairman of the Seven County Junior Livestock Show and Sale Committee, and is active in the Orange County Farm Bureau. During 2000, he served 30 days at Bank board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

Compensation of Directors

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $159,655 for 2000, $168,389 for 1999 and $162,486 for 1998. Subject to approval by the board, the Bank allows directors to attend other meetings, committee meetings, or special assignments in addition to service at Bank board meetings. Total compensation paid to directors as a group was $453,416 during 2000.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 11 to the consolidated financial statements, *"Related Party Transactions,"* included in this annual report to shareholders.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section.

Relationship with Independent Public Accountants

There were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 20, 2001, and the Report of Management, which appear in this annual report to shareholders are incorporated herein by reference.

Copies of the Bank's annual and quarterly reports are available upon request free of charge by calling 1-800-874-7737, ext. 503, or writing Patti Trotter, *Ag***First** *Farm Credit Bank*, P. O. Box 1499, Columbia, SC 29202. These reports can also be viewed or obtained by going to the Bank's website at www.AgFirst.com.

As we look to 2001, our goals are the same: stable, high quality earnings, high credit quality, efficient operations, and a high level of customer satisfaction.

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1441 Main Street, Suite 705
Columbia, SC 29201
Telephone (803) 779 0930

Report of Independent Accountants

February 20, 2001

To the Board of Directors and Stockholders
of *Ag***First** *Farm Credit Bank*

We have audited the accompanying consolidated balance sheets of *Ag***First** *Farm Credit Bank* and its subsidiary as of December 31, 2000, 1999, and 1998, and the related consolidated statements of income, of changes in members' equity, and of cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of *Ag***First** *Farm Credit Bank* and its subsidiary at December 31, 2000, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2000	December 31, 1999	December 31, 1998
Assets			
Cash and cash equivalents	$ 241,588	$ 342,874	$ 306,914
Investment securities	2,000,086	2,101,764	1,627,010
Loans	9,496,503	8,572,817	8,367,205
Less: allowance for loan losses	21,416	19,466	12,467
Net loans	9,475,087	8,553,351	8,354,738
Accrued interest receivable	72,101	61,762	58,257
Investments in other Farm Credit System institutions	78,623	77,799	70,573
Premises and equipment, net	9,889	5,805	5,074
Other assets	36,725	47,778	52,160
Total assets	$ 11,914,099	$ 11,191,133	$ 10,474,726
Liabilities			
Bonds and notes	$ 11,014,557	$ 10,327,067	$ 9,670,419
Accrued interest payable	120,708	114,803	78,906
Other liabilities	91,060	100,884	96,775
Total liabilities	11,226,325	10,542,754	9,846,100
Commitments and contingencies (Note 13)			
Members' Equity			
Capital stock and participation certificates	301,189	300,088	305,406
Retained earnings	388,035	359,325	329,305
Accumulated other comprehensive loss	(1,450)	(11,034)	(6,085)
Total members' equity	687,774	648,379	628,626
Total liabilities and members' equity	$ 11,914,099	$ 11,191,133	$ 10,474,726

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2000	1999	1998
Interest Income			
Investment securities and other	$ 148,090	$ 115,282	$ 92,920
Loans	627,511	565,523	572,690
Total interest income	775,601	680,805	665,610
Interest Expense	640,437	534,991	537,835
Net interest income	135,164	145,814	127,775
Provision for loan losses	2,500	7,050	2,200
Net interest income after provision for loan losses	132,664	138,764	125,575
Noninterest Income			
Loan fees	4,911	4,448	3,633
Miscellaneous	1,720	3,476	2,220
Total noninterest income	6,631	7,924	5,853
Noninterest Expenses			
Salaries and employee benefits	16,191	15,938	15,912
Occupancy and equipment	6,232	4,666	4,395
Insurance Fund premium	11	908	311
Other operating expenses	8,996	10,656	8,980
Intra-System financial assistance expenses	17,317	27,317	26,392
Miscellaneous	505	639	3,753
Total noninterest expenses	49,252	60,124	59,743
Net income	$ 90,043	$ 86,564	$ 71,685

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 1997	$ 307,181	$ 314,213	$ 4,172	$ 625,566
Comprehensive income				
Net income		71,685		71,685
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments			(10,257)	(10,257)
Total comprehensive income				61,428
Capital stock/participation certificates issued/retired, net	1,049			1,049
Cash patronage		(59,417)		(59,417)
Capital conversion	(2,824)	2,824		—
Balance at December 31, 1998	305,406	329,305	(6,085)	628,626
Comprehensive income				
Net income		86,564		86,564
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments			(4,949)	(4,949)
Total comprehensive income				81,615
Capital stock/participation certificates issued/retired, net	(2,165)			(2,165)
Cash patronage		(59,697)		(59,697)
Capital conversion	(3,153)	3,153		—
Balance at December 31, 1999	300,088	359,325	(11,034)	648,379
Comprehensive income				
Net income		90,043		90,043
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments			9,584	9,584
Total comprehensive income				99,627
Capital stock/participation certificates issued/retired, net	1,101			1,101
Cash patronage		(61,333)		(61,333)
Balance at December 31, 2000	$ 301,189	$ 388,035	$ (1,450)	$ 687,774

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net income	$ 90,043	$ 86,564	$ 71,685
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	2,213	1,936	1,702
Provision for loan losses	2,500	7,050	2,200
(Gains) losses on other property owned, net	—	2	—
Realized (gains) losses on investments, net	—	1	(39)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	(10,339)	(3,505)	(2,305)
(Increase) decrease in investments in other Farm Credit System institutions	(824)	(7,226)	(386)
(Increase) decrease in other assets	11,053	4,382	(14,728)
Increase (decrease) in accrued interest payable	5,905	35,897	(13,676)
Increase (decrease) in other liabilities	(9,824)	4,109	(6,595)
Total adjustments	684	42,646	(33,827)
Net cash provided by operating activities	90,727	129,210	37,858
Cash flows from investing activities:			
Investment securities purchased	(1,977,974)	(2,366,529)	(1,816,367)
Investment securities sold or matured	2,089,236	1,886,825	1,370,146
Net (increase) decrease in loans	(924,236)	(205,783)	(282,639)
Purchase of premises and equipment, net	(6,297)	(2,667)	(2,825)
Proceeds from sale of other property owned	—	118	—
Net cash used in investing activities	(819,271)	(688,036)	(731,685)
Cash flows from financing activities:			
Bonds and notes issued	25,714,904	36,069,144	43,398,053
Bonds and notes retired	(25,027,414)	(35,412,496)	(42,538,390)
Capital stock and participation certificates issued/retired, net	1,101	(2,165)	1,049
Patronage refunds and dividends paid	(61,333)	(59,697)	(59,417)
Net cash provided by financing activities	627,258	594,786	801,295
Net increase (decrease) in cash and cash equivalents	(101,286)	35,960	107,468
Cash and cash equivalents, beginning of period	342,874	306,914	199,446
Cash and cash equivalents, end of period	$ 241,588	$ 342,874	$ 306,914
Supplemental schedule of non-cash investing and financing activities:			
Loans transferred to other property owned	$ —	$ 120	$ —
Change in unrealized gains (losses) on investments, net	9,584	(4,949)	(10,257)
Supplemental information:			
Interest paid	$ 634,532	$ 499,094	$ 551,511

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** *Ag***First** *Farm Credit Bank* (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a nationwide system of cooperatively owned banks (the banks) and associations, established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act).

The nation is currently served by six Farm Credit Banks (FCBs), each of which has specific lending authorities within its chartered territory, and one Agricultural Credit Bank (ACB), which has nationwide lending authorities. The ACB also has lending authorities of an FCB within its chartered territories. The Bank is chartered to service the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans and/or Agricultural Credit Associations (ACAs) that originate both long-term and short- and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as Associations. The Bank and its related associations (Associations or District Associations) are collectively referred to as the District. The District's twenty-six ACAs and one PCA jointly own virtually all of the Bank's stock.

At December 31, 1999, the District consisted of thirty-two ACAs and one PCA. During 2000, there were three consolidations in the AgFirst District: nine District Associations consolidated into three Associations effective July 1, 2000, leaving a total of twenty-six ACAs and one PCA in the AgFirst Farm Credit District. Effective January 1, 2001, four ACAs consolidated into one ACA and the one PCA reorganized as an ACA, resulting in a total of twenty-four ACAs.

Each FCB and the ACB is responsible for supervising the activities of the Associations within its district. The FCBs and/or Associations make loans to or for the benefit of eligible borrowers/stockholders for qualified purposes. Funds for the FCBs and the ACB are raised principally through the sale of consolidated Systemwide bonds and notes to the public.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the Bank and Associations. The activities of the Bank and Associations are examined by the FCA and certain actions by these entities are subject to the FCA's prior approval.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used to (1) ensure the timely payment of principal and interest on Systemwide debt obligations (insured debt), (2) ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the Insurance Corporation of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations). When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services which can be offered by the Bank.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' loan portfolios. These lines of credit are collateralized by a pledge of substantially all of each Association's assets. The terms of the revolving lines of credit are governed by a general financing agreement between the Bank and each Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the interest rate risk is effectively transferred to the Bank. Advances are also made to fund general operating expenses of the Associations.

The ACAs borrow from the Bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. Prior to January 1, 2001, the Bank provided short- and intermediate-term funding to the PCA, which has now reorganized as an ACA.

In addition to providing loan funds to District Associations, the Bank provides to the Associations banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Bank may also lend to qualifying financial institutions engaged in lending to eligible borrowers.

The Bank owns the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation). The Finance Corporation currently borrows funds from the Bank and eligible funds from qualified companies doing business in Puerto Rico under Section 2(j) of the Puerto Rico Tax Incentive Act of 1987, as amended, or the Puerto Rico Tax Incentive Act of 1998, including corporations that have elections under Section 936 and 30(A) of the Internal Revenue Code of 1986, as amended (Code), and may borrow funds from other sources within or outside Puerto Rico in the future. The funds so borrowed are primarily used to acquire from AgFirst the note receivable from Puerto Rico ACA and to acquire eligible loans originated by other System institutions. Savings in interest costs are, in part, passed along to borrowers in Puerto Rico who meet certain eligibility requirements.

The Bank, in conjunction with other System banks, jointly owns service organizations, which were created to provide a variety of services for the System:

- *Federal Farm Credit Banks Funding Corporation (Funding Corporation)* — provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- *FCS Building Association* — leases premises and equipment to the FCA.
- *Farm Credit Leasing Services Corporation* — provides a variety of leasing services for agricultural-related equipment and facilities.
- *Farm Credit System Association Captive Insurance Company* — being a reciprocal insurer, provides insurance services to its member organizations.

These investments are accounted for using the cost method. In addition, the Farm Credit Council acts as a full-service federated trade association which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires the management of the Bank to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable.

The accompanying consolidated financial statements include the accounts of the Bank (including the Finance Corporation), and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests. All significant transactions and balances between the Bank and the Finance Corporation have been eliminated.

A. **Investment Securities:** The Bank, as permitted under the FCA Regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Bank's investments may not necessarily be held to maturity and accordingly have been classified as available for sale. These investments are reported at fair value and unrealized holding gains and losses together with any unrealized gains or losses on related hedges are netted and reported as a separate component of members' equity in the Balance Sheet. Changes in the fair value of investments classified as available for sale are reflected as direct charges or credits to members' equity.

B. **Loans and Allowance for Loan Losses:** Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the principal amount outstanding.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, payments received in cash may be recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

In cases where a borrower experiences financial difficulties and the Bank makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Statement of Financial Accounting Standards No. 91 (SFAS No. 91), "Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans and Initial Direct Costs of Leases," requires loan origination fees and direct loan origination costs to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. SFAS No. 91 has not been implemented by the Bank because the effects are considered by management to not be material to financial position or results of operations of the Bank.

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. Loan principal and interest, when appropriate, are charged against the allowance for loan losses if collection is unlikely.

The allowance for loan losses is based upon estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

C. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful life of the asset. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

Notes to the Consolidated Financial Statements (continued)

D. **Other Assets:** Direct expenses incurred in issuing debt are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness.

E. **Financial Instruments with Off-Balance-Sheet Risk:** As more fully described in Note 14, the Bank is a party to derivative financial instruments, primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions but which, in accordance with GAAP, are not reflected in the Balance Sheet. Income and expense on interest rate swaps are recorded in the same category as that arising from the related asset or liability.

Premiums paid for interest rate caps purchased are included in other assets in the balance sheet and are being amortized to interest expense over the terms of the agreements. Amounts to be received under cap agreements are accrued as a reduction of interest expense.

Gains and losses related to effective hedges of existing assets or liabilities are deferred and recognized over the expected remaining life of the related asset or liability. Gains and losses related to effective hedges of anticipated transactions are also deferred, and recognized in income in the same period as the hedged transaction.

F. **Employee Benefit Plans:** Bank employees participate in a districtwide defined benefit retirement plan within the District. The “Projected Unit Credit” actuarial method is used for financial reporting purposes and the “Entry-Age Normal Cost” method for funding purposes.

The employees of the Bank are eligible to participate in the thrift/deferred compensation plan (Thrift Plan) of the Bank; 50 percent of employee contributions up to a maximum employee contribution of 6 percent of total compensation is matched by the Bank. Thrift Plan costs are expensed as funded.

In addition to providing pension benefits, the Bank provides certain health care and life insurance benefits for retired employees (other postretirement benefits). Substantially all of the Bank’s employees are eligible for those benefits when they reach normal retirement age while working for the Bank.

G. **Income Taxes:** The Bank is exempt from Federal and other income taxes as provided in the Farm Credit Act. The Finance Corporation receives a partial credit for taxes payable on Puerto Rico sourced income in accordance with Section 936 of the Internal Revenue Code of 1986, as amended. See Note 1(B) — *Operations.*

H. **Derivative Instruments and Hedging Activity:** In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activity,” which was amended by SFAS No. 137, in June 1999, by delaying the implementation date for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, another amendment to SFAS No. 133, which revised the accounting and reporting for certain derivative instruments and certain hedging activities. SFAS No. 133, as amended, requires derivatives to be recorded on the balance sheet as assets and liabilities, measured at fair value. Changes in the values of those derivatives would be accounted for as gains or losses or as a component of other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions in which the Bank is hedging changes in an asset’s, liability’s, or firm commitment’s fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item’s fair value. For cash-flow hedge transactions, in which the Bank is hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current-period earnings. The Bank adopted SFAS No. 133, as amended, effective January 1, 2001 and the impact of the adoption of this standard did not have a material impact on the financial condition and results of operations of the Bank.

Note 3 — Investment Securities

A summary of the amortized cost and fair value of debt securities held as investments at December 31, 2000, 1999 and 1998, is as follows:

	December 31, 2000				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Agency-backed ARM securities	$ 863,292	$ 2,984	$ (4,261)	$ 862,015	6.75%
Collateralized mortgage obligations	421,194	2,260	(1,283)	422,171	7.15
Other asset-backed securities	617,199	671	(1,801)	616,069	6.94
CDs, commercial paper and other	99,851	—	(20)	99,831	7.02
Total Investment Securities	$ 2,001,536	$ 5,915	$ (7,365)	$ 2,000,086	6.94%

	December 31, 1999				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Agency-backed ARM securities	$ 936,992	$ 392	$ (7,447)	$ 929,937	6.17%
Collateralized mortgage obligations	392,270	98	(4,569)	387,799	5.95
Other asset-backed securities	318,833	196	(91)	318,938	6.26
CDs, commercial paper and other	464,703	387	—	465,090	6.32
Total Investment Securities	$ 2,112,798	$ 1,073	$ (12,107)	$ 2,101,764	6.18%

	December 31, 1998				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Agency-backed ARM securities	$ 819,186	$ 1,462	$ (6,483)	$ 814,165	5.37%
Collateralized mortgage obligations	353,464	69	(1,456)	352,077	5.64
Other asset-backed securities	268,591	258	(14)	268,835	5.61
CDs, commercial paper and other	191,854	79	—	191,933	5.66
Total Investment Securities	$ 1,633,095	$ 1,868	$ (7,953)	$ 1,627,010	5.50%

At December 31, 2000, 1999 and 1998, the Bank was a party to swap agreements with a total notional amount of $218 million, $241 million, and $265 million, respectively, entered into in order to hedge the periodic cap risk on GNMA ARM securities, and are included in the determination of the fair value of the hedged securities.

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at December 31, 2000, follows:

	Amortized Cost	Fair Value
In one year or less	$ 175,836	$ 175,982
After one year through five years	302,497	301,212
After five years through ten years	35,008	35,071
After ten years	1,067,001	1,065,650
Collateralized mortgage obligations	421,194	422,171
Total	$ 2,001,536	$ 2,000,086

Substantially all collateralized mortgage obligations have contractual maturities in excess of ten years. However, expected maturities for collateralized mortgage obligations will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from and realized gains and losses on sales of investments in debt securities are as follows:

	Year Ended December 31,		
	2000	1999	1998
Proceeds on sales	$ —	$ 150,311	$ 181,758
Realized gains	—	4	51
Realized losses	—	5	12

The following table represents the reclassification amounts for other comprehensive income. Unrealized gains/losses on investments are the only components of other comprehensive income.

	December 31,		
	2000	1999	1998
Unrealized holding gains (losses) arising during the period	$ 9,584	$ (4,950)	$ (10,218)
Less: reclassification adjustment for gains (losses) included in net income	—	(1)	39
Net unrealized gains (losses) on investments	$ 9,584	$ (4,949)	$ (10,257)

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
	2000	1999	1998
Notes receivable from District Associations	$ 7,802,732	$ 7,107,148	$ 7,190,296
Participations purchased	1,375,691	1,232,403	967,465
Mortgage loans purchased in the secondary market	315,526	230,329	133,059
Other	2,554	2,937	76,385
Total	$ 9,496,503	$ 8,572,817	$ 8,367,205

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1(B) — *Operations*, these notes are used by the Associations to fund their loan portfolios, and therefore, the Bank's concentration of credit risk in various agricultural commodities approximates that of the District as a whole, as shown in the following table. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. While the amounts below represent the Associations' maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Associations' lending activities is collateralized and the Associations' exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Bank's credit risk exposure is considered in the Bank's allowance for loan losses.

Total loans consisted of the following commodity types:

	Percent of Portfolio		
Commodity Group	2000	1999	1998
Poultry	15%	15%	15%
Cattle	8	8	9
Forestry	8	8	8
Country Home	8	6	6
Dairy	7	7	7
Grain	7	9	8
Swine	6	8	9
Nursery/Greenhouse	4	4	4
Tobacco	4	4	5
Citrus	3	3	4
Cotton	3	3	4
Utilities	3	2	1
Other	24	23	20
Total	100%	100%	100%

Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual impaired loans are applied as described in Note 2.

The average recorded investment in impaired loans during 2000, 1999 and 1998 was $8,668, $13,032 and $3,828, respectively. Impaired loans of $902, $12,287 and $22,821 at December 31, 2000, 1999 and 1998 had a specific allowance for loan losses totaling $0, $2,300 and $0, respectively.

A summary of changes in the allowance for loan losses, all of which relates to the Bank's participation loan portfolio, follows:

	Year Ended December 31,		
	2000	1999	1998
Balance at beginning of year	$ 19,466	$ 12,467	$ 10,267
Provision for loan losses	2,500	7,050	2,200
Loans charged off	(550)	(51)	—
Balance at end of year	$ 21,416	$ 19,466	$ 12,467

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
	2000	1999	1998
Land	$ 848	$ 848	$ 848
Buildings and improvements	4,816	4,445	4,347
Furniture and equipment	22,226	17,051	14,919
	27,890	22,344	20,114
Less: accumulated depreciation	18,001	16,539	15,040
Total	$ 9,889	$ 5,805	$ 5,074

Notes to the Consolidated Financial Statements (continued)

Note 6 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31, 2000	1999	1998
Other assets:			
Accounts receivable from District Associations	$ 9,059	$ 14,458	$ 12,925
Prepaid expenses	173	439	402
Financial Assistance Corporation Prefunding (Note 10)	—	2,728	14,125
Unamortized debt issue costs	4,438	4,882	3,527
Prepaid pension costs	7,492	6,935	6,128
Receivables and other	15,563	18,336	15,053
Total	$ 36,725	$ 47,778	$ 52,160
Other liabilities:			
Other postretirement benefits liability	$ 9,064	$ 8,428	$ 8,110
Accounts payable	70,100	72,356	69,809
Financial Assistance Corporation payable	10,161	11,909	14,438
Other	1,735	8,191	4,418
Total	$ 91,060	$ 100,884	$ 96,775

Note 7 — Bonds and Notes

The Bank's participation in bonds and notes follows:

	December 31, 2000	1999	1998
Systemwide bonds	$ 6,456,729	$ 4,051,786	$ 2,112,035
Systemwide medium-term notes	2,579,000	4,631,000	4,105,996
Systemwide discount notes	1,813,946	1,482,398	3,284,338
Other notes payable	164,882	161,883	168,050
Total	$ 11,014,557	$ 10,327,067	$ 9,670,419

Systemwide bonds, medium-term notes, master notes, discount notes and global debt securities (Systemwide debt securities) are the joint and several obligations of the System banks.

The aggregate maturities of bonds and notes and the weighted average interest rate at December 31, 2000, are as follows:

Year of Maturity	Weighted Average Interest Rate	Amount
2001	6.22%	$ 6,362,975
2002	6.08	2,647,843
2003	6.26	743,319
2004	6.48	405,000
2005	6.90	369,874
Subsequent years	7.02	485,546
Total	6.26%	$ 11,014,557

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2000, was 65 days.

Systemwide Debt includes callable bonds and medium-term notes consisting of the following:

Amount	First Call Date	Year of Maturity
$3,570,000	2001	2001 – 2007
211,000	2002	2003 – 2007
10,000	2003	2005 – 2005
$3,791,000		

Certain conditions must be met before the Bank can participate in the issuance of Systemwide debt securities. As one condition of participation, the Bank is required by the Farm Credit Act and FCA Regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide debt securities with a security interest in any assets of the banks. In 1994, the System banks and the Funding Corporation entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2000, the Bank was and currently remains in compliance with the conditions of participation for the issuances of Systemwide debt securities.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide debt securities (insured debt) of System banks to the extent net assets are available in the Insurance Fund; all other liabilities on the financial statements are uninsured. At December 31, 2000 the assets of the Insurance Fund aggregated $1.626 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal of or interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon. Amounts available in the Insurance Fund will be used to repay, upon maturity, the Financial Assistance Corporation debt issued to fund the purchase of $374 million of preferred stock issued by the Federal Land Bank of Jackson, to the extent that funds of the Financial Assistance Corporation Trust Fund (Trust Fund) are not sufficient for such purpose. As of December 31, 2000, available funds in the Trust Fund amounted to $114.7 million.

The Bank had no committed commercial bank lines of credit at December 31, 2000.

See Note 14 for a discussion of derivative financial instruments.

Note 8 — Members' Equity

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Description of Equities**

In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C, and D Common Stock, Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Bank's business. All stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

The Bank had the following shares outstanding at December 31, 2000:

		Shares Outstanding	
Class	Protected Status	Number	Aggregate Par Value
B Common/Nonvoting	No	11,226,788	$ 56,134
C Common/Voting	No	46,285,334	231,428
D Common/Nonvoting	No	2,645,900	13,229
C Participation Certificates/Nonvoting	No	79,691	398
Total Capital Stock and Participation Certificates		60,237,713	$ 301,189

B. **Capital Stock**

District Associations are required to maintain ownership in the Bank in the form of Class B or C Common Stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

Additionally, the Bank has issued Class D Common Stock in connection with participations carried by the Bank from other System institutions. Class D Common Stock shall have voting rights, except with respect to such participations. Such Stock may be retired at the discretion of the Board, and, if retired, shall be retired at book value, not to exceed its par value. Class D Common Stock shall be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2%) of the loan amount or $1,000.00, whichever is less, and a maximum not to exceed ten percent (10%) of the loan amount.

C. **Other Equity**

At the inception of each Other Financing Institution (OFI) loan, the Bank requires OFIs to make cash purchases of participation certifications in the Bank. The Bank has a first lien on these equities for the repayment of any indebtedness to the Bank.

D. **Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Bank to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. The Bank is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA Regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA Regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Bank's permanent capital, total surplus and core surplus ratios at December 31, 2000 were 16.92 percent, 15.50 percent and 10.42 percent, respectively.

Additionally, the Bank is required to achieve and maintain net collateral of 103 percent of total liabilities. At December 31, 2000, the Bank's net collateral was 104.95 percent.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Bank has not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

Note 9 — Employee Benefit Plans

The Bank participates in a Districtwide defined benefit retirement plan. This plan is noncontributory and covers substantially all Bank employees. Benefits are based on salary and years of service. The assets, liabilities and 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 the Bank's salary expense as a percentage of the District's salary expense.

The Bank also participates in a Districtwide Thrift Plan. The Thrift Plan requires the Bank to match 50 percent (50%) of employee optional contributions up to a maximum employee contribution of 6 percent (6%) of total compensation.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability.

The following is a table of retirement and postretirement benefits expenses:

	2000	1999	1998
Pension	$ 173	$ 165	$ 663
Thrift/deferred compensation	320	320	279
Other postretirement benefits	1,451	1,193	1,062
Total	$ 1,944	$ 1,678	$ 2,004

Note 10 — Intra-System Financial Assistance

The Farm Credit System Financial Assistance Corporation (Financial Assistance Corporation) was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the Financial Assistance Corporation's issuance of $1.261 billion of 15-year U.S. Treasury-guaranteed debt. The interest rates on these issuances range from 8.80 percent to 9.45 percent.

The proceeds from the debt offerings were used to fund existing intra-System financial assistance payables ($417 million), to purchase preferred stock from certain troubled System banks ($808 million), and for other purposes ($36 million). Pursuant to the Farm Credit Act, the U.S. Treasury paid the interest on $844 million of the Financial Assistance Corporation bonds for the first five years of the respective terms of such bonds. The payment of interest on this debt is allocated between the U.S. Treasury and System banks during the second five years. As the result of growth of the System's surplus, the allocation provisions of the Farm Credit Act require that banks pay 100 percent (100%) of the interest beginning in 1999. The Farm Credit Act and supplemental agreements dictate how the banks will repay the principal and fund the interest of each type of issuance. With the exception of the assistance provided through the purchase of preferred stock, repayment of the Financial Assistance Corporation debt obligations will be allocated to all System banks, and annual expense accruals and funding assessments are generally allocated based on each bank's proportion of System loan volume over various time periods.

Financial assistance was provided by the Financial Assistance Corporation to five System banks in other districts through its purchase of preferred stock of those institutions. Through 1994, four System banks redeemed their preferred stock in the amount of $419 million through the transfer of assets to the Financial Assistance Corporation, which were placed in trusts. The Federal Land Bank of Jackson, whose charter was canceled in January of 1995, received $374 million of financial assistance for which the related preferred stock has not been redeemed.

All interest advanced by the U.S. Treasury must be repaid by System banks in 2005. System banks record their share of the liability based upon each bank's proportionate share of average accruing retail loan volume. To fund the repayment obligation, annual annuity-type payments are made by each bank to the Financial Assistance Corporation in an amount designed to accumulate, in total, including earnings thereon, the total amount of each bank's ultimate obligation.

The Financial Assistance Corporation assumed certain payables previously accrued by the Bank under the System's Capital Preservation Agreements and funded payment of such accruals by the issuance of 15-year U.S. Treasury-guaranteed debt. Under the Farm Credit Act, the System banks are required to fund the bonds upon maturity. Although GAAP requires recognition in the consolidated financial statements of the Bank's liability to the Financial Assistance Corporation, the Farm

Notes to the Consolidated Financial Statements (continued)

Credit Act states that, for all financial reporting purposes, this obligation shall not be considered a liability of any System bank until the maturity of such debt. There is a statutorily mandated repayment plan, which effectively spreads the financial assistance payments and expenses over a number of years and accordingly gradually reduces the effect of the unrecorded liability. Management considers the current and future effect of not recording the liability to be immaterial to the Bank's financial condition and results of operations.

In 1998, the Bank entered into two agreements with the other System banks and the FAC to call certain of the FAC callable debt issues used to provide financial assistance ($240 million issuance and $89 million issuance) and to fund Capital Preservation Agreement accruals ($157 million issuance). The System banks were required to pre-fund the amounts representing the difference between the amounts previously funded and the amounts needed to call the debt. The Bank expensed $5.9 million in 1998, related to the calling of the $240 million issuance, and $11.4 million in 1999, related to the calling of the $157 million issuance, and $2.7 million in 2000, related to the calling of the $89 million issuance, representing its pro rata shares of the additional funding required.

The Bank's financial assistance expense totaled $17 million, $27 million and $26 million in 2000, 1999 and 1998, respectively.

Note 11 — Related Party Transactions

As discussed in Note 1, the Bank lends funds to the District Associations to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Notes 4, 6, 8 and 13.

Interest income recognized on Direct Notes receivable from District Associations at December 31, 2000, December 31, 1999 and December 31, 1998 was $521,089, $475,072 and $495,784, respectively.

Note 12 — Regulatory Enforcement Matters

At December 31, 2000, there were no regulatory enforcement matters or agreements in place with the FCA.

Note 13 — Commitments and Contingencies

The Bank has various contingent liabilities and commitments outstanding as discussed elsewhere in these notes to the consolidated financial statements. While primarily liable for its portion of bonds and notes, the Bank is jointly and severally liable for the bonds and notes of the other System banks. The total bonds and notes of the System at December 31, 2000, was $76.0 billion.

Other 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, from these other actions, would not be material in relation to the financial position of the Bank.

Note 14 — Financial Instruments With Off-Balance-Sheet Risk

The Bank may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage its exposure to interest-rate risk. These financial instruments include commitments to extend credit, standby letters of credit, and derivative financial instruments. While the notional amounts of derivative contracts are indicative of the extent of involvement in particular classes of instruments, they do not represent the amounts exchanged by the parties, and thus are not a measure of the exposure to the Bank through its use of derivatives. The amounts exchanged by the parties are normally based on the notional amounts and the other terms of the derivatives, which relate to interest rates, securities prices, or financial or other indexes. The value of off-balance-sheet financial instruments is derived from those underlying parameters and changes in the relevant rates or prices. The Bank does not hold or issue derivative financial instruments for trading purposes and is not party to leveraged derivatives. A summary of the significant financial instruments with off-balance-sheet risk at December 31, 2000, follows:

	Contract or Notional Amount
Financial instruments whose contract amounts represent the credit risk:	
Commitments to extend credit	$ 682,956
Standby letters of credit and guarantees	30,018
	$ 712,974
Financial instruments whose notional or contract amounts exceed the credit risk:	
Interest rate swap contracts	$ 1,811,433
Interest rate cap contracts	441,205
	$ 2,252,638

A. **Commitments to Extend Credit and Standby Letters of Credit**

Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. At any time, the Bank has outstanding a significant number of commitments to extend credit related to participation loans.

The Bank also provides standby letters of credit to guarantee the performance of customers to third parties. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees, if any, for these instruments are recognized in the balance sheet (as other liabilities) until the commitments are fulfilled or expire. Since some of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty.

B. **Commitments to the District Associations**

The commitments to extend credit in the preceding table do not include the Bank's commitment obligations to the District Associations as represented in the general financing agreements described in Note 1(B) — *Operations.* These revolving credit facilities have renewable one-, two- or three-year terms.

C. **Derivative Financial Instruments**

The Bank participates in derivatives to lower funding costs, diversify sources of funding, or alter interest rate risk exposures arising from mismatches between assets and liabilities. The predominant derivative instrument used by the Bank is the interest rate swap. Under an interest rate swap agreement, the Bank agrees with another party to exchange, at specified intervals, payment streams calculated on a specified notional principal amount.

Interest rate swaps are used by the Bank for three primary purposes. First, in connection with the Bank's long-term borrowings the Bank may simultaneously enter into an interest rate swap to alter its effective terms from fixed rate to floating rate or vice versa. In these transactions, the net interest rate the Bank agrees to pay on the borrowings and the swaps is more attractive than the rate that could have been achieved directly in the debt market. Second, the repricing structure of the Bank's interest earning assets is subject to change as borrower demand for various products and maturities changes. When changes in the Bank's asset structure result in an asset-liability mismatch, interest rate swaps are used to restructure the repricing characteristics of the Bank's liabilities to better match the asset structure. Third, the Bank is a party to five- and six-year remaining maturity swap agreements entered into in order to hedge the periodic cap risk on GNMA ARM securities.

The Bank may enter into forward rate agreements in order to manage the short-term interest rate risk relative to funding adjustable rate mortgage assets which have a look-back provision incorporated in interest rate settings. Forward rate agreements would settle in cash at a specified future date based on the differential between agreed interest rates applied to a notional principal amount.

Interest rate caps are used by the Bank to reduce the impact of changes in interest rates on its floating-rate debt. Interest rate caps are option-like contracts that require the seller to pay the purchaser, at specified future dates, the amount, if any, by which a specified market interest rate exceeds the fixed cap rate, applied to a notional principal amount. The option seller receives a premium for bearing the risk of unfavorable interest rate changes.

The Bank is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. To minimize the risk of credit losses being incurred, the Bank deals only with counterparties that have an "A" or better credit rating from two or more nationally recognized statistical ratings organizations. The Bank also monitors the credit standing of the counterparties. The Bank does not anticipate nonperformance by any of these counterparties. Where appropriate, the Bank obtains collateral in the form of rights to securities or provides for netting pursuant to the terms of Master Agreements. These Master Agreements include provisions that allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the other party on one or more contracts.

The credit exposure that results from interest rate contracts is represented by the fair value of contracts with a positive fair value at the reporting date. The fair values of all financial instruments are summarized in Note 15.

Information is provided below for each significant derivative product type at December 31, 2000.

December 31, 2000 *($ in millions)*	Maturities of Derivative Products 2001	2002	2003	2004	2005	After 2005	Total
Receive fixed swaps							
Notional value	$ 346	$ 650	$ —	$ —	$ —	$ —	$ 996
Weighted average receive rate	5.38%	5.49%	—	—	—	—	5.45%
Weighted average pay rate	6.62%	6.64%	—	—	—	—	6.63%
Pay fixed swaps							
Notional value	—	—	—	—	—	—	—
Weighted average receive rate	—	—	—	—	—	—	—
Weighted average pay rate	—	—	—	—	—	—	—
Amortizing floating for floating swaps							
Notional value	—	—	—	110	306	400	816
Weighted average receive rate	—	—	—	7.27%	6.40%	6.14%	6.39%
Weighted average pay rate	—	—	—	7.38%	6.55%	6.05%	6.41%
Other derivative products							
Notional value — Interest rate caps	13	—	—	—	217	211	441
Total notional value	$ 359	$ 650	$ —	$ 110	$ 523	$ 611	$ 2,253
Total weighted average rates on swaps:							
Receive rate	5.38%	5.49%	—%	7.27%	6.40%	6.14%	5.87%
Pay rate	6.62%	6.64%	—%	7.38%	6.55%	6.05%	6.53%

Activity in derivative products is summarized as follows:

Notional amounts *($ in millions)*	Receive Fixed	Pay Fixed	Amortizing Floating for Floating	Interest Rate Caps	Total
Balance at December 31, 1999	$ 830	$ 50	$ 890	$ 636	$ 2,406
Additions	166	—	—	—	166
Maturities/amortizations	—	50	74	195	319
Terminations	—	—	—	—	—
Balance at December 31, 2000	$ 996	$ —	$ 816	$ 441	$ 2,253

Notes to the Consolidated Financial Statements (continued)

Note 15 — Disclosures about Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Bank's financial instruments at December 31, 2000, 1999 and 1998. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The estimated fair values of the Bank's financial instruments are as follows:

	December 31, 2000		December 31, 1999		December 31, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Loans	$ 9,496,503	$ 9,490,553	$ 8,572,817	$ 8,508,749	$ 8,367,205	$ 8,436,771
Allowance for loan losses	(21,416)	—	(19,466)	—	(12,467)	—
Loans, net	$ 9,475,087	$ 9,490,553	$ 8,553,351	$ 8,508,749	$ 8,354,738	$ 8,436,771
Cash & investment securities	$ 2,245,087	$ 2,245,087	$ 2,446,892	$ 2,446,892	$ 1,939,044	$ 1,939,044
Related interest rate swaps	(3,413)	(3,413)	(2,254)	(2,254)	(5,120)	(5,120)
Net cash & investment securities	$ 2,241,674	$ 2,241,674	$ 2,444,638	$ 2,444,638	$ 1,933,924	$ 1,933,924
Financial liabilities:						
Systemwide debt securities	$ 11,014,557	$ 11,032,565	$10,327,067	$ 10,244,399	$ 9,670,419	$ 9,687,452
Financial assistance related liabilities*	$ 10,161	$ 13,780	$ 11,909	$ 15,880	$ 14,438	$ 23,367
Unrecognized financial instruments:						
Interest rate swaps:						
Net receivable position	$ 26	$ 4,784	$ 42	$ 626	$ 212	$ 852
Net payable position	$ 2,539	$ 7,403	$ 1,279	$ 21,837	$ 137	$ 33
Other derivative financial instruments	$ 303	$ 538	$ 381	$ 1,914	$ 550	$ 926

* *The above amount excludes the assumption of Third Quarter 1986 Capital Preservation Agreement obligations with a fair value of $7 million at December 31, 2000.*

The carrying amounts in the table are included in the balance sheet under the indicated captions, except for unrecognized financial instruments. The carrying amounts for interest rate swaps include net amounts receivable or payable and liability amounts are included in other liabilities. A description of the methods and assumptions used to estimate the fair value of each class of the Bank's financial instruments for which it is practicable to estimate that value follows:

A. **Loans:** Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using the Bank's current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the Bank's loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

   For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. The carrying value of accrued interest approximates its fair value.

B. **Cash:** The carrying value is a reasonable estimate of fair value.

C. **Investment Securities:** Fair value is based upon currently quoted market prices.

D. **Bonds and Notes:** Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity Treasury notes, assuming a constant estimated yield spread relationship between Systemwide bonds and notes and comparable Treasury notes.

E. **Financial Assistance Related Liabilities:** As discussed in Note 10, the Bank is liable for certain obligations of the Financial Assistance Corporation, one of which is unrecorded. Fair value of these obligations is determined by discounting the cumulative expected future cash outflows of all of the obligations using an interest rate commensurate with bonds having a similar maturity.

F. **Derivative Financial Instruments:** The fair value of derivative financial instruments is the estimated amounts that the Bank would receive or pay to replace the instruments at the reporting date, considering current interest rates and the current creditworthiness of the counterparties. Where such quoted market prices do not exist, these values are determined through independent sources.

G. **Commitments to Extend Credit and Standby Letters of Credit:** The estimated fair value of the off-balance-sheet commitments is nominal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant. The fair value of standby letters of credit has also been determined to be immaterial.

Note 16 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2000, 1999 and 1998 follow:

	2000				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$33,340	$ 32,440	$ 34,268	$ 35,116	$135,164
Provision for loan losses	—	—	1,500	1,000	2,500
Noninterest income (expense), net	(9,715)	(9,823)	(12,342)	(10,741)	(42,621)
Net income	$23,625	$ 22,617	$ 20,426	$ 23,375	$ 90,043

	1999				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$36,455	$ 35,799	$ 36,623	$ 36,937	$145,814
Provision for loan losses	1,000	1,050	2,000	3,000	7,050
Noninterest income (expense), net	(21,168)	(9,548)	(10,377)	(11,107)	(52,200)
Net income	$14,287	$ 25,201	$ 24,246	$ 22,830	$ 86,564

	1998				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$28,984	$ 31,049	$ 32,449	$ 35,293	$127,775
Provision for loan losses	500	500	600	600	2,200
Noninterest income (expense), net	(11,197)	(13,169)	(17,076)	(12,448)	(53,890)
Net income	$17,287	$ 17,380	$ 14,773	$ 22,245	$ 71,685

Management

F. A. (Andy) Lowrey	President and Chief Executive Officer
Larry R. Doyle	Executive Vice President
Thomas S. Welsh	Executive Vice President

Board of Directors

William S. Jackson	Chairman
F. Merrel Lust	Vice Chairman
E. McDonald Berryman	Director
William C. Bess, Jr.	Director
Dr. Chester D. Black	Director
Robert A. Carson	Director
R. Tommy Clay, Sr.	Director
Douglas L. Flory	Director
Don W. Freeman	Director
Robert L. Holden, Sr.	Director
James A. Kinsey	Director
Richard Kriebel	Director
Paul Lemoine	Director
T. Edward Lippy	Director
Eugene W. Merritt, Jr.	Director
Dale W. Player	Director
J. Dan Raines, Jr.	Director
Robert G. Sexton	Director
Robert E. Strayhorn	Director