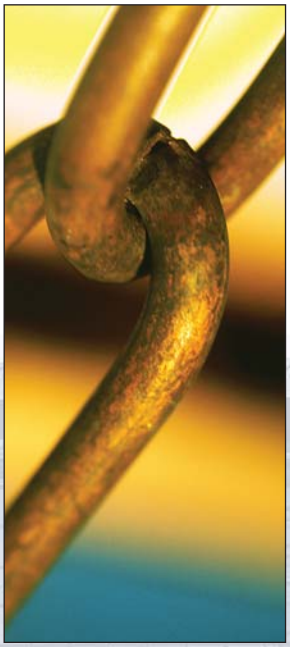
AgFirst Farm Credit Bank and District Associations




2001 Annual Report

AgFirst Farm Credit Bank and District Associations

2001 ANNUAL REPORT

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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

F. Merrel Lust .... Chairman
Richard Kriebel .... Vice Chairman
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Eugene W. Merritt, Jr. .... Director
Dale W. Player .... Director
J. Dan Raines, Jr. .... Director
Walter L. Schmidlen, Jr. .... Director
Robert G. Sexton .... Director
Robert E. Strayhorn .... Director

Message from the Chairman of the Board and Chief Executive Officer

Dear Shareholders:

The *Ag***First** bank and member Associations had another outstanding year. All the measures that point to our success as a federated cooperative, such as profits relative to capital and the timely revolvement of those earnings to our shareholders, are at record levels.

Yet we are still more.

As an organization owned and directed by those we serve, we are an integral part of local communities and rural America. We take pride in the individual customer relationships — whether dealing with the large farm operation or the rural homeowner — and everything in between. It is this combination of strong financial results, cooperative principles and local service that makes our cooperative a compelling alternative when credit is needed.

In many ways, 2001 was a year full of external challenges as we faced low commodity prices, uncertainty about an upcoming Farm Bill and economic uncertainty exacerbated by the events of September 11.

I am happy to report, however, that despite all of these challenges, we entered 2002 as one of the strongest and highest performing cooperatives in America.

Earnings hit record levels with net income up 29.27 percent over the previous year resulting in an average return on equity to our shareholders of 13.67 percent, up from 11.05 percent in 2000. These results attest to the improved efficiencies developed by local lending Associations. Total net income distributions back to our patrons exceeded $208 million and continues our long history of rewarding our cooperative patrons with real economic value.

Loans outstanding increased to $12.9 billion as of December 31, 2001, an increase of 16.07 percent over the previous year-end. The continued growth spreads our fixed costs over a larger base resulting in further efficiencies of operations. Associations' marketing efforts, along with the great value proposition of being part of a cooperative, continue to yield great results.

Several major projects resulted in new and innovative ways to serve customers. New loan processing systems have made the lending process quick and efficient allowing the Associations to enter data, perform the analysis, generate loan documentation and book the transaction. New payroll and benefit systems also improved operating efficiencies.

Results like these don't just happen. They are the results of many focused and committed employees and interested owners who have a passion for their cooperative and the people they serve. As we enter 2002, we have a long list of further refinements such as implementation of a new general ledger system, new loan accounting systems and many others, all designed to improve our ability to serve our patrons.

Visionaries who recognized that the financing of Agriculture and rural America was a key component of our country's success created the Farm Credit System in 1916. While there have been many changes through the years, I think they would be pleased by the performance of this cooperative in 2001. We are dedicated to the mission they articulated so many years ago.

F. Merrel Lust
Chairman of the Board

F. A. Lowrey

F. A. (Andy) Lowrey
Chief Executive Officer

February 19, 2002

It is declared to be the policy of the Congress, recognizing that a prosperous, productive agriculture is essential to a free nation and recognizing the growing need for credit in rural areas, that the farmer-owned cooperative Farm Credit System be designed to...improve the income and well-being of American farmers and ranchers by furnishing sound, adequate and constructive credit...to them....

The Farm Credit Act

Report of Management

The accompanying financial statements and related financial information appearing throughout this annual report have been prepared by management of *Ag***First** *Farm Credit Bank* (*Ag***First**) 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 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 financial statements, and that the assets of *Ag***First** 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 *Ag***First** Farm Credit District 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 financial statements have been examined by independent public accountants, whose report appears elsewhere in this annual report. *Ag***First** and Associations are also subject to examination by the Farm Credit Administration.

The financial statements, in the opinion of management, fairly present the financial condition of *Ag***First** and Associations. The undersigned certify that the 2001 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.

F. Merrel Lust
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Leon T. Amerson
Chief Financial Officer

February 19, 2002

Five-Year Summary of Selected Combined Financial Data

(UNAUDITED)

(dollars in thousands)	December 31, 2001	2000	1999	1998	1997
Combined Balance Sheet Data					
Cash and cash equivalents	$ 339,541	$ 326,204	$ 391,515	$ 378,447	$ 268,203
Investment securities	1,663,323	2,000,086	2,101,764	1,627,010	1,191,009
Loans	12,877,889	11,095,176	10,164,673	9,894,875	9,525,215
Less: allowance for loan losses	301,615	284,867	278,953	269,906	259,056
Net loans	12,576,274	10,810,309	9,885,720	9,624,969	9,266,159
Other property owned	5,925	6,369	8,178	5,564	4,691
Other assets	376,630	379,453	338,962	350,797	322,532
Total assets	$ 14,961,693	$ 13,522,421	$ 12,726,139	$ 11,986,787	$ 11,052,594
Obligations with maturities of one year or less	$ 8,101,242	$ 6,646,015	$ 6,191,236	$ 7,404,895	$ 6,400,207
Obligations with maturities greater than one year	4,354,069	4,715,193	4,455,931	2,570,974	2,722,800
Total liabilities	12,455,311	11,361,208	10,647,167	9,975,869	9,123,007
Preferred Stock	225,839	—	—	—	—
Protected borrower equity	19,261	23,634	28,297	34,546	42,946
Capital stock and participation certificates	127,271	132,856	152,639	164,019	167,351
Retained earnings					
Allocated	733,378	704,010	659,297	620,678	556,461
Unallocated	1,393,592	1,302,163	1,249,773	1,197,760	1,158,657
Accumulated other comprehensive income (loss)	7,041	(1,450)	(11,034)	(6,085)	4,172
Total shareholders' equity	2,280,543	2,161,213	2,078,972	2,010,918	1,929,587
Total liabilities and equity	$ 14,961,693	$ 13,522,421	$ 12,726,139	$ 11,986,787	$ 11,052,594
Combined Statement of Income Data					
Net interest income	$ 484,332	$ 440,656	$ 432,062	$ 426,495	$ 409,238
Provision for loan losses	20,296	7,619	12,312	12,845	5,736
Noninterest income (expense), net	(160,795)	(198,460)	(201,571)	(195,233)	(194,760)
Net income	$ 303,241	$ 234,577	$ 218,179	$ 218,417	$ 208,742
Combined Key Financial Ratios					
Rate of return on average:					
Total assets	2.15%	1.85%	1.78%	1.90%	1.94%
Total shareholders' equity	13.67%	11.05%	10.63%	11.01%	11.02%
Net interest income as a percentage of average earning assets	3.46%	3.50%	3.56%	3.73%	3.84%
Net chargeoffs (recoveries) to average loans	0.03%	0.02%	0.03%	0.02%	0.001%
Total shareholders' equity to total assets	15.24%	15.98%	16.34%	16.78%	17.46%
Debt to shareholders' equity (:1)	5.46	5.26	5.12	4.96	4.73
Allowance for loan losses to loans	2.34%	2.57%	2.74%	2.73%	2.72%
Permanent capital ratio (Bank only)	20.70%	16.92%	18.86%	20.87%	23.77%
Total surplus ratio (Bank only)	19.86%	15.50%	16.72%	18.71%	19.62%
Core surplus ratio (Bank only)	10.39%	10.42%	10.89%	11.78%	11.51%
Collateral ratio (Bank only)	106.38%	104.95%	104.93%	105.07%	105.48%
Net Income Distribution					
Patronage refunds and dividends:					
Cash	$ 81,533	$ 61,185	$ 55,839	$ 60,375	$ 51,223
Retained earnings	126,447	120,620	112,421	119,010	110,720
Stock dividends	274	276	800	143	119

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

(dollars in thousands, except as noted)

This commentary reviews the financial condition and results of operations of *Ag***First** *Farm Credit Bank* ("*Ag***First**" or the "Bank") and the District Associations (collectively, the "District"). This information should be read in conjunction with the accompanying combined financial statements, the notes to the combined statements and other sections of this annual report.

The District is part of the Farm Credit System, providing loans and loan-related services to agriculture and rural America in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of December 31, 2001, the District was comprised of *Ag***First**, its wholly owned subsidiary (the Farm Credit Finance Corporation of Puerto Rico), and twenty-four Agricultural Credit Associations (the "Associations"). *Ag***First** and the Farm Credit Finance Corporation of Puerto Rico provide funding and related services to the Associations who, in turn, provide loans and related services to agricultural and rural borrowers.

The District has undergone a significant amount of consolidation over the past three years, with the number of Associations shrinking from thirty-seven as of January 1, 1999 to twenty-four as of December 31, 2001.

Financial Highlights

- The aggregate principal amount of loans outstanding was $12.9 billion as of December 31, 2001, reflecting increases of 16.07 percent and 26.69 percent compared to December 31, 2000 and 1999, respectively.

- Final net income totaled $303 million for the twelve months ending December 31, 2001, reflecting a 29.27 percent and 38.99 percent increase compared to the years ending December 31, 2000 and 1999, respectively.

- Return on Average Assets and Return on Average Equity for the year ending December 31, 2001 were 2.15 percent and 13.67 percent, respectively, compared to 1.85 percent and 11.05 percent for 2000 and 1.78 percent and 10.63 percent for 1999.

- Total Shareholders Equity to Total Assets was 15.24 percent as of December 31, 2001 compared to 15.98 percent and 16.34 percent as of December 31, 2000 and 1999, respectively.

- Nonaccruing loan assets as a percent of total loans was 0.56 percent as of December 31, 2001 compared to 0.60 percent and 0.92 percent as of December 31, 2000 and 1999.

- Patronage distributions totaled $209 million in 2001 compared to $182 million and $169 million in 2000 and 1999, respectively.

Strategic Initiatives

In creating the Farm Credit System, Congress established the following objectives:

- To improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operation.

- To encourage farmer- and rancher-borrowers participating in the management, control, and ownership of a permanent system of credit for agriculture which will be responsive to the credit needs of all types of agricultural producers having a basis for credit.

- To modernize and improve the authorizations and means for furnishing such (agricultural) credit and credit for housing in rural areas.

Further, Congress declared as its policy that:

- The credit needs of farmers, ranchers, and their cooperatives are best served if the institutions of the Farm Credit System provide equitable and competitive interest rates to eligible borrowers, taking into consideration the creditworthiness and access to alternative sources of credit for borrowers, the cost of funds, the operating costs of the institution, including the costs of any loan loss amortization, the cost of servicing loans, the need to retain earnings to protect borrowers' stock, and the volume of net new borrowing.

- Farm Credit System institutions take action in accordance with the Farm Credit Act Amendments of 1986 in such a manner that borrowers from the institutions derive the greatest benefit practicable from the Act, provided, that in no case, is any borrower to be charged a rate of interest that is below competitive market rates for similar loans made by private lenders to borrowers of equivalent credit-worthiness and access to alternative credit.

To better position itself to achieve these objectives and policies, the District established the following strategic objectives:

Commercial Lending

The current trend of the consolidation of agribusiness results in a need to be able to diversify risks through loan syndications and participations. During 2001, the District increased activity in the buying and selling of loan syndications and participations within and outside the Farm Credit System. At December 31, 2001, the serviced volume of participations and syndications, which includes balances and unused commitments, totaled $2.75 billion.

Secondary Market Activity

*Ag***First** maintains a Secondary Mortgage Market Unit (the SMMU) to facilitate the purchase of agricultural loans and rural home loans for eventual resale into the secondary mortgage market through FNMA ('Fannie Mae") and FAMC ("Farmer Mac") programs. The acceptance and use of the rural residential mortgage program by the Associations and the non-affiliated Seller network has matured into a significant line of business within the Bank. The SMMU purchased 3,075 loans totaling $415.9 million during 2001.

Preferred Stock Issue

The District has a strong capital position, illustrated by a capital-to-assets ratio of 15.24 percent. *Ag***First** is much more leveraged than the Associations, with a capital to assets ratio of only 5.50 percent. Despite its leverage, *Ag***First**'s regulatory capital ratios are much higher than the regulatory minimum levels, as illustrated below, due to the high quality of its assets and the correspondingly low risk-weighting of those assets.

	***Ag*First as of 12/31/01**	**Regulatory Minimum**
Permanent Capital Ratio	20.70%	7.00%
Total Surplus Ratio	19.86%	7.00%
Core Surplus Ratio	10.39%	3.50%

In addition to the risk-adjusted capital measures, regulations set forth a minimum collateral ratio for Farm Credit Banks. This ratio, which is a simple leverage ratio, has no risk-weighting component and is therefore much closer to the regulatory minimum levels than the risk-based ratios.

In 2000, *Ag***First** set out to improve its collateral ratio without encumbering Association earnings or capital. In 2001, *Ag***First** achieved its objective though the issuance of $225 million of term preferred stock. The issuance of the preferred stock was significant in that it provided a platform for continued growth for the District and established the Bank's ability to access capital through sources other than the Associations.

ACA Holding Companies

A settlement with the IRS during 2000 conclusively established that ACAs are fully taxable; however, ACAs may reorganize to operate long-term mortgage lending activities through a tax-exempt FLCA subsidiary. A number of the Associations have established an ACA Holding Company structure, with FLCA and PCA lending subsidiaries, to take advantage of the tax ruling.

Although the Associations' minimize tax expense through the payment of patronage is consistent with their cooperative structures, the tax exemption afforded by the settlement provides additional benefits. First, patronage paid in the form of allocated surplus by a taxable entity is generally taxable to the member/borrower when the allocation is made. By taking advantage of the tax-exempt status of FLCA earnings, payment of taxes by the member/borrower on allocations of FLCA earnings can be deferred until the allocated equities are actually retired. Second, to the extent an Association needs to retain FLCA earnings as unallocated surplus, such earnings will not be taxable at all.

Project Initiatives

Beginning several years ago, the District initiated a plan to renovate and modernize its operating systems to improve operating efficiencies. The process continued in 2001 with the following project initiatives.

Credit Delivery is a new loan origination system developed by *Ag***First**. The system is designed to make the lending process as quick and efficient as possible. Credit Delivery allows the Association user to enter borrower data, interface with various credit analysis applications, generate the appropriate loan documentation (including legal documents), and book the loan to the appropriate loan servicing system in an automated fashion. Implementation of Credit Delivery at the Associations began in late 2001.

AutoBorrow is a cash management tool developed jointly by *Ag***First** and a major commercial bank to link Association borrowers' revolving lines of credits with their commercial bank checking accounts. With the AutoBorrow product, funds are automatically transferred from a borrower's line of credit to fund his checking account each time a check he writes clears the bank. Similarly, each time he makes a deposit into his checking account, those funds are automatically transferred to pay down his line of credit or, if the line is paid-in-full, to an investment account maintained by the commercial bank. AutoBorrow is designed to allow Association borrowers to optimally manage their cash while borrowing from an Association.

GFX Wire Transfer is a new cash management tool that will be fully implemented by the District in early 2002. The new tool streamlines the daily cash management process for the Bank and Associations.

Employee Self Service is a feature of a new Human Resources/Payroll system implemented by the District in 2001. In addition to enhancing human resource and payroll administration, the new system provides Bank and Association employees secure online access to payroll and benefits information.

The District's renovation strategy continues in 2002, with projects underway to implement a new general ledger (and related financial modules) for *Ag***First** and the Associations and a new commercial loan system to service large syndications and participations managed by *Ag***First**'s commercial lending department.

Results of Operations

District net income totaled $303,241 for the year ended December 31, 2001, an increase of $68,664 and $85,062 compared to the years ended December 31, 2000 and 1999, respectively. Major components of the change in net income for the referenced periods are outlined in the following table and discussion.

	Year Ended December 31,	
(dollars in thousands)	**2001-2000**	**2000-1999**
Net income (prior period)	$ 234,577	$ 218,179
Increase (decrease) due to:		
Total interest income	(41,034)	114,247
Total interest expense	84,710	(105,653)
Net interest income	43,676	8,594
Provision for loan losses	(12,677)	4,693
Noninterest income	26,964	(6,053)
Noninterest expense	(16,672)	4,346
Provision for income taxes	27,373	4,818
Total increase (decrease) in net income	68,664	16,398
Net income	$ 303,241	$ 234,577

Interest Income

Total interest income for 2001 was $1,040,497, a decrease of $41,034 compared to 2000. The decrease is primarily attributed to a dramatic decline in market interest rates. During 2001, the Federal Open Market Committee lowered its target for federal funds by 475 basis points. The size and speed of these reductions represent one of the most aggressive policy actions ever undertaken by the Federal Reserve. The lowering of market rates resulted in a 114 basis point decline in the average yield on earning assets from 2000 to 2001. The impact of lower rates was somewhat offset by an increase in earning assets. Average earning assets increased by $1,380,590 compared to 2000, with most of the growth reflected in Association loan volume.

Interest income for 2000 was $114,247 higher than 1999. The increase was attributed to a combination of higher accruing volume and higher 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, 2001-2000	Year Ended December 31, 2000-1999
Increase in average earning assets	$ 1,380,590	$ 451,642
Average yield (prior period)	8.58%	7.96%
Interest income variance attributed to change in volume	118,520	35,966
Average earning assets (current period)	13,978,919	12,598,329
Increase (decrease) in average yield	(1.14%)	.62%
Interest income variance attributed to change in yield	(159,554)	78,281
Net change in interest income	$ (41,034)	$ 114,247

Interest Expense

Total interest expense for 2001 was $556,165, a decrease of $84,710 compared to 2000. The decrease in interest expense is primarily attributed to falling interest rates and the issuance of preferred stock, offset somewhat by an increase in interest-bearing liabilities. Dividends on preferred stock, although fixed, are not reflected as expense. Rather, dividends are treated as an adjustment to capital. Since the preferred stock essentially replaced a like amount of debt, its issuance removed expense. Accrued and paid preferred stock dividends totaled $11,751 for 2001.

Total interest expense for 2000 was $105,653 higher than 1999. The increase is attributed to higher interest rates and a higher volume of interest-bearing liabilities.

The following table illustrates the impact that volume and rates had on interest expense over these periods.

(dollars in thousands)	Year Ended December 31, 2001-2000	Year Ended December 31, 2000-1999
Increase in average interest-bearing liabilities	$ 1,149,016	$ 364,476
Average rate (prior period)	6.22%	5.38%
Interest expense variance attributed to change in volume in average debt outstanding	71,443	19,620
Average debt outstanding (current period)	11,456,158	10,307,142
Increase (decrease) in average rate	(1.37%)	.84%
Interest expense variance attributed to change in rate	(156,153)	86,033
Net change in interest expense	$ (84,710)	$ 105,653

Net Interest Income

Net interest income increased from 1999 to 2000 and from 2000 to 2001 due to a variety of factors. The following table illustrates the impact of each factor.

Analysis of Net Interest Earnings

(dollars in thousands)	2001 Avg. Balance	2001 Interest	2000 Avg. Balance	2000 Interest	1999 Avg. Balance	1999 Interest
Loans	$ 11,845,091	$ 935,948	$ 10,351,962	$ 933,395	$ 10,050,447	$ 851,807
Cash & Investments	2,133,828	104,549	2,246,367	148,136	2,096,240	115,477
Total Earning Assets	$ 13,978,919	$ 1,040,497	$ 12,598,329	$ 1,081,531	$ 12,146,687	$ 967,284
Interest-Bearing Liabilities	$ 11,456,158	$ (556,165)	$ 10,307,142	$ (640,875)	$ 9,942,666	$ (535,222)
Impact of Capital	$ 2,522,761		$ 2,291,187		$ 2,204,021	
NET INTEREST INCOME		$ 484,332		$ 440,656		$ 432,062

	2001 Average Yield	2000 Average Yield	1999 Average Yield
Yield on Loans	7.90%	9.02%	8.48%
Yield on Cash & Investments	4.90%	6.59%	5.51%
Yield on Earning Assets	7.44%	8.58%	7.96%
Cost of Interest-Bearing Liabilities	4.85%	6.22%	5.38%
Spread	2.59%	2.36%	2.58%
Impact of Capital	.87%	1.14%	.98%
NII/Avg. Earning Assets	3.46%	3.50%	3.56%

Net interest income for 2001 was $43,676 greater than 2000. The increase was primarily due to a $1,380,590 increase in average earning assets and the issuance of preferred stock.

The District's spread improved by 23 basis points due primarily to *Ag***First**'s ability to exercise call options on debt during the decline in interest rates, effectively lowering its cost of funds relative to the assets, which did not prepay as quickly. The improvement in spread, however, was more than offset by a decline in the impact of equity funding. Association equity is generally used to fund variable rate loans. Fixed rate loans and any variable rate loans not funded with equity are match funded with debt. As a result, falling interest rates will have an adverse impact on net interest income (and net interest margin) approximately equal to the decline in rates times the volume of assets funded with Association equity.

From the Associations' owners' point of view, this decline in net interest margin is not a negative event. The funding structure described above essentially makes equity behave like a variable rate bond. As rates go up, the investment earns more. When rates go down, the investment earns less. However, when coupled with the Associations' patronage strategy, this structure provides some degree of stability to the total shareholder/borrower relationship. Falling rates result in a decrease in earnings at the Association level (all other things being equal), which results in a lower patronage level paid. At the same time, Association members enjoy a lower cost of debt.

Net interest income in 2000 was $8,594 greater than 1999. The increase was attributed to an increase in earning assets and an increase in the impact of equity funding, offset somewhat by a deterioration of spread. The improvement in the impact of capital is due primarily to an increase in interest rates from 1999 to 2000. The decline in spread is attributed primarily to *Ag***First** calling a significant amount of debt prior to 1999, which resulted in an abnormally low cost of funds relative to the yield on assets. Over time, spreads were expected to return to more normal levels.

Provision for Loan Losses

Each District entity independently assesses risks inherent in its portfolio and establishes an appropriate reserve for loan losses. The aggregate provision for loan losses totaled $20,296 in 2001, compared to $7,619 and $12,312 in 2000 and 1999, respectively. Despite recording a provision, the ratio of allowance for loan losses to loans outstanding declined due to the increase in loan volume. At December 31, 2001, the ratio was 2.34 percent compared to 2.57 percent and 2.74 percent as of December 31, 2000 and 1999, respectively.

Noninterest Income

Noninterest income totaled $53,809 in 2001 compared to $26,845 and $32,898 in 2000 and 1999, respectively. The increase in 2001 is primarily the result of an increase in loan fees and interest related to Association tax refunds. The increase in loan fees was due to an increase in prepayment penalties charged as borrowers refinanced loans to take advantage of lower rates, an increase in loan fees (closing fees, commitment fees, etc.) associated with the increase in loan volume, and fees generated by *Ag***First**'s SMMU. The interest of $12.1 million is related to the IRS tax refunds that resulted from the settlement establishing that long-term mortgage lending done by an Association is tax-exempt (see Note 10, *Income Taxes*).

The decrease in noninterest income from 1999 to 2000 was primarily attributed to a decrease in financially related services and a decrease in miscellaneous income resulting from adjustments made for the District's medical plan, which had inflated income in 1999.

Noninterest Expense

Noninterest expense totaled $234,014 in 2001 compared to $217,342 and $221,688 in 2000 and 1999, respectively. The increase in 2001 compared to 2000 is primarily attributed to an increase of $9,615 in the amount of unamortized concession expense that was charged off when the underlying debt was called to take advantage of falling rates, an investment charge-off totaling $7,600 (offset by gains on the sale of investments totaling $2,802), and an increase in purchased service expense.

The decrease in noninterest expense from 1999 to 2000 is primarily attributed to a decrease in intra-system financial assistance expense and a reduction in Farm Credit System Insurance Corporation ("FCSIC") premiums. In 1999, financial assistance expense was inflated by expense related to the early termination of certain Financial Assistance Corporation debt. In 2000, FCSIC premiums were reduced as the insurance reserve reached its "secure base amount."

Provision for Income Taxes

In 2001, the District enjoyed a net tax recovery related to IRS tax settlements, resulting in a net tax *benefit* totaling $19,410 compared to tax expense of $7,963 and $12,781 in 2000 and 1999, respectively. See Note 10, *Income Taxes*, for further details.

Financial Condition

Loans

Gross loans outstanding as of December 31, 2001 totaled $12,877,889, continuing a steady increase from December 31, 2000 and 1999. The District's growth is consistent with trends in other Farm Credit System institutions and is due to a generally favorable agricultural economy (bolstered by record government farm spending), commercial banks reducing their exposures to agriculture, and borrowers becoming increasingly aware of the value proposition inherent in Farm Credit's cooperative structure.

Despite low commodity prices and a weak overall economy, 2001 is projected to reflect one of the highest years in history for net farm income, largely due to a high level of government assistance payments. Beginning in 2002, aggregate US net farm income is expected to decrease as a result of reductions in government farm spending. Uncertainty surrounding continued government support for agriculture has apparently driven some commercial lenders to seek to limit their lending to agriculture. This has resulted in increased demand for Farm Credit institution loans nationwide and in District institutions.

Due to the geographic location of the District and the resulting types of agriculture, government programs account for a small percentage of net farm income in the territory served by the District. In addition, the diversified nature and the significant non-farm income influence on the District's portfolio mitigate the impact of lower government income support for program crops.

District loan growth is also attributed to the growing favor with which borrowers are viewing Associations due to the Associations' patronage payments. Associations generally operate as cooperatives, and as such, distribute earnings to member/borrowers through patronage distributions of cash and allocated surplus. Over the past several years, a number of Associations have begun revolving (retiring) portions of their allocated surplus to their member/borrowers, resulting in significant cash payments. This tangible benefit of borrowing from an Association is a formidable marketing tool.

The District's credit portfolio is comprised of segments having varying agricultural characteristics. The following table shows the credit portfolio of the District by major commodity segment.

	Percent of Portfolio		
Commodity Group	**2001**	**2000**	**1999**
Poultry	13%	15%	15%
Forestry	10	8	8
Country Home	10	8	6
Cattle	7	8	8
Grain	7	7	9
Dairy	6	7	7
Swine	4	6	8
Nursery/Greenhouse	4	4	4
Tobacco	4	4	4
Citrus	4	3	3
Cotton	3	3	3
Utilities	3	3	2
Other	25	24	23
Total	100%	100%	100%

As this table illustrates, the District's 2001 credit portfolio has concentrations that exceed five percent of the total portfolio in only six segments. It should be noted that non-farm income is typically a significant portion of the income of borrowers in the top four of the top segments (poultry, forestry, country home, and cattle).

The District serves all or portions of fifteen states and Puerto Rico. This wide geographic dispersion is a natural risk-reducing factor for the District. The following table illustrates the District's geographic dispersion.

		December 31,	
	2001	**2000**	**1999**
North Carolina	17%	18%	20%
Florida	14	14	14
Georgia	13	13	13
Virginia	11	12	13
Pennsylvania	9	9	9
South Carolina	9	8	7
Maryland	6	7	6
Ohio	5	5	4
Alabama	3	3	3
Kentucky	2	2	2
Mississippi	2	2	2
Delaware	2	2	2
Puerto Rico	2	2	2
West Virginia	2	1	1
Louisiana	2	1	1
Tennessee	1	1	1
Total	100%	100%	100%

Only North Carolina has loan volume representing more than 15 percent of the 2001 total District portfolio, and only three other states have volume representing more than 10 percent of District volume. The concentration in these states is mitigated by the following factors.

- 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.
- Association borrowers tend to have relatively high levels of non-farm income, especially in the rapidly growing Southeastern U.S.

Loans $5,000 in size or greater (which represents the commercial and corporate side of agribusiness) comprise 14 percent of Association loan volume outstanding. Approximately 53 percent of the outstanding volume is comprised of loans under $500, and loans less than $100 make up 17 percent of outstanding loan volume. This diversification among borrowers is a key component of the District's stable credit quality and solid financial performance over time.

*Ag***First** and the Associations employ a number of risk management techniques to limit credit exposures, including underwriting standards, individual borrower hold limits, commodity hold limits, and other methods. *Ag***First** and the Associations actively purchase and sell participations to achieve diversified portfolios. In addition, Associations utilize guarantees from other agencies, including the Federal Agricultural Mortgage Corporation (Farmer Mac), the Farm Services Agency, and the Small Business Administration.

Credit quality of the District at December 31, 2001 improved compared to that of December 31, 2000 and 1999. Nonaccrual loans as a percent of total loans was 0.56 percent at December 31, 2001 compared to 0.60 percent and 0.92 percent at December 31, 2000 and 1999, respectively. See Note 4, *Loans and Allowance for Loan Losses*, for additional information concerning diversification, allowance levels and impaired loans.

Liquidity and Funding Sources

The District maintains adequate sources of liquidity to satisfy its daily cash needs. In addition to normal cash flow associated with lending operations, the District has two primary sources of liquidity: investments and the issuance of debt securities.

Investments

FCA regulations provide that a Farm Credit Bank may hold certain eligible investments, in an amount not to exceed 30 percent of its total loans outstanding, to satisfy FCA's liquidity reserve requirement, manage surplus short-term funds, and manage interest rate risk. *Ag***First** maintains an investment portfolio comprised of short-duration, high-quality investments. The short-duration 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 outstanding as of December 31, 2001 totaled $2.00 billion compared to $2.33 billion and $2.49 billion at December 31, 2000 and 1999. The decrease is primarily attributed to a reduction in asset-backed securities, which were liquidated due to an inadequate return relative to risk, and to faster-than-anticipated principal pay-down of mortgage-backed securities resulting from mortgage refinancing activity. These investments were not replaced, as the liquidity reserve was adequate and the liquidation was consistent with asset/liability management objectives.

Despite the high-quality nature of its portfolio, *Ag***First** experienced an unusual loss during 2001. A "AAA-rated" security owned by *Ag***First** was downgraded to "below investment grade" in a single action. With no viable means to divest itself of the security, *Ag***First** wrote the value down by $7.6 million. *Ag***First** continues to receive principal and interest payments on the security; however, *Ag***First** does not expect to recapture any of the $7,600 charge-off. The remaining book balance of the investment at December 31, 2001 was $4,084.

Debt Securities

The primary source of funds for the District is the sale of Systemwide Debt Securities through the Farm Credit Banks Funding Corporation. At December 31, 2001, the District had $12.1 billion in total debt outstanding compared to $11.0 billion at December 31, 2000 and $10.3 billion at December 31, 1999. The year-to-year increases were primarily due to the increases in loan volume. Refer to Note 7, *Bonds and Notes*, for additional information related to debt.

Asset/Liability Management

The District 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.

Loan products offered by the District 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 principal (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.

The objective of the District's asset/liability management process is to generate a stable and adequate level of net interest income in any interest rate environment. *Ag***First** 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 *Ag***First**'s interest-earning assets and interest-bearing liabilities and with 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.

At December 31, 2001, *Ag***First** had outstanding interest rate swaps with notional amounts totaling $1.4 billion and purchased interest rate caps with notional amounts totaling $394 million. These derivative transactions were executed to reduce interest rate risk and/or reduce funding costs. *Ag***First** policy prohibits the use of derivatives for speculative purposes. Refer to Note 18, *Derivative Instruments and Hedging Activities*, for additional information.

Capital

Total shareholders' equity at December 31, 2001 was $2,280,543, compared to $2,161,213 and $2,078,972 at December 31, 2000 and 1999, respectively. The increasing trend in shareholders' equity is attributed to increases in retained earnings, offset somewhat by a decrease in capital stock.

A significant portion of the District's retained earnings is comprised of allocated surplus. Most District Associations operate as cooperatives under Subchapter T of the Internal Revenue Code of 1986, as amended. Under this provision of the code, District Associations may deduct patronage dividends paid to member/borrowers as long as the patronage dividend meets certain criteria. Patronage may be paid in the form of allocated surplus and/or cash, as long as the cash portion of the dividend represents at least 20 percent of the total dividend.

Since District Association capital stock does not appreciate in value and loans are priced at the market, return on investment is recognized by the member only through cash patronage and the revolvement of equities. Therefore, most District Associations operating as Subchapter T cooperatives strive to revolve allocated surplus within five to seven years of allocation.

Some District Associations are in their revolvement cycles and, therefore, will realize a stabilization of their allocated surplus levels. District Associations recently opting to operate under Subchapter T have not yet begun revolving allocated surplus and are, therefore, experiencing growth in allocated surplus. While District Associations strive to revolve allocated surplus on a regular basis, it is recognized that any revolvement is at the sole discretion of the Association's board of directors and will be subject to the financial condition and operating environment of the Association.

The District plans to rely mainly on earnings as a source of capital going forward. Revolvement cycles will be adjusted to accommodate fluctuations in earnings streams and capital needs. Cycles may be lengthened or shortened in response to year-to-year variations in earnings, changes in assets levels, or changes in an Association's risk profile.

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%)
- Total surplus to risk-adjusted assets (7.00%)
- Core surplus to risk-adjusted assets (3.50%)

In addition, FCA requires *Ag***First** to achieve and maintain net collateral of 104 percent of total liabilities. At December 31, 2001, all District entities exceeded minimum standards for all of these ratios. District ratios ranged from 12 percent to 29 percent for permanent capital, 9 percent to 28 percent for total surplus, and 7 percent to 28 percent for core surplus. *Ag***First**'s collateral ratio at December 31, 2001 was 106.38 percent.

Refer to Note 9, *Shareholders' Equity*, 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 District institutions would be immaterial in relation to the financial position of the District. Refer to Note 15, *Commitments and Contingencies,* for additional information.

IRS Tax Settlement

System ACAs entered into a settlement process with the IRS to resolve conclusively the status of all claimed refunds and the ongoing tax status of the ACAs using another ACA as a model. This settlement agreement also confirmed that all income generated by an ACA will be taxable in future periods. Twenty-one of the District Associations have reorganized to operate their long-term mortgage lending activities through newly created FLCAs and their short- and intermediate-term lending activities through newly created PCA subsidiaries. Income earned by FLCA subsidiaries is exempt from taxation. Refunds recorded by ACAs in 2000 and 2001 are reflected as reductions in the provision for income taxes. As of December 31, 2001, approximately $34 million has been recognized as ACA federal tax refund amounts and approximately $12 million has been recognized as interest related to the federal tax refunds, and is included in miscellaneous noninterest income in the Combined Statements of Income.

Disclosure Required by Farm Credit Administration Regulations

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 combined 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	*Ag***First** building and adjacent parking
1441 Hampton Street	Price Brothers, Inc.
1443 Hampton Street	*Ag***First** Federal Credit Union
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 15 to the combined 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 9 to the combined financial statements, *"Shareholders' 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, 12 and 15 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, 2001, 2000 and 1999, is as follows:

Name of Individual or No. in Group	Year	Annual Salary	Annual Bonus	Total
F. A. (Andy) Lowrey	2001	$ 312,648	$ 78,162	$ 390,810
F. A. (Andy) Lowrey	2000	$ 294,945	$ 73,736	$ 368,681
F. A. (Andy) Lowrey	1999	$ 280,900	$ 70,225	$ 351,125
5 Officers	2001	$1,001,801	$ 233,532	$ 1,235,333
5 Officers	2000	$ 942,262	$ 201,102	$ 1,143,364
5 Officers	1999	$ 890,178	$ 190,412	$ 1,080,590

In addition to a base salary, senior officers earn additional compensation under *Ag***First**'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 2001 bonus was made in the first quarter of 2002.

Disclosure of the total compensation in 2001 to any senior officer, or to any other individual included in the total whose compensation exceeds $50,000, is available to shareholders upon request.

Ag*First* *Farm Credit Bank* Board of Directors:
(as of December 31, 2001)

Name	Position	Term of Office
F. Merrel Lust	Chairman	December 31, 2001
Richard Kriebel	Vice Chairman	December 31, 2003
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, 2004
Douglas L. Flory	Director	December 31, 2003
Don W. Freeman	Director	December 31, 2001
Robert L. Holden, Sr.	Director	December 31, 2002
Thomas W. Kelly	Director	December 31, 2004
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
Walter L. Schmidlen, Jr.	Director	December 31, 2004
Robert G. Sexton	Director	December 31, 2003
Robert E. Strayhorn	Director	December 31, 2004

F. Merrel Lust, 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 2001, he served 28 days at *Ag***First** board meetings and 9 days at other official board functions, and was paid $24,666 in compensation.

Richard Kriebel, Vice Chairman of the Board, 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 2001, he served 28 days at *Ag***First** board meetings and 9 days at other official board functions, and was paid $24,666 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 2001, he served 27 days at *Ag***First** board meetings and 8 days at other official board functions, and was paid $24,666 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 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 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 2001, he served 25 days at *Ag***First** board meetings and 8 days at other official board functions, and was paid $24,666 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 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 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 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 in compensation.

Douglas L. Flory is a general livestock, hay and poultry farmer from Grottoes, Virginia. He serves on the board of directors of the Farm Credit of the Virginias, ACA. During 2001, he served 28 days at *Ag***First** board meetings and 8 days at other official board functions, and was paid $24,666 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 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 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 2001, he served 23 days at *Ag***First** board meetings and 7 days at other official board functions, and was paid $24,666 in compensation.

Thomas W. Kelly, from Tyrone, Pennsylvania, is owner-operator of a 390-acre dairy and crop farm. The dairy herd consists of 160 registered Holsteins whose genetics are merchandized to both domestic and foreign markets. Major crops include corn, alfalfa, soybeans and barley. He currently serves on the board of AgChoice Farm Credit ACA. During 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 in compensation.

Paul Lemoine, a cattle and row crop farmer from Plaucheville, Louisiana, is active in a number of organizations related to farming. He is a member of the Louisiana Cattlemen's Association and the Avoyelles Parish Farm Bureau. During 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 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 Hanover Foods, Inc. During 2001, he served 27 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 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 2001, he served 25 days at *Ag***First** board meetings and 8 days at other official board functions, and was paid $24,666 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 2001, he served 28 days at *Ag***First** board meetings and 10 days at other official board functions, and was paid $24,666 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 2001, he served 28 days at *Ag***First** board meetings and 9 days at other official board functions, and was paid $24,666 in compensation.

Walter L. Schmidlen, Jr., from Elkins, West Virginia, is a dairy and beef farmer. He is owner and operator of a farm machinery business and grows hay and corn on a 700-acre farm. He presently serves on the board of the Farm Credit of the Virginias, ACA, and was a former director of Southern States Cooperative and Sire Power. During 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 in compensation.

Robert G. Sexton, a citrus grower, is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association, Vice President of Florida Citrus Packers, and a director of Indian River Citrus League, 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 2001, he served 28 days at *Ag***First** board meetings and 7 days at other official board functions, and was paid $24,666 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 2001, he served 28 days at *Ag***First** board meetings and 6 days at other official board functions, and was paid $24,666 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 $185,267 for 2001, $159,655 for 2000, and $168,389 for 1999. Subject to approval by the board, *Ag***First** allows directors to attend other meetings, committee meetings, or special assignments in addition to service at *Ag***First** board meetings. Total compensation paid to directors as a group was $468,654 during 2001.

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 13 to the combined 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.

Combined Financial Statements

The combined financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 19, 2002, and the Report of Management, which appear in this annual report to shareholders are incorporated herein by reference.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

Shareholder investment in a District Association is materially affected by the financial condition and results of operations of *Ag***First** *Farm Credit Bank*. Copies of *Ag***First**'s 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. Information concerning *Ag***First** *Farm Credit Bank* can also be obtained by going to *Ag***First**'s website at ***www.AgFirst.com***.

Report of Independent Accountants

PricewaterhouseCoopers LLP
905 East Main Street
Spartanburg, SC 29302
Telephone (864) 577 8810

Report of Independent Accountants

To the Board of Directors and Shareholders
of *Ag***First** *Farm Credit Bank* and District Associations

We have audited the accompanying combined balance sheets of *Ag***First** *Farm Credit Bank* and District Associations as of December 31, 2001, 2000, and 1999, and the related combined statements of income, of changes in shareholders' equity, and of cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the District'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 combined financial statements referred to above present fairly, in all material respects, the financial position of *Ag***First** *Farm Credit Bank* and District Associations at December 31, 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 19, 2002, except for Note 13,
as to which the date is March 22, 2002

Combined Balance Sheets

(dollars in thousands)	December 31, 2001	December 31, 2000	December 31, 1999
Assets			
Cash and cash equivalents	$ 339,541	$ 326,204	$ 391,515
Investment securities	1,663,323	2,000,086	2,101,764
Loans	12,877,889	11,095,176	10,164,673
Less: allowance for loan losses	301,615	284,867	278,953
Net loans	12,576,274	10,810,309	9,885,720
Accrued interest receivable	143,685	179,128	150,986
Investments in other Farm Credit System institutions	19,596	18,275	16,922
Premises and equipment, net	75,106	68,555	63,985
Other property owned	5,925	6,369	8,178
Other assets	138,243	113,495	107,069
Total assets	$ 14,961,693	$ 13,522,421	$ 12,726,139
Liabilities			
Bonds and notes	$ 12,115,709	$ 11,014,557	$ 10,327,067
Accrued interest payable	60,443	120,708	114,803
Dividends and patronage refunds payable	69,088	58,850	50,135
Other liabilities	210,071	167,093	155,162
Total liabilities	12,455,311	11,361,208	10,647,167
Commitments and contingencies (Note 15)			
Preferred Stock (Note 8)	225,839	—	—
Shareholders' Equity			
Protected borrower equity	19,261	23,634	28,297
Capital stock and participation certificates	127,271	132,856	152,639
Retained earnings			
Allocated	733,378	704,010	659,297
Unallocated	1,393,592	1,302,163	1,249,773
Accumulated other comprehensive income (loss)	7,041	(1,450)	(11,034)
Total shareholders' equity	2,280,543	2,161,213	2,078,972
Total liabilities and equity	$ 14,961,693	$ 13,522,421	$ 12,726,139

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

Combined Statements of Income

(dollars in thousands)	For the year ended December 31, 2001	2000	1999
Interest Income			
Investment securities and other	$ 104,549	$ 148,136	$ 115,477
Loans	935,948	933,395	851,807
Total interest income	1,040,497	1,081,531	967,284
Interest Expense	556,165	640,875	535,222
Net interest income	484,332	440,656	432,062
Provision for loan losses	20,296	7,619	12,312
Net interest income after provision for loan losses	464,036	433,037	419,750
Noninterest Income			
Loan fees	29,530	14,652	14,730
Fees for financially related services	6,052	5,500	7,123
Interest related to IRS refunds (Note 10)	12,094	—	—
Miscellaneous	6,133	6,693	11,045
Total noninterest income	53,809	26,845	32,898
Noninterest Expenses			
Salaries and employee benefits	131,273	130,581	122,725
Occupancy and equipment	22,859	21,137	19,582
Insurance Fund premium	(4)	95	6,773
Other operating expenses	51,132	47,724	44,672
Intra-System financial assistance expenses	14,168	17,337	27,338
Realized losses on investments, net	4,798	—	1
Miscellaneous	9,788	468	597
Total noninterest expenses	234,014	217,342	221,688
Income before income taxes	283,831	242,540	230,960
Provision (benefit) for income taxes	(19,410)	7,963	12,781
Net income	$ 303,241	$ 234,577	$ 218,179

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

Combined Statements of Changes in Shareholders' Equity

(dollars in thousands)	Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 1998	$ —	$ 34,546	$ 164,019	$ 620,678	$ 1,197,760	$ (6,085)	$ 2,010,918
Comprehensive income							
Net income					218,179		218,179
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(4,949)	(4,949)
Total comprehensive income							213,230
Protected borrower equity retired		(6,249)					(6,249)
Capital stock/participation certificates issued/retired, net			(12,180)				(12,180)
Dividends declared/paid			800		(2,246)		(1,446)
Patronage distribution							
Cash					(54,393)		(54,393)
Qualified allocated retained earnings				112,421	(112,421)		—
Retained earnings retired				(73,145)			(73,145)
Patronage distribution adjustment				(657)	2,894		2,237
Balance at December 31, 1999	—	28,297	152,639	659,297	1,249,773	(11,034)	2,078,972
Comprehensive income							
Net income					234,577		234,577
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						9,584	9,584
Total comprehensive income							244,161
Protected borrower equity retired		(4,663)					(4,663)
Capital stock/participation certificates issued/retired, net			(20,059)				(20,059)
Dividends declared/paid			276		(1,822)		(1,546)
Patronage distribution							
Cash					(59,639)		(59,639)
Qualified allocated retained earnings				117,620	(117,620)		—
Nonqualified allocated retained earnings				3,000	(3,000)		—
Retained earnings retired				(76,365)			(76,365)
Patronage distribution adjustment				458	(106)		352
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					303,241		303,241
Unrealized gains (losses) on investments available for sale						12,588	12,588
Change in fair value of derivative instruments						(3,060)	(3,060)
Total comprehensive income							311,732
Preferred stock issued	225,000						225,000
Protected borrower equity retired		(4,373)					(4,373)
Capital stock/participation certificates issued/retired, net			(5,859)				(5,859)
Dividends declared/paid	839		274		(13,612)		(12,499)
Patronage distribution							
Cash					(69,034)		(69,034)
Qualified allocated retained earnings				75,629	(75,629)		—
Nonqualified allocated retained earnings				50,818	(50,818)		—
Retained earnings retired				(98,923)			(98,923)
Patronage distribution adjustment				1,844	(2,719)		(875)
Balance at December 31, 2001	$ 225,839	$ 19,261	$ 127,271	$ 733,378	$ 1,393,592	$ 7,041	$ 2,506,382

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

Combined Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2001	2000	1999
Cash flows from operating activities:			
Net income	$ 303,241	$ 234,577	$ 218,179
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	10,898	10,809	10,019
Provision for loan losses	20,296	7,619	12,312
(Gains) losses on other property owned, net	(387)	16	(209)
Realized (gains) losses on investments, net	4,798	—	1
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	35,443	(28,142)	7,988
(Increase) decrease in investments in other Farm Credit System institutions	(1,321)	(1,353)	(7,226)
(Increase) decrease in other assets	(24,748)	(6,426)	8,764
Increase (decrease) in accrued interest payable	(60,265)	5,905	35,897
Increase (decrease) in other liabilities	43,025	11,878	(12,505)
Total adjustments	27,739	306	55,041
Net cash provided by operating activities	330,980	234,883	273,220
Cash flows from investing activities:			
Investment securities purchased	(2,346,707)	(1,977,974)	(2,366,529)
Investment securities sold or matured	2,691,260	2,089,236	1,886,825
Net (increase) decrease in loans	(1,790,847)	(934,750)	(282,313)
Purchase of premises and equipment, net	(17,449)	(15,379)	(7,710)
Proceeds from sale of other property owned	5,370	4,388	6,879
Net cash used in investing activities	(1,458,373)	(834,479)	(762,848)
Cash flows from financing activities:			
Bonds and notes issued	44,526,761	25,714,904	36,069,144
Bonds and notes retired	(43,429,706)	(25,027,414)	(35,412,496)
Preferred stock issued	225,000	—	—
Protected borrower equity retired	(4,373)	(4,663)	(6,249)
Capital stock and participation certificates issued/retired, net	(5,859)	(20,059)	(12,180)
Patronage refunds and dividends paid	(61,258)	(52,118)	(62,378)
Dividends paid on preferred stock	(10,912)	—	—
Retained earnings retired	(98,923)	(76,365)	(73,145)
Net cash provided by financing activities	1,140,730	534,285	502,696
Net increase (decrease) in cash and cash equivalents	13,337	(65,311)	13,068
Cash and cash equivalents, beginning of period	326,204	391,515	378,447
Cash and cash equivalents, end of period	$ 339,541	$ 326,204	$ 391,515
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	$ 955	$ 2,426	$ 1,301
Loans transferred to other property owned	5,541	4,968	10,551
Patronage refund and dividends payable	81,533	61,185	55,839
Change in unrealized gains (losses) on investments, net	12,588	9,584	(4,949)
Non-cash changes related to hedging activities:			
Decrease (increase) in loans	3,199	—	—
Increase (decrease) in bonds and notes	9,610	—	—
Decrease (increase) in other assets	(11,248)	—	—
Increase (decrease) in other liabilities	5,734	—	—
Supplemental information:			
Interest paid	$ 616,430	$ 634,970	$ 499,325
Taxes paid, net	1,198	15,338	12,717
Federal tax refunds related to long-term lending operations	27,576	—	—

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

Notes to Combined Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** *Ag***First** *Farm Credit Bank* (*Ag***First** or the Bank) 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. *Ag***First** 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. *Ag***First** and its related associations (District Associations) are collectively referred to as the District. The District Associations and certain other financing institutions (OFIs) jointly own virtually all of AgFirst's stock.

As of December 31, 2000, the District consisted of twenty-six ACAs and one PCA. Effective January 1, 2001, four ACAs merged into one ACA and the one PCA reorganized as an ACA, resulting in a total of twenty-four ACAs. During 2000 and 2001, in order to take advantage of the Federal income tax exemption of income on regulatorily defined long-term loan activity, sixteen District Associations reorganized to form a holding company with wholly-owned FLCA and PCA subsidiaries. Effective January 1, 2002, five additional District Associations implemented the holding company structure for a total of twenty-one District ACAs that have reorganized as ACA parent-subsidiary structures.

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/shareholders 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 *Ag***First** and District Associations. The activities of *Ag***First** and District 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) insure 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 *Ag***First** and the District Associations.

*Ag***First** and/or the District Associations are authorized to provide, either directly or in participation with other lenders, 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. *Ag***First** may also lend to financial institutions engaged in lending to eligible borrowers. The District Associations may also serve as an intermediary in offering credit life insurance and multi-peril crop insurance, and in providing additional services to borrowers.

The District Associations borrow from *Ag***First** and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. As noted above, as of January 1, 2002, twenty-one ACAs have reorganized into parent-subsidiary structures and operate their long-term mortgage activities through FLCA subsidiaries and their short- and intermediate-term lending activities through PCA subsidiaries or the ACA.

*Ag***First** owns the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation). The Finance Corporation currently borrows funds from *Ag***First** 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 *Ag***First** 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.

*Ag***First**, 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 System Association Captive Insurance Company — being a reciprocal insurer, provides insurance services to its member organizations.
- Farm Credit Leasing Services Corporation — provides a variety of leasing services for agricultural–related equipment and facilities.

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 District conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of *Ag***First** and District Associations to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates. Certain amounts in prior years' financial statements have been reclassified to conform to the current year's financial statement presentation.

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

A. **Investment Securities:** The District, 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 District's investments may not necessarily be held to maturity and accordingly have been classified as available for sale. Prior to the adoption on January 1, 2001, of Statement of Financial Accounting Standards (SFAS) No. 133 as amended, "Accounting for Derivative instruments and Hedging Activities," these investments were reported at fair value together with the fair values of the related hedges in Investment Securities in the Combined Balance Sheet. Beginning January 1, 2001, the fair values of the related hedges are reported in other assets or other liabilities in the Combined Balance Sheet. Changes in the fair value of investments classified as available for sale and of the related hedges are reflected as direct charges or credits to shareholders' equity.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income adjusted for SFAS No. 133 valuation adjustments. 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 *Ag***First** or the Association 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, if material, 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 certain District Associations or by *Ag***First** because the effects are considered by management to not be material to their individual financial positions or results of operations or to the combined financial position or results of operations of the District.

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. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in gains (losses) on other property owned.

D. **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.

E. **Other Assets and Other Liabilities:** 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.

Derivative financial instruments are included on the balance sheet, at fair value, as either other assets or other liabilities.

F. **Advanced Conditional Payments:** The District Associations are authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Advanced conditional payments are not insured. Interest is generally paid by the District Associations on such accounts.

G. **Employee Benefit Plans:** The employees of the District participate in one of three defined benefit retirement plans within the District. The "Projected Unit Credit" actuarial method is used for financial reporting purposes, and the "Entry-Age Normal Cost" method is used for funding purposes.

The employees of the District are eligible to participate in the thrift/deferred compensation plan (Thrift Plan) of the District; a certain percentage of employee contributions is matched by the District. Thrift Plan costs are expensed as funded.

H. **Income Taxes:** *Ag***First** and FLCAs are exempt from Federal and other income taxes as provided in the Farm Credit Act. The Finance Corporation and Puerto Rico Farm Credit, ACA receive 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. In addition, an ACA may reorganize and create taxable PCA and non-taxable FLCA subsidiaries.

The PCA and ACAs provide for Federal and certain other income taxes and are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Most District Associations operate as cooperatives under Subchapter T and can deduct from taxable income, amounts distributed as qualified patronage refunds to borrowers in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on the earnings not distributed or not expected to be distributed as patronage refunds or are exempt from tax due to the long-term lending exemption. Deferred income taxes are generally recorded based on a pro-rata portion of earnings retained; however, certain District Associations utilize the full recognition method and pay patronage on book income. Certain District Associations have provided a valuation allowance for deferred tax assets to the extent that it is more likely than not that they will not be realized.

At December 31, 2001, deferred income taxes have not been provided by certain District Associations on approximately $176 million of patronage refunds received prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Under GAAP, deferred taxes must be provided on all patronage refunds made to taxable District Associations after December 31, 1992, except to the extent that a portion of these amounts will be distributed in the form of patronage to District Association members.

No deferred taxes have been provided on *Ag***First**'s unallocated earnings. *Ag***First** currently has no plans to distribute unallocated *Ag***First** earnings and does not contemplate circumstances which, if distributions were made, would result in taxes being paid at the Association level.

I. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. On January 1, 2001, the Bank adopted SFAS No. 133, as amended, which requires derivatives to be recorded on the balance sheet as assets and liabilities, measured at fair value.

Prior to January 1, 2001, derivatives were off-balance-sheet financial instruments, and thus, were not reflected in the balance sheet.

Accounting for Derivatives and Hedging Instruments

In accordance with SFAS No. 133, on the date that the Bank enters into a derivative contract, it designates the instrument as (1) a hedge of (a) the fair value of a recognized asset of liability or (b) an unrecognized firm commitment (a fair value hedge); or (2) a hedge of (a) forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge). Changes in the fair value of a derivative that qualifies as and is designated as a fair value hedge and is highly effective as such a hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk would be in current period earnings. Changes in the fair value of a derivative that qualifies as and is designated as a cash flow hedge and is highly effective as such a hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) would be recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank discontinues hedge accounting prospectively when the Bank determines that 1) a derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; 2) the derivative expires or is sold, terminated, or exercised; 3) it is no longer probable that the forecasted transaction will occur; 4) a hedged firm commitment no longer meets the definition of a firm commitment; or 5) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued due to the Bank's determination that the derivative no longer qualifies as an effective fair value hedge, the Bank will continue to carry the derivative on the balance sheet at its fair value but cease to adjust the hedged asset or liability for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current-period earnings. When the Bank discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current period earnings.

The Bank occasionally purchases a financial instrument in which a derivative instrument is "embedded." Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivate instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value and designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

In accordance with the transition provisions of SFAS No. 133, the Bank recorded a net-of-tax cumulative-effect adjustment for a change in accounting for derivatives to other comprehensive income in the amount of $(1,037) on January 1, 2001.

Note 3 — Investment Securities

A summary of the amortized cost and fair value of debt securities held as investments at December 31, 2001, 2000 and 1999, is as follows:

	December 31, 2001				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Agency-backed ARM securities	$ 646,972	$ 12,812	$ (71)	$ 659,713	4.98%
Collateralized mortgage obligations	516,449	3,616	(5,296)	514,769	4.91
Other asset-backed securities	208,209	78	(22)	208,265	2.55
CDs, commercial paper and other	280,555	23	(2)	280,576	2.15
Total Investment Securities	$ 1,652,185	$ 16,529	$ (5,391)	$ 1,663,323	4.17%

	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	7.05
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%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at December 31, 2001, follows:

	Amortized Cost	Fair Value
In one year or less	$ 316,352	$ 316,355
After one year through five years	78,118	78,145
After five years through ten years	—	—
After ten years	741,266	754,054
Collateralized mortgage obligations	516,449	514,769
Total	$ 1,652,185	$ 1,663,323

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 investments in debt securities are as follows:

	Year Ended December 31, 2001	2000	1999
Proceeds on sales	$ 460,356	$ —	$ 150,311
Realized gross gains	3,299	—	4
Realized gross losses	8,097	—	5

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31, 2001	2000	1999
Long-term farm mortgage	$ 4,177,711	$ 3,994,162	$ 3,989,762
Production and intermediate-term	5,931,092	5,055,079	4,621,196
Rural home	1,259,996	912,740	831,130
Farm-related business	150,404	114,242	74,248
Utility	384,034	312,625	171,629
Basic processing and marketing	224,454	170,444	150,993
Sales contracts/purchase money mortgage	16,611	20,974	28,331
Plus: Participations purchased	1,986,671	1,605,208	1,238,702
Less: Participations sold	(1,434,522)	(1,158,071)	(1,091,673)
Other	181,438	67,733	150,355
Total	$ 12,877,889	$ 11,095,176	$ 10,164,673

The District's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the District's lending activities is collateralized and, accordingly, the credit risk associated with lending activities is considerably less than the recorded loan principal and is considered in the allowance for loan losses.

Total loans consisted of the following commodity types:

Commodity Group	Percent of Portfolio 2001	2000	1999
Poultry	13%	15%	15%
Forestry	10	8	8
Country Home	10	8	6
Cattle	7	8	8
Grain	7	7	9
Dairy	6	7	7
Swine	4	6	8
Nursery/Greenhouse	4	4	4
Tobacco	4	4	4
Citrus	4	3	3
Cotton	3	3	3
Utilities	3	3	2
Other	25	24	23
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 following table presents information relating to impaired loans.

	December 31, 2001	2000	1999
Nonaccrual:			
Current as to principal and interest	$ 27,173	$ 34,751	$ 51,171
Past due	45,136	31,974	42,542
Accrual:			
Restructured	7,296	10,786	14,406
90 days or more past due	9,736	4,549	5,548
Total impaired loans	$ 89,341	$ 82,060	$ 113,667

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2001.

Interest income recognized on nonaccrual loans totaled $10,652, $15,562 and $17,707 in 2001, 2000 and 1999, respectively. In 2001, this amount consisted of $1,982 of interest income recognized on transfer to accrual status, while $8,670 consisted of cash payments on nonaccrual loans qualifying for income recognition.

The average recorded investment in impaired loans during 2001, 2000 and 1999 was $83,149, $90,898 and $98,610, respectively. Impaired loans of $11,056, $10,598 and $11,990 at December 31, 2001, 2000 and 1999 had a related specific allowance for loan losses totaling $5,026, $6,549 and $8,270, respectively. The District recognized interest income on impaired loans of $12,445, $18,849 and $26,830 in 2001, 2000 and 1999, respectively.

A summary of changes in the allowance for loan losses follows:

	Year Ended December 31, 2001	2000	1999
Balance at beginning of year	$ 284,867	$ 278,953	$ 269,906
Provision for (reversal of) loan losses	20,296	7,619	12,312
Loans charged off	(4,896)	(2,795)	(4,522)
Recoveries	1,348	1,090	1,257
Balance at end of year	$ 301,615	$ 284,867	$ 278,953

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31, 2001	2000	1998
Land	$ 11,919	$ 11,390	$ 11,419
Buildings and improvements	64,368	64,270	62,752
Furniture and equipment	69,340	69,830	65,459
	145,627	145,490	139,630
Less: accumulated depreciation	70,521	76,935	75,645
Total	$ 75,106	$ 68,555	$ 63,985

Note 6 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31, 2001	2000	1999
Other assets:			
Prepaid pension costs	$ 58,700	$ 49,795	$ 46,386
Net deferred tax asset	23,981	31,711	28,672
Derivative assets	11,248	—	—
Unamortized debt issue costs	5,493	4,438	4,882
Deferred preferred stock cost	2,608	—	—
Prepaid expenses	501	204	689
Receivables and other	35,712	27,347	23,712
Financial Assistance Corporation Prefunding (Note 12)	—	—	2,728
Total	$ 138,243	$ 113,495	$ 107,069
Other liabilities:			
Accounts payable	$ 81,453	$ 52,132	$ 45,099
Other postretirement benefits liability	60,316	54,255	47,455
Financial Assistance Corporation payable	9,644	10,826	12,554
Derivative liabilities	5,734	—	—
Other	52,924	49,880	50,054
Total	$ 210,071	$ 167,093	$ 155,162

Note 7 — Bonds and Notes

The District's participation in bonds and notes follows:

	December 31, 2001	2000	1999
Systemwide bonds	$ 9,871,936	$ 6,456,729	$ 4,051,786
Systemwide medium-term notes	44,000	2,579,000	4,631,000
Systemwide discount notes	2,035,723	1,813,946	1,482,398
Other notes payable	164,050	164,882	161,883
Total	$ 12,115,709	$ 11,014,557	$ 10,327,067

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, 2001, are as follows:

Year of Maturity	Weighted Average Interest Rate	Amount
2002	3.41%	$ 7,868,380
2003	3.30	1,606,976
2004	4.00	1,147,000
2005	5.15	608,796
2006	5.12	439,533
Subsequent years	6.18	445,024
Total	3.70%	$ 12,115,709

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2001, was 26 days.

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

Amount	First Call Date	Year of Maturity
$ 4,044,000	2002	2002 – 2008
10,000	2003	2005 – 2005
$ 4,054,000		

Callable debt may be called on the first call date and, generally, on each interest payment date thereafter.

Certain conditions must be met before *Ag***First** can participate in the issuance of Systemwide debt securities. As one condition of participation, *Ag***First** 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, 2001, *Ag***First** 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 insure 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, 2001 the assets of the Insurance Fund aggregated $1.718 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, 2001, available funds in the Trust Fund amounted to $122.6 million.

The District had no committed commercial bank lines of credit at December 31, 2001.

Note 8 — Mandatorily Redeemable Preferred Stock

On May 17, 2001, the Bank issued $225 million of mandatorily redeemable cumulative preferred stock representing 225,000 shares at $1,000 per share that is redeemable on December 15, 2016. Dividends on the preferred stock are payable at the rate of 8.393 percent per annum of the $1,000 per share par value. Beginning March 15, 2012, the rate will change to a variable rate, and on or after the dividend payment date in December 15, 2011, the preferred stock will be redeemable in whole or in part at the option of the Bank on any dividend payment date at its par value of $1,000 per share. Although the mandatorily redeemable preferred stock has not been included in capital for financial reporting purposes, this preferred stock qualifies as capital for certain regulatory purposes.

Note 9 — Shareholders' Equity

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

A. **Protected Borrower Equity**

Protection of certain borrower equity is provided under the Farm Credit Act which requires *Ag***First** and District Associations to retire such capital at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If a Bank or an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

B. **Capital Stock, Participation Certificates and Retained Earnings**

In accordance with the Farm Credit Act, borrowers are generally required to invest in the respective association as a condition of borrowing. The District Associations' capital stock requirements generally range from 2 to 5 percent of the amount of the loan. Some District Associations have dollar maximums, which range from $1 thousand to $5 thousand. Loans designated for sale or sold into the Secondary Market have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. Association capitalization plans presently establish stock requirements in accordance with the Farm Credit Act and their respective bylaws.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. *Ag***First** and the Association have a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value and repayment of a loan cannot automatically result in retirement of the corresponding stock or participation certificates.

District Associations:

The District Associations in total are generally authorized to issue or have outstanding Classes A, C and D Preferred stock, Classes A, B, C and D Common stock, Classes A, B and C Participation Certificates, Assistance Preferred Stock 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 business. All classes of stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The District Associations had the following shares outstanding at December 31, 2001:

		Shares Outstanding	
Class	Protected Status	Number	Aggregate Par Value
A Common Nonvoting	Yes	158,200	$ 791
A Common Nonvoting	No	327,400	1,637
B Common Nonvoting	Yes	3,321,800	16,609
B Common Nonvoting	No	800	4
B Common Voting	No	1,090,200	5,451
C Common Voting	No	16,347,600	81,738
B Participation Certificates	Yes	372,200	1,861
C Participation Certificates	No	1,582,400	7,912
Participation Certificates	No	520,200	2,601
A Preferred	No	2,584,200	12,921
C Preferred	No	45,800	229
Total Association Capital Stock and Participation Certificates		26,350,800	$ 131,754

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the respective boards of directors (Boards) at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Boards are met.

Participation Certificates are nonvoting and may be issued as a condition for obtaining a loan to rural home residence borrowers, to persons or organizations furnishing farm-related services, to persons or organizations who are eligible to borrow or participate in loans, but who are not eligible to hold voting stock, and to persons or organizations eligible to borrow for the purpose of qualifying them for technical assistance, financially related services, and/or leasing services offered by the Association.

Preferred Stock may be issued to *Ag***First** or to such persons or investors as may be permitted under a plan adopted by each Board. Retirement will be at the sole discretion of each Board provided that the minimum capital adequacy standards established by the Board are met. If retired, Preferred Stock will be retired at its book value, not to exceed its par value. Preferred Stock is nonvoting and generally has preference over common stock and participation certificates as to dividends, and priority in the event of liquidation of an Association.

Retained Earnings

The District Associations maintain unallocated retained earnings accounts and allocated retained earnings accounts. The minimum aggregate amounts of these two accounts are determined by each Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of an Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

The District Associations maintain allocated retained earnings accounts consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss by an Association for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The District Associations have a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, an Association, upon approval of its Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by FCA and the Board are met.

At December 31, 2001, combined allocated retained earnings consisted of $646,730 of qualified and $86,648 of nonqualified distributions.

Dividends

An Association may declare dividends on its capital stock and participation certificates. Such dividends generally may be paid solely on Preferred Stock, or on all classes of stock and participation certificates.

Patronage Distributions

Prior to the beginning of any fiscal year, each Board, by adoption of a resolution, may obligate its Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions, if made by that Association, are based on the proportion of the borrower's interest to the amount of interest earned by that Association on its total loans unless another proportionate patronage basis is approved by the Board.

If an Association will meet its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated retained earnings account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board.

Amounts not distributed are retained as unallocated retained earnings.

Transfer

Equities may generally be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by an Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's allocated retained earnings or capital stock, such losses would be applied pro rata to each share and/or unit outstanding, provided applications shall be made to allocated retained earnings by annual series with the most recent allocations applied first.

Liquidation

In the event of the liquidation or dissolution of an Association, any assets of the Association remaining after payment or retirement of all liabilities may be distributed either to the holders of the outstanding stock and participation certificates or on a patronage basis, dependent upon the bylaws of the Association.

*Ag***First:**

Capital stock and allocated retained earnings — District Associations are required to invest in the capital stock of *Ag***First**. In addition, *Ag***First** has allocated, but not distributed, a portion of its retained earnings to the District Associations. These intercompany balances and transactions are eliminated in combination. Additionally, *Ag***First** has issued and has outstanding $14,463 in Class D Common stock which is a nonvoting class of stock with a $5.00 par value.

Other Equity — At the inception of each OFI loan, *Ag***First** requires OFIs to make cash purchases of participation certificates in *Ag***First**. In addition, OFIs receive participation certificates and allocated retained earnings from *Ag***First**'s distribution of net income on a percentage basis. *Ag***First** has a first lien on these equities for the repayment of any indebtedness to *Ag***First**. At December 31, 2001, *Ag***First** had $315 of participation certificates outstanding to OFIs at a face value of $5.00 per share.

Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require *Ag***First** and District Associations 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 the FCA that, if undertaken, could have a direct material effect on *Ag***First**'s or District Associations' financial statements. *Ag***First** and District Associations are 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 that additional minimum capital standards be achieved. These standards require all System institutions to achieve and maintain 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 following table shows the approximate ranges of capital standards for the entities within the District at December 31, 2001.

	Permanent Capital Ratio Ranges	Core Surplus Ratio Ranges	Total Surplus Ratio Ranges
*Ag***First**	20.70%	10.39%	19.86%
District Associations	12% – 29%	7% – 28%	9% – 28%

In addition, *Ag***First** is required to achieve and maintain net collateral of 104 percent of total liabilities. At December 31, 2001, *Ag***First**'s collateral ratio was 106.38 percent.

Included in the above table as of December 31, 2001, are sixteen Associations that have reorganized through the creation of FLCA and PCA subsidiaries. These subsidiaries and the ACA operate under a common board of directors and joint management. As a result, these District Associations are jointly obligated on each other's liabilities and are evaluated on a consolidated basis for capital adequacy and other regulatory purposes. Effective January 1, 2002, five District Associations also reorganized as parent-subsidiary structures.

All District entities were in compliance with the required minimum capital standards at December 31, 2001.

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. *Ag***First** and District Associations have not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

Note 10 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2001	2000	1999
Current:			
Federal	$ 5,466	$ 9,483	$ 13,067
State	1,397	1,519	1,816
ACA tax refunds	(34,003)	—	—
	(27,140)	11,002	14,883
Deferred:			
Federal	(1,731)	(3,113)	(2,025
State	(62)	74	(77)
Write-off deferred tax assets	9,523	—	—
	7,730	(3,039)	(2,102
Total provision (benefit) for income taxes	$ (19,410)	$ 7,963	$ 12,781

In connection with the restructuring discussed, deferred tax assets of $9,523 relating to the corporate restructuring and long-term lending activities were written off during 2001 to reflect the change in tax status. Additionally, during 2001, Associations signed settlement agreements with the IRS resolving the taxability of the prior years' earnings from its long-term mortgage lending activities. This settlement agreement was modeled after one used by another System ACA to reach a settlement agreement with the IRS in August 2000. As a result of this settlement, the Associations recorded tax refunds of $34,003, which is included as a component of the 2001 current income tax provision. In addition, the Association recorded $12,094 in interest related to these refunds, which is included in Other Income in the accompanying Combined Statements of Income.

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	Year Ended December 31, 2001	2000	1999
Federal tax at statutory rate	$ 96,503	$ 82,464	$ 78,526
State tax, net	1,150	1,593	1,816
Tax-exempt FLCA earnings	(27,971)	—	—
Association patronage distributions	(47,109)	(61,180)	(56,034)
Deferred patronage	1,946	—	—
Nontaxable Bank income	(21,198)	(9,996)	(9,632)
Possessions credit (Puerto Rico)	(1,046)	(1,135)	(1,056)
ACA tax refunds	(34,003)	—	—
Write-off of deferred tax assets	9,523	—	—
Other	2,795	(3,783)	(839)
Provision for income taxes	$ (19,410)	$ 7,963	$ 12,781

Deferred tax assets and liabilities are comprised of the following at:

	December 31, 2001	2000	1999
Allowance for loan losses	$ 24,941	$ 26,881	$ 23,959
Annual leave	638	1,061	1,058
Nonaccrual loan interest	2,162	3,526	2,962
Postretirement benefits other than pensions	3,738	5,002	3,720
Financial assistance payable	198	224	231
Nonqualified patronage distributions	11,827	13,042	11,995
Other	1,496	1,318	983
Gross deferred tax asset	45,000	51,054	44,908
Deferred tax asset valuation allowance	(6,515)	(1,050)	(2,056)
Future Bank stock redemptions	(3,609)	(4,495)	(4,679)
Bank patronage	(4,515)	(5,542)	(3,372)
State income tax	(751)	(714)	(128)
Loan fees	(1,978)	(2,457)	(1,176)
Pensions	(3,061)	(4,194)	(3,651)
Depreciation	(169)	(276)	(166)
Other	(421)	(615)	(1,008)
Gross deferred tax liability	(14,504)	(18,293)	(14,180)
Net deferred tax asset	$ 23,981	$ 31,711	$ 28,672

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. These estimates and assumptions include assumptions based on future nonpatronage income and patronage income retained. The expected future tax rates used are based upon enacted tax laws.

Based on current plans, circumstances and expectations as to future earnings, management is of the opinion that the assumptions used in the measurement of deferred tax assets and liabilities are reasonable and that net deferred tax assets are reasonably assured of realization. However, actual results may differ from management's current estimates and those differences could be material to the recorded amounts of deferred tax assets and liabilities and future earnings.

Note 11 — Employee Benefit Plans

There are three defined benefit plans within the District. The first plan (the District Plan) covers employees of nineteen Associations and *Ag***First**. The second plan covers employees of four ACAs, and the third plan covers employees of a single ACA. Each Plan is noncontributory and covers substantially all employees of the participating entities. Benefits are based on salary and years of service.

The measurement date for the assets and liabilities of the pension and postretirement health care plans is September 30.

The following tables set forth the continued funding status and activity of the retirement plans:

	As of December 31, 2001	2000	1999
Benefit obligations	$ 281,348	$ 241,090	$ 250,788
Fair value of plan assets	236,444	300,831	284,717
Funded status	$ (44,904)	$ 59,741	$ 33,929
Prepaid benefit cost recognized in the Balance Sheet	$ 58,700	$ 49,795	$ 46,386
Weighted-average assumptions:			
Discount rate	7.50%	7.17%	7.00%
Expected return on plan assets	9.00%	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%	4.30%

	2001	2000	1999
Benefit cost	$ 1,891	$ 5,785	$ 4,621
Employer contributions	10,293	11,088	7,716
Benefits paid	16,386	19,305	17,269

The District also participates in a Districtwide defined contribution Thrift Plan. The Thrift Plan requires *Ag***First** and Associations to match a percentage of employee contributions up to a maximum employee contribution of 6 percent of total compensation. Employer contributions were $3,065, $2,977 and $2,940 for 2001, 2000 and 1999, respectively.

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

The following tables set forth the combined funding status and activity of the other postretirement benefits:

	As of December 31, 2001	2000	1999
Benefit obligations	$ 97,841	$ 76,922	$ 63,080
Fair value of plan assets	207	665	667
Funded status	$ (97,634)	$ (76,257)	$ (62,413)
Prepaid (accrued) benefit cost recognized in the Balance Sheet	$ (60,316)	$ (54,255)	$ (47,455)
Weighted-average assumptions			
Discount rate:	*	8.00%	7.00%
- Fiscal Year 2001 expense determination	8.00%	*	*
- Funded status at December 31, 2001 and 2002 expense determination	7.50%	*	*
Expected return on plan assets	9.00%	9.00%	9.00%

* *2001 discount rate varied for 2001 expense determination and funded status at December 31, 2001 and 2002 expense determination.*

	2001	2000	1999
Benefit cost	$ 10,656	$ 10,344	$ 8,143
Contributions to plan	4,509	3,952	4,604
Benefits paid	5,020	4,007	3,385

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation for the medical plans for participants aged less than 65 are 11 percent for 2001 and 10 percent for 2002, declining gradually to 4.75 percent in 2009 and remaining at that level thereafter. For those participants aged greater than 65, the assumed health care cost trend rates are 13 percent for 2001 and 12 percent for 2002, declining gradually to 4.75 percent in 2012 and remaining at that level thereafter.

Note 12 — 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 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 *Ag***First** 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 financial statements of *Ag***First**'s liability to the Financial Assistance Corporation, the Farm 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 *Ag***First**'s financial condition and results of operations.

In 1998, *Ag***First** 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. *Ag***First** 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, relating to the calling of the $89 million issuance, representing its pro rata shares of the additional funding required.

The District's financial assistance expense totaled $14 million, $17 million and $27 million in 2001, 2000 and 1999, respectively.

Note 13 — Related Party Transactions

In the ordinary course of business, the District enters into loan transactions with officers and directors of *Ag***First** or Associations, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2001, amounted to $165,539. During 2001, $124,160 of new loans were made and repayments totaled $124,091. In the opinion of management, no material amounts outstanding at December 31, 2001, involved more than a normal risk of collectibility.

Although not material, FCA regulations require the following disclosure:

The loans of Arrowhead Planting, Company and co-makers, including Bank Director Robert A. Carson, involve more than normal risk of collectibility due to adverse economic and weather conditions placing some stress on repayment capacity. The maximum amount outstanding during 2001 and the amount outstanding at December 31, 2001 was $1,506 with no amounts past due. As of March 22, 2002, the remaining balance was $98 due to repayments received during early 2002.

Note 14 — Regulatory Enforcement Matters

At December 31, 2001, there were no regulatory enforcement matters or agreements in place with the FCA.

Note 15 — Commitments and Contingencies

The District has various contingent liabilities and commitments outstanding as discussed elsewhere in these notes to combined financial statements. While primarily liable for its portion of bonds and notes, *Ag***First** 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, 2001 were $81 billion.

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, from these other actions, would not be material in relation to the combined financial position of *Ag***First** and District Associations.

Note 16 – Financial Instruments with Off-Balance-Sheet Risk

The Bank and Associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and standby letters of credit. In the normal course of business, various commitments are made to customers, such as commitments to extend credit and letters of credit, which represent credit-related financial instruments with off-balance-sheet risk. 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2001, $2.3 billion of commitments to extend credit and $25.7 million of letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers 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 borrower.

Note 17 — Disclosures about Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the District's financial instruments at December 31, 2001, 2000 and 1999. 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 District's financial instruments are as follows:

	December 31, 2001		December 31, 2000		December 31, 1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Loans	$ 12,877,889	$ 13,007,140	$ 11,095,176	$ 11,127,840	$ 10,164,673	$ 10,201,141
Allowance for loan losses	(301,615)	—	(284,867)	—	(278,953)	—
Loans, net	$ 12,576,264	$ 13,007,140	$ 10,810,309	$ 11,127,840	$ 9,885,720	$ 10,201,141
Other assets**	$ 11,248	$ 11,248	$ —	$ —	$ —	$ —
Cash & investment securities	$ 2,002,864	$ 2,002,864	$ 2,329,703	$ 2,329,703	$ 2,495,533	$ 2,495,533
Related interest rate swaps	—	—	(3,413)	(3,413)	(2,254)	(2,254)
Net cash & investment securities	$ 2,002,864	$ 2,002,864	$ 2,326,290	$ 2,326,290	$ 2,493,279	$ 2,493,279
Financial liabilities:						
Systemwide debt securities	$ 12,115,709	$ 12,134,913	$ 11,014,557	$ 11,032,565	$ 10,327,067	$ 10,244,399
Financial assistance related liabilities*	$ 9,644	$ 13,536	$ 10,826	$ 14,682	$ 12,554	$ 16,740
Other liabilities**	$ 5,734	$ 5,734	$ —	$ —	$ —	$ —

* *The above amount excludes the assumption of Third Quarter 1986 Capital Preservation Agreement obligations with a fair value of $6.7 million at December 31, 2001.*
** *Due to the adoption of SFAS No. 133, derivative financial instruments are recorded on the Balance Sheet beginning on January 1, 2001.*

A description of the methods and assumptions used to estimate the fair value of each class of the District's financial instruments for which it is practicable to estimate that value follows:

A. **Loans:** Because no active market exists for the District's loans, fair value is estimated by discounting the expected future cash flows using the District'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 District'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 separately determined for each individual pool. Fair value of loans in a 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, Federal Funds and Securities Purchased Under Resale Agreements:** The carrying value is a reasonable estimate of fair value.

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

D. **Systemwide Debt Securities:** Bonds and notes are not regularly traded; thus, quoted market prices are not available. 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 12, the District 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 Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through dealer quotes.

G. **Commitments to Extend Credit and Standby Letters of Credit:** The fair value of commitments is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreement and the creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on an estimate of the cost to terminate the agreement or fees currently charged for similar agreements.

Note 18 — Derivative Instruments and Hedging Activities

The District maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The District's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the District's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged variable-rate assets and liabilities, respectively, will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the District's gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The District considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The District enters into derivatives, particularly interest rate swaps, to lower funding costs, diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps allow the District to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the District if floating rate borrowings were made directly. Under interest rate swap arrangements, the District agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The District may purchase interest rate options such as caps, in order to reduce the impact of rising interest rates on their floating-rate debt, and floors, in order to reduce the impact of falling interest rates on their floating-rate assets. It has been determined that the District's purchased caps qualify for hedge accounting treatment. There are no floors outstanding currently.

By using derivative instruments, the District exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the District's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the District, thus creating a repayment risk for the District. When the fair value of the derivative contract is negative, the District owes the counterparty and, therefore, assumes no repayment risk. The District minimizes the credit (or repayment) risk by entering into transactions with high-quality counterparties that are reviewed periodically by its Credit Committee. Further, when considered necessary, the District may request that collateral be provided by the counterparty.

The District also maintains a policy of requiring that all derivative contracts be governed by a master agreement and/or bilateral collateral arrangements. When the District is engaged in more than one outstanding derivative transaction with the same counterparty and also has a master netting agreement with the counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty.

The District's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the Committee's oversight of the District's asset/liability and treasury functions. The District's ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the District's overall interest rate risk-management strategies.

Information is provided below for each significant derivative product type at December 31, 2001.

	Maturities of 2001 Derivative Products						
December 31, 2001 ($ in millions)	**2002**	**2003**	**2004**	**2005**	**2006**	**After 2006**	**Total**
Receive fixed swaps							
Notional value	$ 650	$ —	$ —	$ —	$ —	$ —	$ 650
Weighted average receive rate	5.49%	—	—	—	—	—	5.49%
Weighted average pay rate	2.00%	—	—	—	—	—	2.00%
Amortizing floating for floating swaps							
Notional value	—	—	100	279	368		747
Weighted average receive rate	—	—	4.95%	3.79%	4.32%	—	4.21%
Weighted average pay rate	—	—	6.38%	4.52%	4.82%	—	4.92%
Other derivative products							
Notional value — Interest rate caps	—	—	—	200	194	—	394
Total notional value	$ 650	$ —	$ 100	$ 479	$ 562	$ —	$ 1,791
Total weighted average rates on swaps:							
Receive rate	2.55%	—%	.35%	.76%	1.14%	—%	4.80%
Pay rate	.93%	—%	.45%	.90%	1.27%	—%	3.56%

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, 2000	$ 996	$ —	$ 816	$ 441	$ 2,253
Maturities/amortizations	346		69	47	462
Balance at December 31, 2001	$ 650	$ —	$ 747	$ 394	$ 1,791

Note 19 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2001, 2000 and 1999 follow:

	2001				
	First	Second	Third	Fourth	Total
Net interest income	$ 113,130	$ 117,468	$ 121,752	$ 131,982	$ 484,332
Provision for loan losses	2,792	3,771	4,518	9,215	20,296
Noninterest income (expense), net	(47,165)	(34,586)	(42,562)	(33,482)	(157,795)
Cumulative effect of a change in accounting principle	(112)	—	112	—	—
Net income	$ 63,061	$ 79,111	$ 74,784	$ 89,285	$ 306,241

	2000				
	First	Second	Third	Fourth	Total
Net interest income	$ 107,334	$ 108,235	$ 111,846	$ 113,241	$ 440,656
Provision for loan losses	839	1,227	2,676	2,877	7,619
Noninterest income (expense), net	(52,006)	(50,999)	(46,098)	(49,357)	(198,460)
Net income	$ 54,489	$ 56,009	$ 63,072	$ 61,007	$ 234,577

	1999				
	First	Second	Third	Fourth	Total
Net interest income	$ 105,757	$ 107,361	$ 109,177	$ 109,767	$ 432,062
Provision for loan losses	1,960	2,844	2,826	4,682	12,312
Noninterest income (expense), net	(59,618)	(48,016)	(47,064)	(46,873)	(201,571)
Net income	$ 44,179	$ 56,501	$ 59,287	$ 58,212	$ 218,179

Note 20 — Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheet

	December 31,		
	2001	2000	1999
Cash, cash equivalents and investment securities	$ 1,928,577	$ 2,241,674	$ 2,444,638
Loans			
to District Associations	8,916,205	7,807,248	7,112,879
to Others	2,212,605	1,689,255	1,459,938
Total Loans	11,128,810	9,496,503	8,572,817
Less: allowance for loan losses	25,616	21,416	19,466
Net loans	11,103,194	9,475,087	8,553,351
Other assets	201,634	197,338	193,144
Total assets	$ 13,233,405	$ 11,914,099	$ 11,191,133
Bonds and notes	$ 12,115,709	$ 11,014,557	$ 10,327,067
Other liabilities	163,909	211,768	215,687
Total liabilities	12,279,618	11,226,325	10,542,754
Preferred stock	225,839	—	—
Capital stock and participation certificates	281,803	301,189	300,088
Retained earnings	439,104	388,035	359,325
Accumulated other comprehensive income (loss)	7,041	(1,450)	(11,034)
Total shareholders' equity	727,948	687,774	648,379
Total liabilities and equity	$ 13,233,405	$ 11,914,099	$ 11,191,133

Statement of Income

	Year Ended December 31,		
	2001	2000	1999
Interest income	$ 740,637	$ 775,601	$ 680,805
Interest expense	555,855	640,437	534,991
Net interest income	184,782	135,164	145,814
Provision for loan losses	4,500	2,500	7,050
Net interest income after provision for loan losses	180,282	132,664	138,764
Noninterest income	13,509	6,631	7,925
Noninterest expenses			
Salaries and employee benefits	17,515	16,191	15,938
Occupancy and equipment	7,147	6,232	4,666
Insurance Fund Premium	(2)	11	908
Other operating expenses	9,791	8,996	10,656
Intra-System financial assistance expenses	14,148	17,317	27,317
Realized losses on investment, net	4,798	—	1
Miscellaneous	9,788	505	639
Total noninterest expenses	63,185	49,252	60,125
Net income	$ 130,606	$ 90,043	$ 86,564

AgFirst Farm Credit Bank
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