SECOND QUARTER 2001

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July 25, 2001

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

(dollars in thousands, except as noted)

The following discussion reviews the consolidated financial condition and results of operations of *Ag***First** *Farm Credit Bank* (*Ag***First**) and its subsidiary for the three months and six months ended June 30, 2001. These comments should be read in conjunction with the accompanying financial statements and the 2000 Annual Report of *Ag***First** *Farm Credit Bank* and its subsidiary.

FINANCIAL OVERVIEW

- Net income for the three months ended June 30, 2001 was $31,332, an increase of $8,715 or 38.5 percent, compared to the three months ended June 30, 2000. Net income for the six months ended June 30, 2001 was $56,849, an increase of $10,607 or 22.9 percent, compared to the same period ended June 30, 2000. The three month increase was primarily attributed to an $8,553 increase in net interest income and a $1,459 increase in noninterest income related to loan fees from the participation and secondary market portfolios, all of which were partially offset by an increase of $1,794 in noninterest expense related to the write-off of unamortized expenses related to called debt. The year-to-date increase in net income was primarily attributed to a $10,274 increase in net interest income, $2,731 in gains on the sales of investments, and an increase of $1,723 in noninterest income mostly due to participation loan fees, all of which were partially offset by an increase of $3,326 in noninterest expense related to called debt.

- Total assets increased 6.4 percent from December 31, 2000 to June 30, 2001 due primarily to an $817,522 increase in gross loans outstanding and accrued interest receivable, which was partially offset by a decrease of $65,926 in investments and cash and cash equivalents. Other assets increased $10,004, which was primarily related to adjustments for SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and $2,674 in deferred fees related to the issuance of the preferred stock.

- Total liabilities increased 4.3 percent compared to December 31, 2000. Bonds and notes outstanding at June 30, 2001 increased $564,208 in order to fund the above noted additional loan volume. Additionally, *Ag***First** issued $225 million of mandatorily redeemable preferred stock, which also contributed to the funding of the additional loan volume (Refer to Note 4 for additional information).

- Other liabilities decreased from December 31, 2000 by $59,813 due to the payment of patronage to the District Associations, which had been accrued at December 31, 2000.

- Credit quality in the *Ag***First** portfolio at June 30, 2001 remained relatively stable compared to December 31, 2000 and June 30, 2000. Nonaccrual loan assets in the *Ag***First** loan portfolio at June 30, 2001 are $823, compared to $902 at December 31, 2000 and $12,399 at June 30, 2000.

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

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2001 was $10,319,346, an 8.7 percent increase compared to December 31, 2000 volume and a 17.2 percent increase compared to June 30, 2000. These increases are attributed to additional volume in District Association direct notes, as well as growth within the participation loan portfolio and secondary market loan portfolio.

The allowance for loan losses at June 30, 2001 of $22,416 is .22 percent of total gross loan volume and 1.57 percent of *Ag***First**'s participation volume. Management considers the allowance to be adequate to absorb potential losses on existing loans.

Liquidity and Funding Sources

As of June 30, 2001, *Ag***First** exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratios applied under the FCA Regulations. At June 30, 2001, *Ag***First**'s permanent capital ratio was 17.23 percent, its core surplus ratio was 9.07 percent, its total surplus ratio was 16.03 percent, and its net collateral ratio was 106.80 percent. Cash and investment securities totaled $2,175,748, or 17.16 percent of total assets. Interest-bearing liabilities, consisting of bonds and notes, increased by $564,208, or 5.12 percent, compared to bonds and notes outstanding at December 31, 2000. Interest-bearing liabilities were increased in order to fund a portion of the increase in loan volume, with the issuance of the preferred stock also contributing to the funding of the additional loan volume.

Capital Resources

Total shareholders' equity, excluding preferred stock, increased $59,770 from December 31, 2000 to June 30, 2001. This 8.7 percent net increase is the result of an increase of $56,849 in retained earnings, offset by $2,308 in accrued and paid dividends related to preferred stock, and an increase of $4,092 in accumulated other comprehensive income.

Key financial condition comparisons:

	6/30/01	**12/31/00**
Shareholders' Equity* to Assets	5.90%	5.77%
Shareholders' Equity and Preferred Stock to Assets	7.68%	N/A
Allowance for Loan Losses to Loans	.22%	.23%

** Excludes preferred stock. (See Note 4.)*

RESULTS OF OPERATIONS

Net interest income for the three months ended June 30, 2001 was $40,993 compared to $32,440 for the same period in the prior year or a 26.4 percent increase. For the six months ended June 30, 2001, net interest income was $76,054 compared to $65,780 for the same period of 2000. The increases in net interest income for the three months and six months are due primarily to the increased average volume in earning assets for each of the periods measured.

Noninterest income increased $1,462 for the quarter ended June 30, 2001, and increased $4,307 for the six months ended June 30, 2001, compared to the same periods of 2000. The three months ended June 30, 2001 increase is primarily attributed to an $873 increase in commitment and other fees related to participation loans, as well as a $599 increase in loan prepayment fees. The year-to-date increase is mostly due to $2,731 related to gain on sale of investments, a $662 increase in loan prepayment fees, a $587 increase in commitment fees, a $325 increase in other fees related to participation loans, and a $182 increase in secondary market fees.

Noninterest expense for the three and six months ended June 30, 2001 was $12,584 and $25,416 respectively, an increase of $1,300 and $2,974 respectively, as compared to the corresponding periods of 2000. The three-month and six-month increases were primarily attributed to the expense related to called debt.

Key results of operations comparisons:

	Annualized for the six months ended 6/30/01	For the year ended 12/31/00
Return on Average Assets	.95%	0.81%
Return on Average Shareholders' Equity *	15.28%	12.72%
Net Interest Income as a Percentage of Average Earning Assets	1.28%	1.23%

** Excludes preferred stock. (See Note 4.)*

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2001**	**December 31, 2000**
	(unaudited)	
Assets		
Cash and cash equivalents	$ 242,591	$ 241,588
Investment securities	1,933,157	2,000,086
Loans	10,319,346	9,496,503
Less: allowance for loan losses	22,416	21,416
Net loans	10,296,930	9,475,087
Accrued interest receivable	66,780	72,101
Investments in other Farm Credit System institutions	77,218	78,623
Premises and equipment, net	15,180	9,889
Other assets	46,729	36,725
Total assets	$ 12,678,585	$ 11,914,099
Liabilities		
Bonds and notes	$ 11,578,765	$ 11,014,557
Accrued interest payable	95,190	120,708
Other liabilities	31,247	91,060
Total liabilities	11,705,202	11,226,325
Commitments and contingencies		
Preferred Stock (Note 4)	225,839	—
Shareholders' Equity		
Capital stock and participation certificates	302,326	301,189
Retained earnings	442,576	388,035
Accumulated other comprehensive income (loss)	2,642	(1,450)
Total shareholders' equity	747,544	687,774
Total liabilities and equity	$ 12,678,585	$ 11,914,099

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

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2001	For the three months ended June 30, 2000	For the six months ended June 30, 2001	For the six months ended June 30, 2000
Interest Income				
Investment securities and other	$ 28,258	$ 35,963	$ 63,124	$ 71,227
Loans	162,816	151,635	329,089	294,552
Total interest income	191,074	187,598	392,213	365,779
Interest Expense	150,081	155,158	316,159	299,999
Net interest income	40,993	32,440	76,054	65,780
Provision for loan losses	—	—	1,000	—
Net interest income after provision for loan losses	40,993	32,440	75,054	65,780
Noninterest Income				
Loan fees	2,442	983	3,819	2,096
Realized gains (losses) on investments, net	89	—	2,731	—
Miscellaneous	392	478	661	808
Total noninterest income	2,923	1,461	7,211	2,904
Noninterest Expenses				
Salaries and employee benefits	3,811	3,891	7,864	7,766
Occupancy and equipment	1,276	1,379	2,744	2,749
Other operating expenses	2,141	2,240	4,489	4,421
Intra-System financial assistance expenses	3,479	3,749	6,896	7,448
Miscellaneous	1,877	25	3,423	58
Total noninterest expenses	12,584	11,284	25,416	22,442
Net income	$ 31,332	$ 22,617	$ 56,849	$ 46,242

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

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 1999	$ —	$ 300,088	$ 359,325	$ (11,034)	$ 648,379
Comprehensive income					
Net income			46,242		46,242
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				546	546
Total comprehensive income					46,788
Capital stock/participation certificates issued/retired, net		(2,400)			(2,400)
Balance at June 30, 2000	$ —	$ 297,688	$ 405,567	$ (10,488)	$ 692,767
Balance at December 31, 2000	$ —	$ 301,189	$ 388,035	$ (1,450)	$ 687,774
Comprehensive income					
Cumulative effect of a change in accounting for derivatives				(1,037)	(1,037)
Net income			56,849		56,849
Unrealized gains (losses) on investments available for sale and derivative instruments				5,129	5,129
Total comprehensive income					60,941
Preferred stock issued	225,000				225,000
Capital stock/participation certificates issued/retired, net		1,137			1,137
Preferred stock dividends paid			(1,469)		(1,469)
Preferred stock dividends accrued	839		(839)		—
Balance at June 30, 2001	$ 225,839	$ 302,326	$ 442,576	$ 2,642	$ 973,383

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2001	2000
Cash flows from operating activities:		
Net income	$ 56,849	$ 46,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	1,077	1,072
Provision for loan losses	1,000	—
Realized (gains) losses on investments, net	(2,731)	—
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	5,321	(3,185)
(Increase) decrease in investments in other Farm Credit System institutions	1,405	(44)
(Increase) decrease in other assets	(10,004)	7,936
Increase (decrease) in accrued interest payable	(25,518)	3,571
Increase (decrease) in other liabilities	(59,813)	(73,878)
Total adjustments	(89,263)	(64,528)
Net cash provided by (used in) operating activities	(32,414)	(18,286)
Cash flows from investing activities:		
Investment securities purchased	(842,129)	(1,398,804)
Investment securities sold or matured	919,189	1,459,113
Net (increase) decrease in loans	(822,843)	(235,709)
Purchase of premises and equipment, net	(6,368)	(2,407)
Net cash provided by (used in) investing activities	(752,151)	(177,807)
Cash flows from financing activities:		
Bonds and notes issued	21,109,468	11,893,011
Bonds and notes retired	(20,548,568)	(11,814,167)
Preferred stock issued	225,000	—
Capital stock and participation certificates issued/retired, net	1,137	(2,400)
Dividends paid on preferred stock	(1,469)	—
Net cash provided by (used in) financing activities	785,568	76,444
Net increase (decrease) in cash and cash equivalents	1,003	(119,649)
Cash and cash equivalents, beginning of period	241,588	342,874
Cash and cash equivalents, end of period	$ 242,591	$ 223,225
Supplemental schedule of non-cash investing and financing activities:		
Accrued dividends on preferred stock	$ 839	$ —
Change in unrealized gains (losses) on investments and derivative instruments, net	5,129	546
Supplemental information:		
Interest paid	$ 341,677	$ 296,428

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

Notes to the Consolidated Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of *Ag***First** *Farm Credit Bank* (*Ag***First**) and the accounts of the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation), a wholly owned subsidiary (collectively referred to as the Bank). All significant transactions and balances among the Bank and the Finance Corporation have been eliminated in consolidation.

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

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

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

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with accounting principles generally accepted in the United States (GAAP). The results for the six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001.

The Bank maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2001, the allowance for losses was adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-99	$ 19,466
Provision for loan losses	—
Loans (charged off), net of recoveries	—
Balance at 6-30-00	$ 19,466
Balance at 12-31-00	$ 21,416
Provision for loan losses	1,000
Loans (charged off), net of recoveries	—
Balance at 6-30-01	$ 22,416

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

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

NOTE 4 — PREFERRED STOCK

On May 17, 2001, *Ag***First** issued $225 million of Class A Cumulative Preferred Stock, which represents 225,000 shares at $1 thousand per share par value and is mandatorily redeemable on December 15, 2016. Dividends on this preferred stock are payable on June 15th and December 15th of each year beginning June 15, 2001 through December 2011 at the rate of 8.393 percent per annum of the par value of $1 thousand per share. Thereafter, dividends will be paid in arrears on the fifteenth day of each March, June, September and December of each year, commencing March 15, 2012. Beginning March 15, 2012, the rate will change to a variable rate. On or after the dividend payment date in December 2011, the preferred stock will be redeemable in whole or in part at the option of *Ag***First** on any dividend payment date at its par value plus accrued and unpaid dividends.