FIRST QUARTER 2001

Table of Contents

F. A. Lowrey

F. A. Lowrey
Chief Executive Officer

F. Merrel Lust

F. Merrel Lust
Chairman of the Board

April 27, 2001

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of *Ag***First** *Farm Credit Bank* (*Ag***First**) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, for the three months ended March 31, 2001. These comments should be read in conjunction with the accompanying financial statements and the 2000 Annual Report of *Ag***First** *Farm Credit Bank* and District Associations.

Net income for the three months ended March 31, 2001 was $63,061, an increase of $8,572 or 15.7 percent, compared to the three months ended March 31, 2000. This increase in net income was primarily attributed to an increase of $5.8 million in net interest income, $2.6 million related to realized gains on sale of investments, an increase of $1.4 million in loan fees and financially related services, and a decrease of $1.8 million in provision for income taxes related to the ACA holding company restructures, which were partially offset by an increase in provision for loan losses of $1.9 million and $1.5 million in expenses related to called debt.

Total assets at March 31, 2001 increased 1.78 percent compared to December 31, 2000. The $274 million increase in loan volume and accrued interest was primarily offset by the $40 million decrease in investments and cash and cash equivalents. Other assets increased approximately $4 million from December 31, 2000 to March 31, 2001, primarily attributed to the increase in accounts receivable related to District Association IRS settlement refunds of $8.7 million and an increase of $2.8 million for adjustments related to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." These increases in other assets were offset by a decrease in net deferred tax assets of approximately $8 million related to write-offs of these assets associated with ACAs restructuring as holding companies (Reference IRS Tax Settlement for further information).

Credit quality remained relatively consistent during the first quarter of 2001. At March 31, 2001, the District reflected a 90.85 percent Acceptable classification compared to 90.96 percent at December 31, 2000. Percentages for Other Assets Especially Mentioned (OAEM) at March 31, 2001 and December 31, 2000 were 6.53 percent and 6.64 percent, respectively. Nonaccrual loan assets at March 31, 2001 were .59 percent of total loans outstanding as compared to .60 percent at December 31, 2000.

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

DISTRICT OPERATIONS

As of January 1, 2001, the District consisted of *Ag***First**, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-four District Associations. During the course of 2000, several District Associations consolidated and effective January 1, 2001, the one Production Credit Association (PCA) reorganized as an ACA. Consolidation/merger 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

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2001 was $11,372,337, a 2.5 percent increase over the December 31, 2000 amount of $11,095,176. Loan asset growth is consistent with a trend beginning in the previous two quarters as District Associations benefited from tightened conditions in the commercial bank market as well as a continuation of broader activity by both *Ag***First** and District Associations in participation loans originated by other Farm Credit institutions.

The allowance for loan losses at March 31, 2001 of $287,209 is 2.53 percent of gross loan volume and is considered by management to be adequate to absorb potential losses on existing loans information. Refer to Note 2, "Allowance for Loan Losses" in the notes to the combined financial statements of this report for further information.

Liquidity and Funding Sources

As of March 31, 2001, the District exceeded all regulatory liquidity requirements. Cash and investment securities totaled $2,286,364, or 16.61 percent of total assets. Interest-bearing liabilities, consisting of bonds and notes, increased by $246,576, or 2.24 percent, compared to bonds and notes outstanding at December 31, 2000. This increase was primarily attributed to the aforementioned increases in loan volume. Other liabilities have increased $46.1 million from December 31, 2000 to March 31, 2001 mostly due to timing differences for patronage and surplus retirement checks issued but not cleared as of March 31, 2001.

Capital Resources

Total members' equity increased $8.4 million from December 31, 2000 to March 31, 2001. This net increase was primarily the result of a $63 million increase in retained earnings from net income, partially offset by retirements of surplus of $55.7 million and stock retirements of $1 million.

Key financial condition comparisons:

	3/31/01	**12/31/00**
Members' Equity to Assets	15.76%	15.98%
Debt to Members' Equity	5.34:1	5.26:1
Allowance for Loan Losses to Loans	2.53%	2.57%

RESULTS OF OPERATIONS

Net interest income for the first three months ended March 31, 2001 was $113,130 compared to $107,334 in the same period of 2000. The increase in net interest income is primarily the result of higher average volume in earning assets partially offset by slightly reduced net interest spreads.

Noninterest income for the three months ended March 31, 2001 was $11,332 compared to $5,684 for the same period in 2000. This increase is primarily attributable to $2.6 million related to realized gains on sale of investments, a $1.4 million increased level of loan fees, prepayment fee penalties and fees for financially related services, and $1 million increase in other income related to interest on District Associations' IRS tax settlement refunds.

Noninterest expense increased from $54,539 for the three months of 2000, to $57,173 for the comparable period in 2001. This $2.6 million increase is mostly attributable to a $1.5 million increase in miscellaneous expense related to called debt and an increase of $1.2 million in other operating expenses. These increases were partially offset by decreases of $283 in Intra-system Financial Assistance Corporation expense and $178 in salaries and benefits.

The provision for income taxes was $1.3 million for the three months ended March 31, 2001, a decrease of $1.8 million from the same period in 2000. This decrease is due in part to $7.8 million recorded as IRS tax settlement refunds, as well as decreased federal effective rates applicable to those ACAs that restructured to utilize the Federal Land Credit Association (FLCA) to operate long-term lending activities. These decreases to the provision were offset by deferred tax asset adjustments of approximately $8 million also associated with the restructuring.

Key results of operations comparisons:

	Annualized for the three months ended 3/31/01	**For the year ended 12/31/00**
Return on Average Assets	1.87%	1.85%
Return on Average Members' Equity	11.93%	11.05%
Net Interest Income as a Percentage of Average Earning Assets	3.40%	3.50%
Chargeoffs, Net of (Recoveries), to Average Loans	0.02%	0.02%

IRS TAX SETTLEMENT

District Agricultural Credit Associations (ACAs) have filed refund claims with the Internal Revenue Service asserting that earnings from their long-term mortgage lending activities are exempt from taxation. Settlement negotiations are in process to resolve this issue, which have resulted in refunds (or will in the future) of a portion of taxes previously paid.

The terms of the settlement agreements stipulate that income generated by ACAs will be taxable in future periods. However, ACAs may reorganize, with the approval of their stockholders and FCA, to operate their long-term mortgage lending activities through a newly created FLCA subsidiary. As of January 1, 2001, fourteen District Associations have reorganized as parent-subsidiary structures. As part of the settlement agreement, the IRS has confirmed that FLCAs formed in this manner are tax-exempt. Effective tax rates for ACAs should be reduced in future years as the reorganizations occur. For the quarter ended March 31, 2001, $7,798 has been recognized as ACA federal tax refund amounts and $954 has been recognized as interest related to the federal tax refund.

Combined Balance Sheets

(dollars in thousands)	March 31, 2001	December 31, 2000
	(unaudited)	
Assets		
Cash and cash equivalents	$ 288,634	$ 326,204
Investment securities	1,997,730	2,000,086
Loans	11,372,337	11,095,176
Less: allowance for loan losses	287,209	284,867
Net loans	11,085,128	10,810,309
Accrued interest receivable	178,226	179,128
Investments in other Farm Credit System institutions	18,105	18,275
Premises and equipment, net	70,227	68,555
Other property owned	7,058	6,369
Other assets	117,489	113,495
Total assets	$ 13,762,597	$ 13,522,421
Liabilities		
Bonds and notes	$ 11,261,133	$ 11,014,557
Accrued interest payable	112,995	120,708
Dividends and patronage refunds payable	5,675	58,850
Other liabilities	213,202	167,093
Total liabilities	11,593,005	11,361,208
Commitments and contingencies		
Members' Equity		
Protected borrower equity	23,047	23,634
At-risk equity:		
Capital stock and participation certificates	132,474	132,856
Retained earnings		
Allocated	650,560	704,010
Unallocated	1,359,625	1,302,163
Accumulated other comprehensive income (loss)	3,886	(1,450)
Total members' equity	2,169,592	2,161,213
Total liabilities and members' equity	$ 13,762,597	$ 13,522,421

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2001	2000
Interest Income		
Investment securities and other	$ 34,873	$ 35,280
Loans	244,386	217,046
Total interest income	279,259	252,326
Interest Expense	166,129	144,992
Net interest income	113,130	107,334
Provision for loan losses	2,792	839
Net interest income after provision for loan losses	110,338	106,495
Noninterest Income		
Loan fees	5,253	3,866
Fees for financially related services	913	894
Gains (losses) from other property owned, net	24	(17)
Realized gains (losses) on investments, net	2,642	—
Miscellaneous	2,500	941
Total noninterest income	11,332	5,684
Noninterest Expenses		
Salaries and employee benefits	35,097	35,275
Occupancy and equipment	5,154	4,761
Other operating expenses	11,964	10,734
Intra-System financial assistance expenses	3,420	3,703
Miscellaneous	1,538	66
Total noninterest expenses	57,173	54,539
Income before income taxes and cumulative effect of a change in accounting principle	64,497	57,640
Provision for income taxes	1,324	3,151
Income before cumulative effect of a change in accounting principle	63,173	54,489
Cumulative effect of change in accounting for derivatives	(112)	—
Net income	$ 63,061	$ 54,489

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Equity	At-Risk Equity: Capital Stock and Participation Certificates	At-Risk Equity: Retained Earnings Allocated	At-Risk Equity: Retained Earnings Unallocated	At-Risk Equity: Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 1999	$ 28,297	$ 152,639	$ 659,297	$1,249,773	$ (11,034)	$2,078,972
Comprehensive income						
Net income				54,489		54,489
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(3,365)	(3,365)
Total comprehensive income						51,124
Protected borrower equity retired	(753)					(753)
At-risk equity:						
Capital stock/participation certificates issued/retired, net		(3,894)				(3,894)
Dividends declared/paid		88		(215)		(127)
Patronage distribution						
Cash				(1,236)		(1,236)
Retained earnings retired			(39,688)			(39,688)
Patronage distribution adjustment			237	(115)		122
Balance at March 31, 2000	$ 27,544	$ 148,833	$ 619,846	$1,302,696	$ (14,399)	$2,084,520
Balance at December 31, 2000	$ 23,634	$ 132,856	$ 704,010	$1,302,163	$ (1,450)	$2,161,213
Comprehensive income						
Cumulative effect of a change in accounting for derivatives					(1,037)	(1,037)
Net income				63,061		63,061
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					5,557	5,557
Unrealized gains (losses) on derivative instruments					816	816
Total comprehensive income						68,397
Protected borrower equity retired	(587)					(587)
At-risk equity:						
Capital stock/participation certificates issued/retired, net		(468)				(468)
Dividends declared/paid		86		(196)		(110)
Patronage distribution						
Cash				(2,683)		(2,683)
Retained earnings retired			(55,729)			(55,729)
Patronage distribution adjustment			2,279	(2,720)		(441)
Balance at March 31, 2001	$ 23,047	$ 132,474	$ 650,560	$1,359,625	$ 3,886	$2,169,592

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2001	2000
Cash flows from operating activities:		
Net income	$ 63,061	$ 54,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,589	2,685
Provision for loan losses	2,792	839
(Gains) losses on other property owned, net	(24)	17
Realized (gains) losses on investments, net	(2,642)	—
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	902	(6,958)
(Increase) decrease in investments in other Farm Credit System institutions	170	258
(Increase) decrease in other assets	(3,994)	(1,835)
Increase (decrease) in accrued interest payable	(7,713)	434
Increase (decrease) in other liabilities	46,124	31,115
Total adjustments	38,204	26,555
Net cash provided by (used in) operating activities	101,265	81,044
Cash flows from investing activities:		
Investment securities purchased	(417,570)	(718,044)
Investment securities sold or matured	428,126	762,313
Net (increase) decrease in loans	(279,074)	213,624
Purchase of premises and equipment, net	(4,261)	(3,732)
Proceeds from sale of other property owned	783	584
Net cash provided by (used in) investing activities	(271,996)	254,745
Cash flows from financing activities:		
Bonds and notes issued	10,213,113	4,520,857
Bonds and notes retired	(9,966,759)	(4,913,633)
Protected borrower equity retired	(587)	(753)
At-risk equity:		
Capital stock and participation certificates issued/retired, net	(468)	(3,894)
Patronage refunds and dividends paid	(56,409)	(47,435)
Retained earnings retired	(55,729)	(39,688)
Net cash provided by (used in) financing activities	133,161	(484,546)
Net increase (decrease) in cash and cash equivalents	(37,570)	(148,757)
Cash and cash equivalents, beginning of period	326,204	391,515
Cash and cash equivalents, end of period	$ 288,634	$ 242,758
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 349	$ 334
Loans transferred to other property owned	1,812	423
Patronage refund and dividends payable	2,793	1,363
Change in unrealized gains (losses) on investments and derivative instruments, net	5,557	(3,365)
Supplemental information:		
Interest paid	$ 173,842	$ 144,558
Taxes paid, net	778	504

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

Notes to the Combined Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of *Ag***First** *Farm Credit Bank* (*Ag***First**) and the accounts of the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, and reflect the investments in and allocated earnings of the service organizations in which *Ag***First** has a partial ownership interest. All significant transactions and balances among *Ag***First** and the District Associations have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the combined Bank as of and for the year ended December 31, 2000, are contained in the 2000 Annual Report to Stockholders. These unaudited first quarter 2001 financial statements should be read in conjunction with the 2000 Annual Report to Stockholders.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires derivatives to be reported on the balance sheet as assets and liabilities, measured at fair value. Changes in the values of those derivatives will 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. *Ag***First** adopted the Statement, as amended, on January 1, 2001.

On January 1, 2001, *Ag***First** recorded a net cumulative effect-type adjustment of $(112) in earnings and recorded a cumulative effect-type adjustment of $(1,037) in accumulated other comprehensive income at adoption of SFAS No. 133. Other effects on the balance sheet were insignificant.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with accounting principles generally accepted in the United States (GAAP). The results for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001.

The District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of March 31, 2001, the allowances for losses are adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-99	$ 278,953
Provision for loan losses	839
Loans (charged off), net of recoveries	(31)
Balance at 3-31-00	$ 279,761
Balance at 12-31-00	$ 284,867
Provision for loan losses	2,792
Loans (charged off), net of recoveries	(450)
Balance at 3-31-01	$ 287,209

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of systemwide bond and discount note obligations. Additionally, the banks are contingently liable for the systemwide obligations of the System banks.

Actions are pending against *Ag***First** and certain District Associations in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the combined financial position of *Ag***First** and District Associations.

NOTE 4 — BANK ONLY FINANCIAL DATA

Condensed financial information of *Ag***First** follows:

Balance Sheet Data

	3/31/01	12/31/00 (Audited)
Cash and investment securities	$ 2,240,827	$ 2,241,674
Loans	9,699,199	9,496,503
Less: allowance for loan losses	22,416	21,416
Net loans	9,676,783	9,475,087
Other assets	205,608	197,338
Total assets	$ 12,123,218	$ 11,914,099
Bonds and notes	$ 11,261,133	$ 11,014,557
Other liabilities	143,561	211,768
Total liabilities	11,404,694	11,226,325
Capital stock and participation certificates	301,086	301,189
Retained earnings	413,552	388,035
Accumulated other comprehensive income (loss)	3,886	(1,450)
Total members' equity	718,524	687,774
Total liabilities and members' equity	$ 12,123,218	$ 11,914,099

Statement of Income Data

	For the three months ended March 31, 2001	2000
Interest income	$201,139	$178,181
Interest expense	166,078	144,841
Net interest income	35,061	33,340
Provision for loan losses	1,000	—
Net interest income after provision for loan losses	34,061	33,340
Noninterest income (expense), net	(8,432)	(9,715)
Income before cumulative effect of a change in accounting principle	25,629	23,625
Cumulative effect of a change in accounting for derivatives	(112)	—
Net income	$ 25,517	$ 23,625