FIRST QUARTER 2002

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F. A. Lowrey

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Chief Executive Officer

Richard Kriebel

Richard Kriebel
Chairman of the Board

April 29, 2002

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of *Ag***First** *Farm Credit Bank* (*Ag***First**) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, for the three months ended March 31, 2002. These comments should be read in conjunction with the accompanying financial statements and the 2001 Annual Report of *Ag***First** *Farm Credit Bank* and District Associations.

As of January 1, 2002, the District consisted of *Ag***First**, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-four Agricultural Credit Associations.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2002 was $13,251,120, an increase of $373,231 or 2.89 percent as compared to December 31, 2001, and an increase of $1,878,783 or 16.52 percent compared to March 31, 2001. The increases as of March 31, 2002, continue to be consistent with the trends in other Farm Credit Institutions and are attributed to a generally favorable, albeit volatile, agricultural economy. Despite record-low commodity prices, net farm income is projected to reach record-highs due to government payments. The drop in commodity prices, driven by a strong dollar and excess supply, coupled with perceived uncertainty of continuing government support apparently prompted some commercial lenders to begin limiting their exposures to agriculture. Consistent with its mission, the Farm Credit System has not backed away from its commitment to provide sound, adequate and constructive credit to eligible, credit-worthy borrowers.

Loan growth is also attributed, in part, to the growing favor with which borrowers are viewing Associations due to the Associations' patronage payments. Associations generally operate as cooperatives, and as such, distribute earnings to member/borrowers through patronage distributions. This tangible benefit of borrowing from an Association has had a positive impact on the Associations' ability to attract and retain loan volume.

Credit quality remained relatively consistent during the first quarter of 2002 compared to December 31, 2001 and March 31, 2001. Nonaccrual loan assets for the combined District at March 31, 2002 were .62 percent of total loans outstanding as compared to .56 percent at December 31, 2001 and .59 percent at March 31, 2001. The allowance for loan losses at March 31, 2002 of $304,285, or 2.29 percent of gross loan volume, is considered by management to be adequate to absorb potential losses on existing loans. Refer to Note 2, "Allowance for Loan Losses" in the notes to the combined financial statements of this report for further information.

Liquidity and Funding Sources

As of March 31, 2002, *Ag***First** and all District Associations exceeded all regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled $1,926,811 or 12.64 percent of total assets at March 31, 2002, compared to $2,002,864 or 13.39 percent as of December 31, 2001. Interest-bearing liabilities, consisting of bonds and notes, increased by $274,524 or 2.26 percent, compared to bonds and notes outstanding at December 31, 2001. Interest-bearing liabilities were increased in order to fund the increase noted above in loan volume.

Capital Resources

Total shareholders' equity increased $22,805 from December 31, 2001 to March 31, 2002. The increase was primarily the result of $72,823 related to net income for the quarter and stock issuances of $3,396, which were partially offset by retirements of surplus of $37,817, stock retirements of $8,851, accrued preferred stock dividends of $4,721, and cash patronage payments of $2,424.

Key financial condition comparisons:

	3/31/02	**12/31/01**
Shareholders' Equity to Assets	15.11%	15.24%
Total Liabilities to Shareholders' Equity	5.52:1	5.46:1
Allowance for Loan Losses to Loans	2.30%	2.34%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended March 31, 2002 was $130,491 compared to $113,130 in the same period of 2001. The $17,361 increase resulted from the growth in accruing loan volume (discussed above) and the Bank's ability to exercise call options on debt in a favorable interest rate environment, offset somewhat by lower earnings on assets funded with Association net worth.

During 2001, *Ag***First** executed call options on a significant volume of fixed-rate debt, replacing the called debt with lower-cost, fixed-rate debt. Although loan prepayment activity offsets a portion of the benefit achieved by calling debt, the efficiency of calling large blocks of debt results in a significant improvement in net interest margin.

The lower interest rates that enable *Ag***First** to exercise call options on debt have a negative impact on Association net interest income. In funding Association loans, each Association's net worth is primarily used to fund variable rate loans. Such a funding strategy preserves the market value of the Associations' net worth in any rate environment, but exposes the Associations to variances in net interest income as short-term rates rise and fall. In other words, from a stockholder's point-of-view, his or her investment in an Association behaves like a variable rate instrument.

Noninterest Income

Noninterest income for the three months ended March 31, 2002 was $14,315, an increase of $5,625 as compared to the same period in 2001. The increase was primarily attributed to a $3,967 increase in loan fees. Of this amount, $1,706 was related to secondary mortgage market activities and $1,000 was related to its participation loan activity. Loan prepayment fees also increased in the amount of $713 and miscellaneous income increased $1,738 due mostly to interest income related to District Association federal tax settlement refunds.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2002 was $64,745, an increase of $10,102, as compared to the corresponding period in 2001. This increase was primarily attributed to the $6,065 variance in net realized losses on investments compared to gains recorded in 2001. During the first quarter of 2001, a gain of $2,642 was realized on the sale of investments and in the first quarter of 2002, $3,423 was recorded to write-off the remaining principal balance of an investment that was partially charged off in 2001. In addition, the first quarter of 2002 reflects increases of $1,516 in other operating expenses related to purchased services, $986 in Farm Credit System Insurance Corporation premiums, and $981 in salaries and employee benefits.

Provision for Income Taxes

The provision for income taxes for the three months ended March 31, 2002 was $3,688. This represents an increase of $2,364 in the income tax provision as compared to the same period in 2001. The increase in provision for this period was primarily attributed to the Associations' reorganization to form ACA Holding Company structures, which includes holding company related deferred tax asset adjustments of approximately $7.3 million. These adjustments were offset by decreases in federal tax effective rates related to the formation of tax-exempt Federal Land Credit Associations (FLCAs) and the recording of approximately $4.7 million in IRS settlement refunds year-to-date, as discussed in the "IRS Tax Settlement" section below.

Key results of operations comparisons:

	Annualized for the three months ended 3/31/02	**For the year ended 12/31/01**
Return on Average Assets	1.95%	2.15%
Return on Average Shareholders' Equity	12.67%	13.67%
Net Interest Income as a Percentage of Average Earning Assets	3.51%	3.46%
Chargeoffs, Net of (Recoveries), to Average Loans	.03%	.03%

IRS TAX SETTLEMENT

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

The terms of the settlement agreements stipulate that income generated by ACAs will be taxable in future periods. However, ACAs may reorganize, with the approval of their stockholders and Farm Credit Administration, to operate their long-term mortgage lending activities through a newly created FLCA subsidiary. As of January 1, 2002, twenty-one of the twenty-four District Associations have reorganized as parent-subsidiary structures. As part of the settlement agreement, the IRS has confirmed that FLCAs formed in this manner are tax-exempt. Effective tax rates for ACAs should be reduced in future years as the reorganizations occur. For the three months ended March 31, 2002, $4,738 was recognized as ACA federal tax refund amounts and $2,322 was recognized as interest related to the federal tax refunds. The refunds were offset by deferred tax asset write-offs totaling $7,318 for the first quarter of 2002.

Combined Balance Sheets

(dollars in thousands)	March 31, 2002	December 31, 2001
	(unaudited)	
Assets		
Cash and cash equivalents	$ 311,438	$ 339,541
Investment securities	1,615,373	1,663,323
Loans	13,251,120	12,877,889
Less: allowance for loan losses	304,285	301,615
Net loans	12,946,835	12,576,274
Accrued interest receivable	141,794	143,685
Investments in other Farm Credit System institutions	19,711	19,596
Premises and equipment, net	76,413	75,106
Other property owned	6,490	5,925
Other assets	126,952	138,243
Total assets	$ 15,245,006	$ 14,961,693
Liabilities		
Bonds and notes	$ 12,390,233	$ 12,115,709
Accrued interest payable	74,909	60,443
Dividends and patronage refunds payable	6,069	69,088
Other liabilities	239,887	210,071
Total liabilities	12,711,098	12,455,311
Commitments and contingencies		
Preferred Stock	230,560	225,839
Shareholders' Equity		
Protected borrower equity	17,067	19,261
Capital stock and participation certificates	124,033	127,271
Retained earnings		
Allocated	698,285	733,378
Unallocated	1,456,934	1,393,592
Accumulated other comprehensive income	7,029	7,041
Total shareholders' equity	2,303,348	2,280,543
Total liabilities and equity	$ 15,245,006	$ 14,961,693

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2002	2001
Interest Income		
Investment securities and other	$ 16,705	$ 34,873
Loans	208,502	244,386
Total interest income	225,207	279,259
Interest Expense	94,716	166,129
Net interest income	130,491	113,130
Provision for loan losses	3,550	2,792
Net interest income after provision for loan losses	126,941	110,338
Noninterest Income		
Loan fees	9,220	5,253
Fees for financially related services	833	913
Miscellaneous	4,262	2,524
Total noninterest income	14,315	8,690
Noninterest Expenses		
Salaries and employee benefits	36,078	35,097
Occupancy and equipment	5,326	5,154
Insurance Fund premium	986	—
Other operating expenses	13,480	11,964
Intra-System financial assistance expenses	3,904	3,420
Realized losses (gains) on investments, net	3,423	(2,642)
Miscellaneous	1,548	1,650
Total noninterest expenses	64,745	54,643
Income before income taxes and cumulative effect of a change in accounting principle	76,511	64,385
Provision for income taxes	3,688	1,324
Net income	$ 72,823	$ 63,061

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Protected Borrower Equity	At-Risk Equity: Capital Stock and Participation Certificates	At-Risk Equity: Retained Earnings: Allocated	At-Risk Equity: Retained Earnings: Unallocated	At-Risk Equity: Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2000	$ —	$ 23,634	$ 132,856	$ 704,010	$ 1,302,163	$ (1,450)	$ 2,161,213
Comprehensive income							
Cumulative effect of a change in accounting for derivatives						(1,037)	(1,037)
Net income					63,061		63,061
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						5,557	5,557
Change in fair value of derivative instruments						816	816
Total comprehensive income							68,397
Protected borrower equity retired		(587)					(587)
Capital stock/participation certificates issued/retired, net			(468)				(468)
Dividends declared/paid			86		(196)		(110)
Patronage distribution							
Cash					(2,683)		(2,683)
Retained earnings retired				(55,729)			(55,729)
Patronage distribution adjustment				2,279	(2,720)		(441)
Balance at March 31, 2001	$ —	$ 23,047	$ 132,474	$ 650,560	$ 1,359,625	$ 3,886	$ 2,169,592
Balance at December 31, 2001	$225,839	$ 19,261	$ 127,271	$ 733,378	$ 1,393,592	$ 7,041	$ 2,506,382
Comprehensive income							
Net income					72,823		72,823
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(1,424)	(1,424)
Change in fair value of derivative instruments						1,412	1,412
Total comprehensive income							72,811
Protected borrower equity retired		(2,194)					(2,194)
Capital stock/participation certificates issued/retired, net			(3,261)				(3,261)
Dividends declared/paid	4,721		23		(4,830)		(86)
Patronage distribution							
Cash					(2,424)		(2,424)
Nonqualified allocated retained earnings				11	(11)		—
Retained earnings retired				(37,817)			(37,817)
Patronage distribution adjustment				2,713	(2,216)		497
Balance at March 31, 2002	$230,560	$ 17,067	$ 124,033	$ 698,285	$ 1,456,934	$ 7,029	$ 2,533,908

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2002	2001
Cash flows from operating activities:		
Net income	$ 72,823	$ 63,061
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,954	2,589
Provision for loan losses	3,550	2,792
(Gains) losses on other property owned, net	60	(24)
Realized (gains) losses on investments, net	3,423	(2,642)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	1,891	902
(Increase) decrease in investments in other Farm Credit System institutions	(115)	170
(Increase) decrease in other assets	11,291	(3,994)
Increase (decrease) in accrued interest payable	14,466	(7,713)
Increase (decrease) in other liabilities	29,826	46,124
Total adjustments	67,346	38,204
Net cash provided by (used in) operating activities	140,169	101,265
Cash flows from investing activities:		
Investment securities purchased	(600,266)	(417,570)
Investment securities sold or matured	643,369	428,126
Net (increase) decrease in loans	(375,457)	(279,074)
Purchase of premises and equipment, net	(4,261)	(4,261)
Proceeds from sale of other property owned	711	783
Net cash provided by (used in) investing activities	(335,904)	(271,996)
Cash flows from financing activities:		
Bonds and notes issued	10,338,336	10,213,113
Bonds and notes retired	(10,062,400)	(9,966,759)
Protected borrower equity retired	(2,194)	(587)
Capital stock and participation certificates issued/retired, net	(3,261)	(468)
Patronage refunds and dividends paid	(65,032)	(56,409)
Retained earnings retired	(37,817)	(55,729)
Net cash provided by (used in) financing activities	167,632	133,161
Net increase (decrease) in cash and cash equivalents	(28,103)	(37,570)
Cash and cash equivalents, beginning of period	339,541	326,204
Cash and cash equivalents, end of period	$ 311,438	$ 288,634
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 745	$ 349
Loans transferred to other property owned	2,091	1,812
Patronage refund and dividends payable	2,510	2,793
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ (373)	$ —
Increase (decrease) in bonds and notes	(817)	—
Decrease (increase) in other assets	193	—
Increase (decrease) in other liabilities	(788)	—
Supplemental information:		
Interest paid	$ 80,250	$ 173,842
Taxes paid, net	(8,070)	778

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

Notes to the Combined Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies followed and the financial condition and results of operations of the combined Bank as of and for the year ended December 31, 2001, are contained in the 2001 Annual Report to Stockholders. These unaudited first quarter 2002 financial statements should be read in conjunction with the 2001 Annual Report to Stockholders.

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 of America (GAAP). The results for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

The District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of March 31, 2002, the allowances for losses are adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-00	$ 284,867
Provision for loan losses	2,792
Loans (charged off), net of recoveries	(450)
Balance at 3-31-01	$ 287,209
Balance at 12-31-01	$ 301,615
Provision for loan losses	3,550
Loans (charged off), net of recoveries	(880)
Balance at 3-31-02	$ 304,285

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. The total consolidated Systemwide debt securities of the System were $82.8 billion at March 31, 2002.

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

NOTE 4 — BANK ONLY FINANCIAL DATA

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

Balance Sheet Data

	3/31/02	**12/31/01** *(Audited)*
Cash and investment securities	$ 1,897,443	$ 1,928,577
Loans	11,415,731	11,128,810
Less: allowance for loan losses	26,385	25,616
Net loans	11,389,346	11,103,194
Other assets	208,910	201,634
Total assets	$ 13,495,699	$ 13,233,405
Bonds and notes	$ 12,390,233	$ 12,115,709
Other liabilities	110,869	163,909
Total liabilities	12,501,102	12,279,618
Preferred stock	230,560	225,839
Capital stock and participation certificates	279,165	281,803
Retained earnings	477,843	439,104
Accumulated other comprehensive income	7,029	7,041
Total shareholders' equity	764,037	727,948
Total liabilities and equity	$ 13,495,699	$ 13,233,405

NOTE 4 — BANK ONLY FINANCIAL DATA *(continued)*

Statement of Income Data

	For the three months ended March 31, 2002	2001
Interest income	$ 155,814	$ 201,139
Interest expense	94,706	166,078
Net interest income	61,108	35,061
Provision for loan losses	1,000	1,000
Net interest income after provision for loan losses	60,108	34,061
Noninterest income (expense), net	(16,648)	(8,544)
Net income	$ 43,460	$ 25,517