AgFirst Farm Credit Bank and District Associations

2000 ANNUAL REPORT

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Thomas S. Welsh .... Executive Vice President

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Message from the Chairman of the Board and Chief Executive Officer

Dear Stockholders:

With our feet planted firmly in the 21st century, we pause now to take stock of the past year's accomplishments. In a word, it was a successful year for the *Ag***First** District. The bank and its affiliated associations continued to grow and prosper. Our success is evident in our numbers.

- Net income increased 7.5 percent.
- Loan volume grew by more than 9.0 percent.
- Credit quality remains high.
- Return on average assets was 1.85 percent, and return on average equity was 11.05 percent.

There are several reasons 2000 was a profitable and productive year for us, but three reasons stand out.

- ***Our business model works.*** We believe it works because we focus on a few simple, but sound principles.

  - *We make sound, constructive loans.* Collectively, sound and constructive loans create a high quality loan portfolio. And, that equates to stable and consistent earnings.

  - *We believe our patrons — our member-borrowers — should share in the success of their cooperative.* In April 2001, associations in the *Ag***First** District will distribute more than $172.8 million in patronage refunds to their borrowers from their 2000 earnings.

  - *Our stable, consistent earnings have made it possible for us to pay patronage refunds consistently.* Associations in the *Ag***First** family have paid patronage refunds to their member-borrowers each year since 1989, distributing more than $1.4 billion in those 12 years. That's an average of almost 25 cents of every $1.00 of interest earned.

  - *We believe in providing good customer service.* And we do. Again, the evidence is in the numbers. In a recent Gallup survey, borrowers throughout the *Ag***First** District reported a satisfaction rating of 9 on a 10-point scale. Furthermore, 99 percent of them said they would recommend us to others. Most cite our people and the quality of service they provide as the reasons they would recommend Farm Credit to others.

- ***Our business model helps us attract new, high quality business.*** Since 1995, we've distributed more than $800 million in patronage refunds and, during that five-year period, our loan volume has grown by 23.5 percent. Our credit quality is high, as evidenced by the fact that our nonaccruing loans were only 0.60 percent of total loans at the end of 2000.

- ***Our associations take advantage of our federated cooperative structure to control costs.*** Certain tasks are centralized at the bank level. Typically, these are the "back room" sort of tasks — loan accounting, treasury/cash management, computer/information services, payroll/benefits administration — for which every association has a need. By centralizing these activities, associations save money. More importantly, it means they are able to focus on the things that can only be done well at the local level: loan origination, loan approval and loan servicing.

As a district, we made several significant achievements in 2000. To highlight a few:

- We started the year with a successful Y2K transition.
- Four significant and successful association mergers were completed during the year.
- We expanded our Capital Markets activity and, in doing so, the bank and associations spread their credit concentration risks and realized additional income.
- We introduced several new products to our borrowers. These included "Account Access," a product which gives our borrowers the ability to access their account information via the Internet; Home Equity Loans for Farmers; and, special lines of credit for our borrowers' consumer needs.
- We made improvements to our communications network that have made it easier for our borrowers to do business with their associations and our associations, the bank.
- And, finally, we made significant progress in the development of the successor to our popular and successful loan origination system, CreditPro, as well as a new Human Resource Management system for the bank and associations.

We're proud of our achievements and financial success in 2000. Most of all, we are glad that our success means we met our mission: ***To ensure that Rural America has adequate access to capital at affordable rates.*** We are focused on that mission, and we will remain focused on it, regardless of general economic cycles or agricultural conditions.

William S. Jackson
Chairman of the Board

F. A. (Andy) Lowrey
Chief Executive Officer

February 20, 2001

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 2000 Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

William S. Jackson
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Leon T. Amerson
Chief Financial Officer

February 20, 2001

Five-Year Summary of Selected Combined Financial Data

(UNAUDITED)

(dollars in thousands)	2000	1999	1998	1997	1996
	December 31,				
Combined Balance Sheet Data					
Cash and cash equivalents	$ 326,204	$ 391,515	$ 378,447	$ 268,203	$ 287,764
Investment securities	2,000,086	2,101,764	1,627,010	1,191,009	1,219,925
Loans	11,095,176	10,164,673	9,894,875	9,525,215	8,982,512
Less: allowance for loan losses	284,867	278,953	269,906	259,056	253,405
Net loans	10,810,309	9,885,720	9,624,969	9,266,159	8,729,107
Other property owned	6,369	8,178	5,564	4,691	6,449
Other assets	379,453	338,962	350,797	322,532	300,698
Total assets	$ 13,522,421	$ 12,726,139	$ 11,986,787	$ 11,052,594	$ 10,543,943
Obligations with maturities of one year or less	$ 6,646,015	$ 6,191,236	$ 7,404,895	$ 6,400,207	$ 5,840,315
Obligations with maturities greater than one year	4,715,193	4,455,931	2,570,974	2,722,800	2,890,225
Total liabilities	11,361,208	10,647,167	9,975,869	9,123,007	8,730,540
Protected borrower equity	23,634	28,297	34,546	42,946	51,901
At-risk equity:					
Capital stock and participation certificates	132,856	152,639	164,019	167,351	166,808
Retained earnings					
Allocated	704,010	659,297	620,678	556,461	484,507
Unallocated	1,302,163	1,249,773	1,197,760	1,158,657	1,109,292
Accumulated other comprehensive income (loss)	(1,450)	(11,034)	(6,085)	4,172	895
Total members' equity	2,161,213	2,078,972	2,010,918	1,929,587	1,813,403
Total liabilities and members' equity	$ 13,522,421	$ 12,726,139	$ 11,986,787	$ 11,052,594	$ 10,543,943
Combined Statement of Income Data					
Net interest income	$ 440,656	$ 432,062	$ 426,495	$ 409,238	$ 396,745
Provision for loan losses	7,619	12,312	12,845	5,736	6,088
Noninterest income (expense), net	(198,460)	(201,571)	(195,233)	(194,760)	(189,667)
Net income	$ 234,577	$ 218,179	$ 218,417	$ 208,742	$ 200,990
Combined Key Financial Ratios					
Rate of return on average:					
Total assets	1.85%	1.78%	1.90%	1.94%	1.92%
Total members' equity	11.05%	10.63%	11.01%	11.02%	11.01%
Net interest income as a percentage of average earning assets	3.50%	3.56%	3.73%	3.84%	3.83%
Net chargeoffs (recoveries) to average loans	0.02%	0.03%	0.02%	0.001%	0.026%
Total members' equity to total assets	15.98%	16.34%	16.78%	17.46%	17.20%
Debt to members' equity (:1)	5.26	5.12	4.96	4.73	4.81
Allowance for loan losses to loans	2.57%	2.74%	2.73%	2.72%	2.82%
Permanent capital ratio (Bank only)	16.92%	18.86%	20.87%	23.77%	22.11%
Total surplus Ratio (Bank only)*	15.50%	16.72%	18.71%	19.62%	—
Core surplus ratio (Bank only)*	10.42%	10.89%	11.78%	11.51%	—
Collateral Ratio (Bank only)*	104.95%	104.93%	105.07%	105.48%	—
Net Income Distribution					
Patronage refunds and dividends:					
Cash	$ 61,185	$ 55,839	$ 60,375	$ 51,223	$ 45,408
Retained earnings	120,620	112,421	119,010	110,720	102,548
Stock dividends	276	800	143	119	—

** Capital ratios implemented with revisions to Farm Credit Administration (FCA) Regulations effective March, 1997. Total surplus and core suplus ratios were restated for 1999, 1998 and 1997.*

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

(dollars in thousands, except as noted)

The following commentary reviews the financial condition and results of operations of *Ag***First** *Farm Credit Bank* (*Ag***First**) and the District Associations (collectively, the District) for the year ended December 31, 2000, 1999 and 1998. This information should be read in conjunction with the accompanying combined financial statements, the notes to the combined financial statements and other sections of this annual report.

Financial Overview

The following information provides an overview of the *Ag***First** District's financial results for 2000 in comparison to 1999 and 1998:

- The aggregate principal amount of loans outstanding was $11.1 billion, $10.2 billion and $9.9 billion at December 31, 2000, 1999 and 1998, respectively, reflecting increases of 9.15 percent in 2000 and 2.73 percent in 1999.

- Net interest income for the year ended December 31, 2000 was $8.6 million higher than for the year ended December 31, 1999 and $14.2 million higher than for the year ended December 31, 1998. Total net income was stable from 1998 to 1999 and improved by $16.4 million from 1999 to 2000 due primarily to the $8.6 million increase in net interest income, as well as reductions in provisions for loan losses, income taxes, and noninterest expenses.

- The *Ag***First** District's return on average total assets and return on average members' equity, respectively, for the year ended December 31, 2000 were 1.85 percent and 11.05 percent, compared to 1.78 percent and 10.63 percent for the year ended December 31, 1999, and 1.90 percent and 11.01 percent for the year ended December 31, 1998.

Strategic Initiatives

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

Support Services

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

- During 2000, *Ag***First** improved communications with and between the District Associations through the implementation of a frame-relay network. The improved communications network provided improved file transfer capability, quicker response times for various systems, and the development of internet/intranet capabilities. Additional initiatives are underway to further enhance the network, as technology continues to advance.

- A credit delivery project was initiated for the District Associations to provide more robust and efficient loan origination capacity to Association loan officers.

- *Ag***First** is systematically pursuing renovations of several significant systems, including its loan accounting systems and general ledger, to take advantage of improvements in technology.

Capital Markets Services

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

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

Association Consolidation Activity

As of January 1, 2001, the District was composed of *Ag***First**, its subsidiary, (the Farm Credit Finance Corporation of Puerto Rico) and twenty-four Associations. During the course of 2000, several District Associations consolidated. District Association consolidation activity for 2000 and 2001 included:

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

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

ACA Holding Company Structure

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

Secondary Market Activity

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

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

Results of Operations

The *Ag***First** District net income totaled $234,577 for the year ended December 31, 2000, an increase of $16,398 and $16,160 as compared to net income in 1999 and 1998, respectively. Major components of the changes in net income for the referenced periods are outlined in the following table.

(dollars in thousands)	**Year Ended December 31, 2000-1999**	**1999-1998**
Net income (prior period)	$ 218,179	$ 218,417
Increase (decrease) due to:		
Total interest income	114,247	2,780
Total interest expense	(105,653)	2,787
Net interest income	8,594	5,567
Provision for loan losses	4,693	533
Noninterest income	(6,052)	7,728
Noninterest expense	4,345	(16,035)
Provision for income taxes	4,818	1,969
Total increase (decrease) in net income	16,398	(238)
Net income	$ 234,577	$ 218,179

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

Interest Income

Total interest income for the year ended December 31, 2000 was $1,081,531, an increase of $114,247 as compared to the same period of 1999. This increase is primarily attributed to the increase in interest rates during the year as well as an increase in average earning assets from 1999 levels.

Total interest income for 1999 was $967,284, an increase of $2,780 over the same period of 1998. This increase was primarily attributed to an increase in earning assets, offset somewhat by decreases in interest rates. The following tables illustrate the impact that volume and yield changes had on interest income over these periods.

(dollars in thousands)	**Year Ended December 31, 2000-1999**	**1999-1998**
Increase in average earning assets	$ 451,642	$ 716,877
Average yield (prior period)	7.96%	8.44%
Interest income variance attributed to change in volume	35,966	60,494
Average earning assets (current period)	12,598,329	12,146,684
Increase (decrease) in average yield	.62%	(.48%)
Interest income variance attributed to change in yield	78,281	(57,714)
Net change in interest income	$ 114,247	$ 2,780

Interest Expense

Total interest expense for the year ended December 31, 2000 was $640,875, an increase of $105,653 as compared to the same period of 1999. The increase is due to interest rate increases during the past year and an increase in the average daily balance of interest-bearing liabilities. This increase in interest-bearing liabilities funded the increase in average earning assets mentioned in the above *Interest Income* section.

Total interest expense for the year ended December 31, 1999 was $535,222, a decrease of $2,787 over the same period of 1998. Average funding costs declined in 1999 as a result of lower interest rates and the realization of a full year of savings from calling higher coupon debt and reissuing at lower interest rates in 1998. The decrease in interest expense due to lower rates was partially offset by an increase in average debt outstanding, which funded the increase in earning assets mentioned previously. The following tables illustrate the impact that volume and rate changes had on interest expense.

(dollars in thousands)	**Year Ended December 31, 2000-1999**	**1999-1998**
Increase in average interest-bearing liabilities	$ 364,476	$ 617,775
Average rate (prior period)	5.38%	5.77%
Interest expense variance attributed to change in volume in average debt outstanding	19,620	35,641
Average debt outstanding (current period)	10,307,142	9,942,666
Increase (decrease) in average rate	.84%	(.39%)
Interest expense variance attributed to change in rate	86,034	(38,428)
Net change in interest expense	$ 105,654	$ (2,787)

Net Interest Income

Net interest income increased over the year-end periods primarily due to steady growth in earning assets. Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income also depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following tables set forth certain information relating to the *Ag***First** District combined average balance sheets and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

Analysis of Net Interest Earnings

	2000		1999		1998	
(dollars in thousands)	Average Balance	Interest Income/(Expense)	Average Balance	Interest Income/(Expense)	Average Balance	Interest Income/(Expense)
Loans	$ 10,351,962	$ 933,395	$ 10,050,447	$ 851,807	$ 9,738,133	$ 871,570
Cash & Investments	2,246,367	148,136	2,096,240	115,477	1,691,674	92,934
Total Interest Earning Assets	$ 12,598,329	$ 1,081,531	$ 12,146,684	$ 967,284	$ 11,429,807	$ 964,504
Interest Bearing Funds	$ 10,307,142	$ (640,875)	$ 9,942,666	$ (535,222)	$ 9,324,891	$ (538,009)
NET INTEREST INCOME		$ 440,656		$ 432,062		$ 426,495

	2000 Average Yield	1999 Average Yield	1998 Average Yield
Loans	9.02%	8.48%	8.95%
Cash & Investments	6.59%	5.51%	5.49%
Total Interest Earning Assets	8.58%	7.96%	8.44%
Interest Bearing Funds	6.22%	5.38%	5.77%
NET YIELD ON EARNING ASSETS (1)	3.50%	3.56%	3.73%
NET INTEREST SPREAD (2)	2.37%	2.58%	2.67%

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

Provision for Loan Losses

For the year ended December 31, 2000, the *Ag***First** District recorded provisions for loan losses of $7,619, a decrease of $4,693 as compared to the same period of 1999. For the year ended December 31, 1999, the *Ag***First** District recorded provisions for loan losses of $12,312, a decrease of $533 from 1998. Given the growth in loan volume, the provisions did not have a significant impact on the level of allowance as a percentage of loans outstanding.

Noninterest Income

Noninterest income decreased $6,052 for the year ended December 31, 2000, as compared to the year ended December 31, 1999, due in part to a decrease in miscellaneous income for *Ag***First** and District Associations. This decrease was primarily the result of adjustments made for the District's medical plan during 1999, which did not occur in 2000. Fees for financially related services also decreased from 1999 to 2000 as well.

Noninterest income increased during the year ended December 31, 1999 compared to the same period in 1998 due to increases in loan fees and miscellaneous income. Loan fees increased due to loan origination fees and prepayment penalties charged for the refinancing of loans, while miscellaneous income increased due to the adjustment to the District's medical plan.

Noninterest Expense

Noninterest expense for the year ended December 31, 2000 was $217,342, a decrease of $4,345 over the same period of 1999. The decrease was primarily attributed to a decrease in intra-system financial assistance expense from $27,338 in 1999 to $17,337 in 2000, as well as a decrease of $6,678 in Insurance Fund premium for the same periods. See Note 11 – *Intra-System Financial Assistance* in the December 31, 2000 notes to the combined financial statements for additional information. The Farm Credit Insurance Corporation decreased the premium on accrual loans during the second half of 1999, continuing into 2000 with a decrease in the premium on nonaccrual loans. These decreases were somewhat offset by the $7,856 increase in salaries and benefits attributed in part to the nonrecurring costs related to the Association consolidations which occurred in 2000. District Associations expect to recover these expenses in future years through more efficient operations.

Noninterest expense increased to $221,687 in 1999, from $205,652 in 1998. The upward trend in noninterest expense was primarily attributed to increases in salaries and benefits and Farm Credit System Insurance Corporation premiums. The increase in salaries and benefits resulted from the nonrecurring costs of approximately $10 million related to the 1999 Association consolidations. The Farm Credit System Insurance Corporation premiums increased $3.7 million as a result of premium increases on accrual loans for the first half of 1999.

Provision for Income Taxes

Provisions for income taxes decreased to $7,963 in 2000, compared to $12,781 in 1999 and $14,750 in 1998. Refer to Note 9, *Income Taxes,* for further details.

Financial Condition

Loans

Gross loans outstanding at December 31, 2000 totaled $11 billion, a steady increase from December 31, 1999, and 1998. The increased loan usage by members of affiliated Associations is a result of the economic growth in the market area generally at a faster rate than the U.S. economy as a whole; high market share as compared to commercial banks, and continued focused lending to value added customers in food and agribusiness.

The credit portfolio of the *Ag***First** District is comprised of segments which have varying agricultural characteristics. The following table shows the credit portfolio of the District by major commodity segment. As this table illustrates, the District credit portfolio has concentrations of five percent or more in only seven commodity groups as of December 31, 2000.

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

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

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

The agribusiness and farming economy outlook for 2001 is less favorable than has been the case for the past two years due in part to higher energy costs. At the same time, commodity prices are not expected to experience significant increases based on current futures prices. However, loan performance for the year ended December 31, 2000 remained very strong within the *Ag***First** District Associations' portfolio. District portfolios are reviewed for credit quality and credit administration by regulatory authorities regularly. District loan portfolio stability is enhanced by a diversity of income sources that support the scheduled repayments on loans. District data compiled in loan files indicate that over 40 percent of borrowers are part-time farmers whose income is predominantly dependent on non-farm income. Income derived from sources such as timber, nursery/greenhouse operations and sod production further reduces the District Associations' dependence on traditional agriculture, which further decreases volatility in the loan portfolio.

The District serves all or a portion of fifteen states and the Commonwealth of Puerto Rico. This wide geographic dispersion assures a natural risk-reducing factor within *Ag***First** and Association portfolios. Only North Carolina has loan volume representing more than 15 percent of total District Association volume, and only three other states represent concentrations in excess of 10 percent. The following factors tend to mitigate geographic exposure:

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

Following is the combined geographic dispersion of the portfolios by percentage of loans outstanding:

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

Credit quality of the District Associations at December 31, 2000, has slightly increased compared to that of December 31, 1999 and that of December 31, 1998. Nonaccruing loan assets as a percent of total loans for the combined District was .60 percent at December 31, 2000 compared to .92 percent and 1.01 percent at December 31, 1999 and 1998, 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 FCB may hold certain eligible investments, in an amount not to exceed 30 percent of its total outstanding loans, in order to satisfy the FCA's liquidity reserve requirement, manage surplus short-term funds and manage interest rate risk. The District 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 totaled $2.33 billion at December 31, 2000, compared to $2.49 billion at December 31, 1999 and $2.01 billion at December 31, 1998. The increase in 1999 was attributed to an effort to further diversify earning assets and to increase liquid investments held in contingency for Year 2000 compliance.

Debt Securities

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

At December 31, 2000, the District had $11.02 billion in total debt outstanding compared to $10.33 billion at December 31, 1999 and $9.67 billion at December 31, 1998. These increases were primarily due to the increases in loans and investments discussed earlier. Refer to Note 7, *Bonds and Notes,* for additional information related to debt outstanding.

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 5-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, 2000, *Ag***First** had outstanding interest rate swaps with notional amounts totaling $1.812 billion and purchased interest rate caps with notional amounts totaling $441 million. These derivative transactions were executed to reduce interest rate risk and/or reduce funding costs. *Ag***First** policy prohibits the use of derivatives for speculative purposes. Refer to Note 15, *Financial Instruments with Off-Balance-Sheet Risk*, for additional information.

Capital

Total members' equity at December 31, 2000 was $2,161,213, compared to $2,078,972 and $2,010,918 at December 31, 1999 and 1998, respectively. The increasing trend in members' equity is attributed to increases in retained earnings, offset somewhat by a decrease in 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 regulations require *Ag***First** to achieve and maintain net collateral of 103 percent of total liabilities. At December 31, 2000, all District entities exceeded minimum standards for all of these ratios. District ratios ranged from 13 percent to 28 percent for permanent capital, 10 percent to 26 percent for total surplus, and 8 percent to 27 percent for core surplus. *Ag***First**'s collateral ratio at December 31, 2000 was 104.95 percent.

Refer to Note 8, *Members' 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 14, *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. The settlement agreement provided for 60 percent of the refund claimed to be returned to the ACA, plus interest for the applicable periods. This settlement agreement also confirmed that all income generated by an ACA will be taxable in future periods. However, an ACA may reorganize to operate its long-term mortgage lending activities through a newly created FLCA and their short- and intermediate-term lending activities through a newly created PCA subsidiary. Income earned by the FLCA subsidiary is exempt from taxation. The amount of the ACAs' refunds recorded in future periods is expected to reduce the provision for income taxes. As of December 31, 2000, $3,368 has been recognized as ACA federal tax refund amounts and $963 has been recognized as interest related to the federal tax refund.

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 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.
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 14 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 8 to the financial statements, "Members' Equity," included in this annual report to shareholders.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 7, 11 and 14 to the financial statements included in this annual report to shareholders.

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

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

Senior Officers

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

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

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

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

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

In addition to a base salary, senior officers earn additional compensation under *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 2000 bonus was made in the first quarter of 2001.

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

***Ag*First *Farm Credit Bank* Board of Directors:**

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

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

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

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

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

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

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

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

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

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

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

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

Richard Kriebel is a contract crop farmer from Benton, Pennsylvania, raising contract forage and grain for total mixed rations to other dairymen in the area. His crops consist of 540 owned-and-leased acres (235 acres of corn and 305 acres of hay). He is a director of *Ag***Choice** ACA, and a former member of the Columbia County Extension and the Columbia County Planning Commission. During 2000, he served 30 days at *Ag***First** board meetings and 12 days at other official board functions, and was paid $23,864 in compensation.

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

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

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

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

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

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

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

Compensation of Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $159,655 for 2000, $168,389 for 1999 and $162,486 for 1998. Subject to approval by the board, *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 $453,416 during 2000.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 12 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.

Financial Statements

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

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

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

Report of Independent Accountants

February 20, 2001

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

We have audited the accompanying combined balance sheets of *Ag***First** *Farm Credit Bank* and District Associations as of December 31, 2000, 1999, and 1998, and the related combined statements of income, of changes in members' equity, and of cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the 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 December 31, 2000, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Combined Balance Sheets

(dollars in thousands)	December 31, 2000	December 31, 1999	December 31, 1998
Assets			
Cash and cash equivalents	$ 326,204	$ 391,515	$ 378,447
Investment securities	2,000,086	2,101,764	1,627,010
Loans	11,095,176	10,164,673	9,894,875
Less: allowance for loan losses	284,867	278,953	269,906
Net loans	10,810,309	9,885,720	9,624,969
Accrued interest receivable	179,128	150,986	158,974
Investments in other Farm Credit System institutions	18,275	16,922	9,696
Premises and equipment, net	68,555	63,985	66,294
Other property owned	6,369	8,178	5,564
Other assets	113,495	107,069	115,833
Total assets	$ 13,522,421	$ 12,726,139	$ 11,986,787
Liabilities			
Bonds and notes	$ 11,014,557	$ 10,327,067	$ 9,670,419
Accrued interest payable	120,708	114,803	78,906
Dividends and patronage refunds payable	58,850	50,135	58,911
Other liabilities	167,093	155,162	167,633
Total liabilities	11,361,208	10,647,167	9,975,869
Commitments and contingencies (Note 14)			
Members' Equity			
Protected borrower equity	23,634	28,297	34,546
At-risk equity:			
Capital stock and participation certificates	132,856	152,639	164,019
Retained earnings			
Allocated	704,010	659,297	620,678
Unallocated	1,302,163	1,249,773	1,197,760
Accumulated other comprehensive loss	(1,450)	(11,034)	(6,085)
Total members' equity	2,161,213	2,078,972	2,010,918
Total liabilities and members' equity	$ 13,522,421	$ 12,726,139	$ 11,986,787

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, 2000	1999	1998
Interest Income			
Investment securities and other	$ 148,136	$ 115,477	$ 92,934
Loans	933,395	851,807	871,570
Total interest income	1,081,531	967,284	964,504
Interest Expense	640,875	535,222	538,009
Net interest income	440,656	432,062	426,495
Provision for loan losses	7,619	12,312	12,845
Net interest income after provision for loan losses	433,037	419,750	413,650
Noninterest Income			
Loan fees	14,652	14,730	11,908
Fees for financially related services	5,500	7,123	7,410
Miscellaneous	6,693	11,044	5,851
Total noninterest income	26,845	32,897	25,169
Noninterest Expenses			
Salaries and employee benefits	130,581	122,725	110,892
Occupancy and equipment	21,137	19,582	19,543
Insurance Fund premium	95	6,773	3,055
Other operating expenses	47,724	44,672	42,074
Intra-System financial assistance expenses	17,337	27,338	26,413
Miscellaneous	468	597	3,675
Total noninterest expenses	217,342	221,687	205,652
Income before income taxes	242,540	230,960	233,167
Provision for income taxes	7,963	12,781	14,750
Net income	$ 234,577	$ 218,179	$ 218,417

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

Combined Statements of Changes in Members' Equity

		At-Risk Equity				
			Retained Earnings			
(dollars in thousands)	Protected Borrower Equity	Capital Stock and Participation Certificates	Allocated	Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 1997	$ 42,946	$ 167,351	$ 556,461	$ 1,158,657	$ 4,172	$ 1,929,587
Comprehensive income						
Net income				218,417		218,417
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(10,257)	(10,257)
Total comprehensive income						208,160
Protected borrower equity retired	(8,400)					(8,400)
At-risk equity:						
Capital stock/participation certificates issued/retired, net		(3,475)				(3,475)
Dividends declared/paid		143		(1,546)		(1,403)
Patronage distribution						
Cash				(58,972)		(58,972)
Allocated retained earnings			119,010	(119,010)		—
Retained earnings retired			(54,626)			(54,626)
Patronage distribution adjustment			(167)	214		47
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)
At-risk equity:						
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)
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)
At-risk equity:						
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)
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

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, 2000	1999	1998
Cash flows from operating activities:			
Net income	$ 234,577	$ 218,179	$ 218,417
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	10,809	10,019	9,846
Provision for loan losses	7,619	12,312	12,845
(Gains) losses on other property owned, net	16	(209)	(297)
Realized (gains) losses on investments, net	—	1	(39)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	(28,142)	7,988	(3,555)
(Increase) decrease in investments in other Farm Credit System institutions	(1,353)	(7,226)	(386)
(Increase) decrease in other assets	(6,426)	8,764	(23,109)
Increase (decrease) in accrued interest payable	5,905	35,897	(13,676)
Increase (decrease) in other liabilities	11,878	(12,505)	(863)
Total adjustments	306	55,041	(19,234)
Net cash provided by operating activities	234,883	273,220	199,183
Cash flows from investing activities:			
Investment securities purchased	(1,977,974)	(2,366,529)	(1,816,368)
Investment securities sold or matured	2,089,236	1,886,825	1,370,149
Net (increase) decrease in loans	(934,750)	(282,313)	(375,769)
Purchase of premises and equipment, net	(15,379)	(7,710)	(11,061)
Proceeds from sale of other property owned	4,388	6,879	3,475
Net cash used in investing activities	(834,479)	(762,848)	(829,574)
Cash flows from financing activities:			
Bonds and notes issued	25,714,904	36,069,144	43,398,053
Bonds and notes retired	(25,027,414)	(35,412,496)	(42,538,390)
Protected borrower equity retired	(4,663)	(6,249)	(8,400)
At-risk equity:			
Capital stock and participation certificates issued/retired, net	(20,059)	(12,180)	(3,475)
Patronage refunds and dividends paid	(52,118)	(62,378)	(52,527)
Retained earnings retired	(76,365)	(73,145)	(54,626)
Net cash provided by financing activities	534,285	502,696	740,635
Net increase (decrease) in cash and cash equivalents	(65,311)	13,068	110,244
Cash and cash equivalents, beginning of period	391,515	378,447	268,203
Cash and cash equivalents, end of period	$ 326,204	$ 391,515	$ 378,447
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	$ 2,426	$ 1,301	$ 1,597
Loans transferred to other property owned	4,968	10,551	5,711
Patronage refund and dividends payable	61,185	55,839	60,375
Change in unrealized gains (losses) on investments, net	9,584	(4,949)	(10,257)
Supplemental information:			
Interest paid	$ 634,970	$ 499,325	$ 551,685
Taxes paid, net	15,338	12,717	14,665

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's twenty-six ACAs and one PCA and certain other financing institutions (OFIs) jointly own virtually all of *Ag***First**'s stock.

At December 31, 1999, the District consisted of thirty-two ACAs and one PCA. During 2000, there were three consolidations in the *Ag***First** District: nine District Associations consolidated into three Associations effective July 1, 2000, leaving a total of twenty-six ACAs and one PCA in the *Ag***First** Farm Credit District. In connection with these consolidations, the affected entities incurred $11.4 million in nonrecurring costs related to salaries and employee benefits. Each of the consolidations was accounted for at historical cost in a manner similar to that used in a pooling of interests. Effective January 1, 2001, four ACAs consolidated into one ACA and the one PCA reorganized as an ACA, resulting in a total of twenty-four ACAs.

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate *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. ACAs may reorganize into a parent-subsidiary structure and may operate their long-term mortgage activities through a newly created FLCA subsidiary and their short- and intermediate-term lending activities through a newly created PCA subsidiary. During 2000, one District Association formed such a structure. Effective January 1, 2001, thirteen District Associations also reorganized as parent-subsidiary structures.

*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. These investments are reported at fair value and unrealized holding gains and losses together with any unrealized gains or losses on related hedges are netted and reported as a separate component of members' equity in the Combined Balance Sheet. Changes in the fair value of investments classified as available for sale are reflected as direct charges or credits to members' equity.

B. **Loans and Allowance for Loan Losses:** 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. 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 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:** 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.

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. **Financial Instruments with Off-Balance-Sheet Risk:** As more fully described in Note 15, *Ag***First** is a party to derivative financial instruments, primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions but which, in accordance with GAAP, are not reflected in the Combined Balance Sheet. Income and expense on interest rate swaps are recorded in the same category as that arising from the related asset or liability.

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

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

H. **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 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.

I. **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. 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, 2000, 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.

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

Note 3 — Investment Securities

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

	December 31, 2000				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Agency-backed ARM securities	$ 863,292	$ 2,984	$ (4,261)	$ 862,015	6.75%
Collateralized mortgage obligations	421,194	2,260	(1,283)	422,171	7.15
Other asset-backed securities	617,199	671	(1,801)	616,069	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%

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

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

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

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

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

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

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

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

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

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31, 2000	1999	1998
Long-term farm mortgage	$ 3,994,162	$ 3,989,762	$ 3,829,726
Production and intermediate-term	5,599,288	4,989,289	4,969,359
Rural home	912,740	831,130	765,377
Farm-related business	114,242	74,248	58,183
Utility	312,625	171,629	65,700
Lease Receivables	20,974	28,331	34,496
OFIs	1,852	2,820	3,625
Other	139,293	77,464	168,409
Total	$ 11,095,176	$ 10,164,673	$ 9,894,875

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:

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

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

The following table presents information relating to impaired loans.

	December 31,		
	2000	**1999**	**1998**
Nonaccrual:			
Current as to principal and interest	$ 34,751	$ 51,171	$ 58,350
Past due	31,974	42,542	41,926
Accrual:			
Restructured	10,786	14,406	19,423
90 days or more past due	4,549	5,548	4,088
Total impaired loans	$ 82,060	$ 113,667	$ 123,787

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2000.

Interest income recognized on nonaccrual loans totaled $15,562, $17,707 and $22,945 in 2000, 1999 and 1998, respectively. In 2000, this amount consisted of $3,263 of interest income recognized on transfer to accrual status, while $12,299 consisted of cash payments on nonaccrual loans qualifying for income recognition.

The average recorded investment in impaired loans during 2000, 1999 and 1998 was $90,898, $98,610 and $113,995, respectively. Impaired loans of $10,598, $11,990 and $8,784 at December 31, 2000, 1999 and 1998 had a related specific allowance for loan losses totaling $6,549, $8,270 and $5,607, respectively. The District recognized interest income on impaired loans of $18,849, $26,830 and $29,051 in 2000, 1999 and 1998, respectively.

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

	Year Ended December 31,		
	2000	**1999**	**1998**
Balance at beginning of year	$ 278,953	$ 269,906	$ 259,056
Provision for (reversal of) loan losses	7,619	12,312	12,845
Loans charged off	(2,795)	(4,522)	(3,652)
Recoveries	1,089	1,257	1,657
Balance at end of year	$ 284,866	$ 278,953	$ 269,906

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
	2000	**1998**	**1997**
Land	$ 11,390	$ 11,419	$ 11,628
Buildings and improvements	64,270	62,752	63,652
Furniture and equipment	69,830	65,459	62,216
	145,490	139,630	137,496
Less: accumulated depreciation	76,935	75,645	71,202
Total	$ 68,555	$ 63,985	$ 66,294

Note 6 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31,		
	2000	**1999**	**1998**
Other assets:			
Prepaid expenses	$ 204	$ 689	$ 1,105
Net deferred tax asset	31,711	28,672	26,570
Financial Assistance Corporation Prefunding (Note 11)	—	2,728	14,125
Unamortized debt issue costs	4,438	4,882	3,527
Prepaid pension costs	49,795	46,386	40,662
Receivables and other	27,347	23,712	29,844
Total	$ 113,495	$ 107,069	$ 115,833
Other liabilities:			
Other postretirement benefits liability	$ 54,255	$ 47,455	$ 42,862
Accounts payable	52,132	45,099	80,490
Financial Assistance Corporation payable	10,826	12,554	15,083
Other	49,880	50,054	29,198
Total	$ 167,093	$ 155,162	$ 167,633

Note 7 — Bonds and Notes

The District's participation in bonds and notes follows:

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

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

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

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

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

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

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

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

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

See Note 15 for a discussion of derivative financial instruments.

Note 8 — Members' 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, 2000:

Class	Protected Status	Shares Outstanding Number	Aggregate Par Value
A Common Nonvoting	Yes	143,200	$ 716
A Common Nonvoting	No	497,400	2,487
B Common Nonvoting	Yes	4,066,200	20,331
B Common Nonvoting	No	41,800	209
B Common Voting	No	1,769,600	8,848
C Common Voting	No	16,997,400	84,987
B Participation Certificates	Yes	517,400	2,587
C Participation Certificates	No	1,613,000	8,065
Participation Certificates	No	555,600	2,778
A Preferred	No	2,322,600	11,613
C Preferred	No	48,200	241
Total Association Capital Stock and Participation Certificates		28,572,400	$ 142,862

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, 2000, combined allocated retained earnings consisted of $669,813 of qualified and $34,197 of nonqualified distributions. Nonqualified distributions are tax deductible only when redeemed.

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 $13,230 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, 2000, *Ag***First** had $398 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, 2000.

	Permanent Capital Ratio Ranges	Core Surplus Ratio Ranges	Total Surplus Ratio Ranges
*Ag***First**	16.92%	10.42%	15.50%
District Associations	13% – 28%	8% – 27%	10% – 27%

In addition, *Ag***First** is required to achieve and maintain net collateral of 103 percent of total liabilities. At December 31, 2000, *Ag***First**'s collateral ratio was 104.95 percent.

Included in the above table as of December 31, 2000, is one Association that has 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, 2001, thirteen District Associations also reorganized as parent-subsidiary structures.

All District entities were in compliance with the required minimum capital standards at December 31, 2000.

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 9 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31, 2000	1999	1998
Current:			
Federal	$ 9,483	$ 13,067	$ 12,227
State	1,519	1,816	2,035
	11,002	14,883	14,262
Deferred:			
Federal	(3,113)	(2,025)	385
State	74	(77)	103
	(3,039)	(2,102)	488
Total provision for income taxes	$ 7,963	$ 12,781	$ 14,750

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, 2000	1999	1998
Federal tax at statutory rate	$ 82,464	$ 78,526	$ 79,276
State tax, net	1,593	1,816	2,035
Association patronage distributions	(61,180)	(56,034)	(60,587)
Nontaxable Bank income	(9,996)	(9,632)	(4,269)
Possessions credit (Puerto Rico)	(1,135)	(1,056)	(1,146)
Other	(3,783)	(839)	(559)
Provision for income taxes	$ 7,963	$ 12,781	$ 14,750

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

	December 31, 2000	1999	1998
Allowance for loan losses	$ 26,881	$ 23,959	$ 21,841
Annual leave	1,061	1,058	998
Nonaccrual loan interest	3,526	2,962	2,905
Postretirement benefits other than pensions	5,002	3,720	2,883
Financial assistance payable	224	231	589
Nonqualified patronage distributions	13,042	11,995	11,805
Other	1,318	983	295
Gross deferred tax asset	51,054	44,908	41,316
Deferred tax asset valuation allowance	(1,050)	(2,056)	(1,780)
Future Bank stock redemptions	(4,495)	(4,679)	(6,019)
Bank patronage	(5,542)	(3,372)	(2,303)
State income tax	(714)	(128)	(302)
Loan fees	(2,457)	(1,176)	(762)
Pensions	(4,194)	(3,651)	(2,907)
Depreciation	(276)	(166)	(382)
Other	(615)	(1,008)	(291)
Gross deferred tax liability	(18,293)	(14,180)	(12,966)
Net deferred tax asset	$ 31,711	$ 28,672	$ 26,570

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 of future nonpatronage income (ranging up to 24 percent of total taxable income) and assumptions of patronage income retained (ranging up to 50 percent of total patronage income). 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 10 — Employee Benefit Plans

There are three defined benefit plans within the District. The first plan (the District Plan) covers employees of 27 Associations and *Ag***First**. The second plan covers employees of four ACAs, and the third plan covers employees of the PCA. 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, 2000	1999	1998
Benefit obligations	$ 241,090	$ 250,788	$ 206,371
Fair value of plan assets	300,831	284,717	250,801
Funded status	$ 59,741	$ 33,929	$ 44,430
Prepaid benefit cost recognized in the Balance Sheet	$ 49,795	$ 46,386	$ 40,662
Weighted-average assumptions:			
Discount rate	7.17%	7.00%	7.89%
Expected return on plan assets	9.00%	9.00%	8.12%
Rate of compensation increase	4.00%	4.30%	4.21%

	2000	1999	1998
Benefit cost	$ 5,785	$ 4,621	$ 1,297
Employer contributions	11,088	7,716	6,204
Benefits paid	19,305	17,269	12,024

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 $2,977, $2,940 and $2,684 for 2000, 1999 and 1998, 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, 2000	1999	1998
Benefit obligations	$ 76,922	$ 63,080	$ 50,317
Fair value of plan assets	665	667	652
Funded status	$ (76,257)	$ (62,413)	$ (49,665)
Prepaid (accrued) benefit cost recognized in the Balance Sheet	$ (54,255)	$ (47,455)	$ (42,861)
Weighted-average assumptions			
Discount rate	7.00%	7.00%	8.00%
Expected return on plan assets	9.00%	9.00%	8.00%

	2000	1999	1998
Benefit cost	$ 10,344	$ 8,143	$ 5,387
Contributions to plan	4,545	4,604	3,952
Benefits paid	4,600	3,385	3,225

For measurement purposes, a 7.00 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5.00 percent for 2001 and remain at that level thereafter.

Note 11 — 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 $17 million, $27 million and $26 million in 2000, 1999 and 1998, respectively.

Note 12 — 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, 2000, amounted to $165,470. During 2000, $103,242 of new loans were made and repayments totaled $134,051. In the opinion of management, no material amounts outstanding at December 31, 2000, involved more than a normal risk of collectibility.

Note 13 — Regulatory Enforcement Matters

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

Note 14 — 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, 2000, were $76 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.

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. In August 2000, the model ACA reached a settlement agreement with the IRS resolving the taxability of the prior years' earnings from its long-term mortgage lending activities. The settlement agreement provided for 60 percent of the refund claimed to be returned to the ACA, plus interest for the applicable periods. This settlement agreement also confirmed that all income generated by an ACA will be taxable in future periods. However, an ACA may reorganize to operate their long-term mortgage lending activities through a newly created FLCA and their short- and intermediate-term lending activities through a newly created PCA subsidiary. Income earned by the FLCA subsidiary is exempt from taxation.

This settlement agreement will be the model for other ACAs. Each ACA will be required to sign a separate settlement agreement with the IRS based on the model settlement. Upon completion of an individual settlement agreement with the IRS, each ACA will recognize its expected refund from the IRS as income. The amount of the ACAs' refunds recorded in future periods is expected to reduce the provision for income taxes. As of December 31, 2000, $3,368 has been recognized as ACA federal tax refund amounts and $963 has been recognized as interest related to the federal tax refund.

Note 15 — Financial Instruments With Off-Balance-Sheet Risk

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

	Contract or Notional Amount
Financial instruments whose contract amounts represent the credit risk:	
Commitments to extend credit	$ 2,061,311
Standby letters of credit	33,237
	$ 2,094,548
Financial instruments whose notional or contract amounts exceed the credit risk:	
Interest rate swap contracts	$ 1,811,433
Interest rate cap contracts	441,205
	$ 2,252,638

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

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

The District also provides standby letters of credit to guarantee the performance of customers to third parties. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees, if any, for these instruments are recognized in the balance sheet (as other liabilities) until the commitments are fulfilled or expire. Since some of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements.

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

B. **Derivative Financial Instruments**

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

Interest rate swaps are used by *Ag***First** for three primary purposes. First, in connection with *Ag***First**'s long-term borrowings *Ag***First** may simultaneously enter into an interest rate swap to alter its effective terms from fixed rate to floating rate or vice versa. In these transactions, the net interest rate *Ag***First** agrees to pay on the borrowings and the swaps is more attractive than the rate that could have been achieved directly in the debt market. Second, the repricing structure of *Ag***First**'s interest earning assets is subject to change as borrower demand for various products and maturities changes. When changes in *Ag***First**'s asset structure result in an asset-liability mismatch, interest rate swaps are used to restructure the repricing characteristics of *Ag***First**'s liabilities to better match the asset structure. Third, *Ag***First** is a party to 5 and 6-year remaining maturity swap agreements entered into in order to hedge the periodic cap risk on GNMA ARM securities.

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

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

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

The credit exposure that results from interest rate contracts is represented by the fair value of contracts with a positive fair value at the reporting date. The fair values of all financial instruments are summarized in Note 16.

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

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

Activity in derivative products is summarized as follows:

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

Note 16 — 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, 2000, 1999 and 1998. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The estimated fair values of the District's financial instruments are as follows:

	December 31, 2000		December 31, 1999		December 31, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Loans	$ 11,095,176	$ 11,127,840	$ 10,164,673	$ 10,201,141	$ 9,894,875	$ 10,105,313
Allowance for loan losses	(284,867)	—	(278,953)	—	(269,906)	—
Loans, net	$ 10,810,309	$ 11,127,840	$ 9,885,720	$ 10,201,141	$ 9,624,969	$ 10,105,313
Cash & investment securities	$ 2,329,703	$ 2,329,703	$ 2,495,533	$ 2,495,533	$ 2,010,577	$ 2,010,577
Related interest rate swaps	(3,413)	(3,413)	(2,254)	(2,254)	(5,120)	(5,120)
Net cash & investment securities	$ 2,326,290	$ 2,326,290	$ 2,493,279	$ 2,493,279	$ 2,005,457	$ 2,005,457
Financial liabilities:						
Systemwide debt securities	$ 11,014,557	$ 11,032,565	$ 10,327,067	$ 10,244,399	$ 9,670,419	$ 9,687,452
Financial assistance related liabilities*	$ 10,826	$ 14,682	$ 12,554	$ 16,740	$ 15,083	$ 24,012
Unrecognized financial instruments:						
Interest rate swaps:						
Net receivable position	$ 26	$ 4,784	$ 42	$ 626	$ 212	$ 852
Net payable position	$ 2,539	$ 7,403	$ 1,279	$ 21,837	$ 137	$ 33
Other derivative financial instruments	$ 303	$ 558	$ 381	$ 1,914	$ 550	$ 926

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

The carrying amounts in the table are included in the balance sheet under the indicated captions, except for unrecognized financial instruments. The carrying amounts for interest rate swaps represent the net amounts receivable or payable under the contracts and are included in accrued interest payable in the balance sheet.

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

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

D. **Bonds and Notes:** 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 11, 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 Financial Instruments:** The fair value of derivative financial instruments is the estimated amounts that *Ag***First** would receive or pay to replace the instruments at the reporting date, considering current interest rates and the current creditworthiness of the counterparties. Where such quoted market prices do not exist, these values are determined through independent sources.

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

Note 17 — Quarterly Financial Information (Unaudited)

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

	2000				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 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

	1998				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 104,411	$ 104,937	$ 106,778	$ 110,369	$ 426,495
Provision for loan losses	1,217	2,188	4,227	5,213	12,845
Noninterest income (expense), net	(45,371)	(48,201)	(52,474)	(49,187)	(195,233)
Net income	$ 57,823	$ 54,548	$ 50,077	$ 55,969	$ 218,417

Note 18 — Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheet

	December 31,		
	2000	**1999**	**1998**
Cash, cash equivalents and investment securities	$ 2,241,674	$ 2,444,638	$ 1,933,924
Loans			
to District Associations	7,807,248	7,112,879	7,198,474
to Others	1,689,255	1,459,938	1,168,731
Total Loans	9,496,503	8,572,817	8,367,205
Less: allowance for loan losses	21,416	19,466	12,467
Net loans	9,475,087	8,553,351	8,354,738
Other assets	197,338	193,144	186,064
Total assets	$ 11,914,099	$ 11,191,133	$ 10,474,726
Bonds and notes	$ 11,014,557	$ 10,327,067	$ 9,670,419
Other liabilities	211,768	215,687	175,681
Total liabilities	11,226,325	10,542,754	9,846,100
Capital stock and participation Certificates	301,189	300,088	305,406
Retained earnings	388,035	359,325	329,305
Accumulated other comprehensive income (loss)	(1,450)	(11,034)	(6,085
Total members' equity	687,774	648,379	628,626
Total liabilities and members' equity	$ 11,914,099	$ 11,191,133	$ 10,474,726

Statement of Income

	Year Ended December 31,		
	2000	**1999**	**1998**
Interest income	$ 775,601	$ 680,805	$ 665,610
Interest expense	640,437	534,991	537,835
Net interest income	135,164	145,814	127,775
Provision for loan losses	2,500	7,050	2,200
Net interest income after provision for loan losses	132,664	138,764	125,575
Noninterest income	6,631	7,924	5,853
Noninterest expenses			
Salaries and employee benefits	16,191	15,938	15,912
Occupancy and equipment	6,232	4,666	4,395
Insurance Fund Premium	11	908	311
Other operating expenses	8,996	10,656	8,980
Intra-System financial assistance expenses	17,317	27,317	26,392
Miscellaneous	505	639	3,753
Total noninterest expenses	49,252	60,124	59,743
Net income	$ 90,043	$ 86,564	$ 71,685