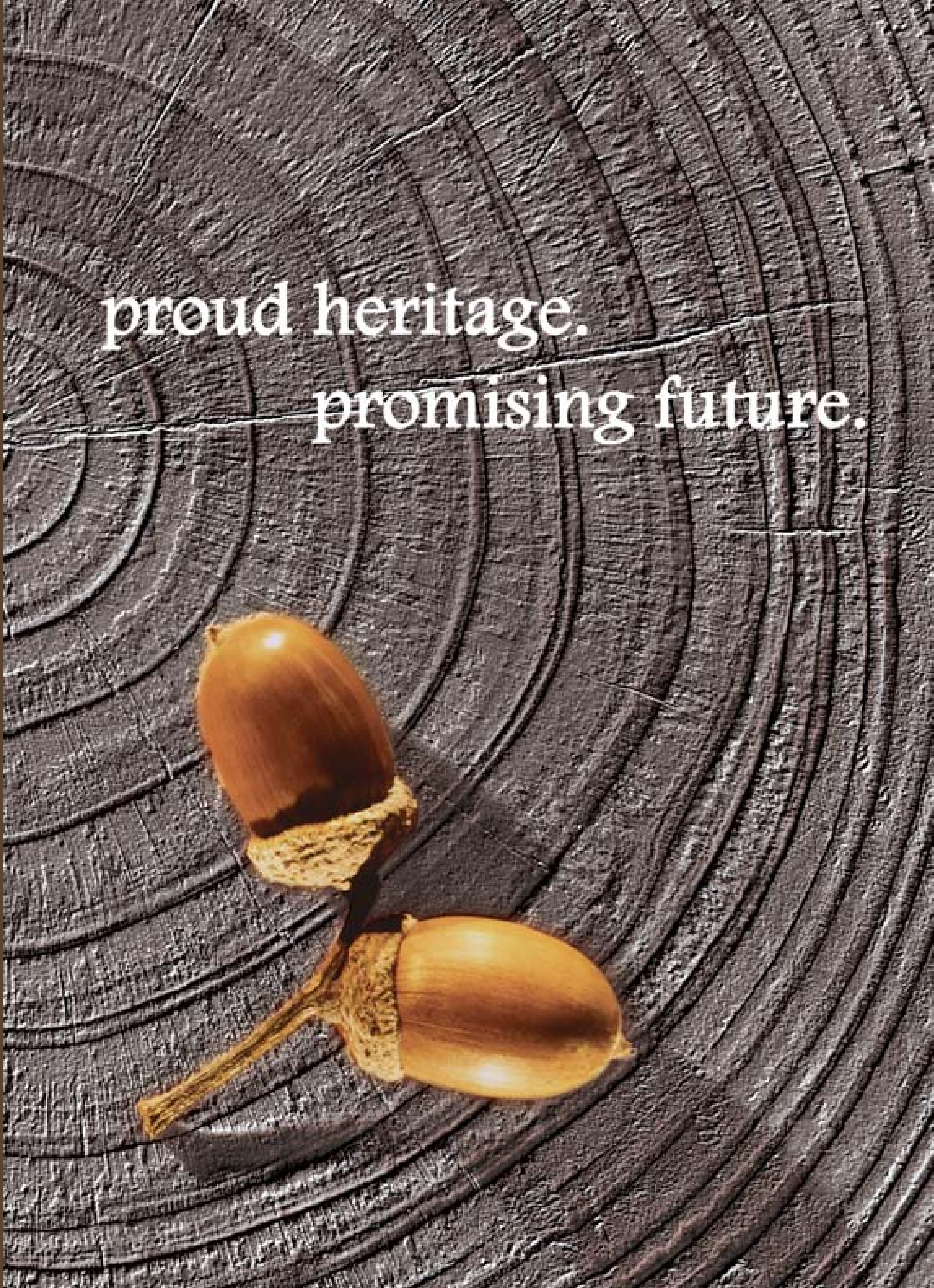
proud heritage. promising future.



AgFirst Farm Credit Bank 2002 Annual Report

“The creation of a thousand forests

is in one acorn.”

Ralph Waldo Emerson

Five-Year Summary of Selected Consolidated Financial Data (unaudited)

(dollars in thousands)	2002	2001	December 31, 2000	1999	1998
Consolidated Balance Sheet Data					
Cash and cash equivalents	**$ 359,819**	$ 265,254	$ 241,588	$ 342,874	$ 306,914
Investment securities	**2,153,118**	1,663,323	2,000,086	2,101,764	1,627,010
Loans	**12,008,041**	11,128,810	9,496,503	8,572,817	8,367,205
Less: allowance for loan losses	**31,155**	25,616	21,416	19,466	12,467
Net loans	**11,976,886**	11,103,194	9,475,087	8,553,351	8,354,738
Other assets	**211,367**	201,634	197,338	193,144	186,064
Total assets	**$ 14,701,190**	$ 13,233,405	$ 11,914,099	$ 11,191,133	$ 10,474,726
Obligations with maturities of one year or less	**$ 6,273,546**	$ 7,976,947	$ 6,556,988	$ 6,126,495	$ 7,275,126
Obligations with maturities greater than one year	**7,444,960**	4,302,671	4,669,337	4,416,259	2,570,974
Total liabilities	**13,718,506**	12,279,618	11,226,325	10,542,754	9,846,100
Preferred Stock	**225,839**	225,839	–	–	–
Capital stock and participation certificates	**249,444**	281,803	301,189	300,088	305,406
Retained earnings	**527,673**	439,104	388,035	359,325	329,305
Accumulated other comprehensive income (loss)	**(20,272)**	7,041	(1,450)	(11,034)	(6,085)
Total shareholders' equity	**756,845**	727,948	687,774	648,379	628,626
Total liabilities and equity	**$ 14,701,190**	$ 13,233,405	$ 11,914,099	$ 11,191,133	$ 10,474,726
Consolidated Statement of Income Data					
Net interest income	**$ 255,660**	$ 184,782	$ 135,164	$ 145,814	$ 127,775
Provision for loan losses	**8,000**	4,500	2,500	7,050	2,200
Noninterest income (expense), net	**(53,527)**	(49,676)	(42,621)	(52,200)	(53,890)
Net income	**$ 194,133**	$ 130,606	$ 90,043	$ 86,564	$ 71,685
Consolidated Key Financial Ratios					
Rate of return on average:					
Total assets	**1.43%**	1.05%	0.81%	0.81%	0.71%
Total shareholders' equity	**23.75%**	17.40%	12.72%	12.76%	10.86%
Net interest income as a percentage of average earning assets	**1.91%**	1.50%	1.23%	1.38%	1.28%
Net chargeoffs (recoveries) to average loans	**0.02%**	0.003%	0.01%	–	–
Total shareholders' equity to total assets	**5.15%**	5.50%	5.77%	5.79%	6.00%
Debt to shareholders' equity (:1)	**18.13**	16.87	16.32	16.26	15.66
Allowance for loan losses to loans	**0.26%**	0.23%	0.23%	0.23%	0.15%
Permanent capital ratio	**22.91%**	20.70%	16.92%	18.86%	20.87%
Total surplus ratio	**22.69%**	19.86%	15.50%	16.72%	18.71%
Core surplus ratio	**13.20%**	10.39%	10.42%	10.89%	11.78%
Collateral ratio	**105.94%**	106.38%	104.95%	104.93%	105.07%
Net Income Distribution					
Cash patronage	**$ 86,677**	$ 67,786	$ 61,333	$ 59,697	$ 59,417

TO OUR SHAREHOLDERS

Growing Wide Rings

A tree's rings show the climatic changes it has experienced throughout its life. A narrow ring indicates a year when growing conditions were poor. A wide ring signifies a year when growing conditions were optimal, a year when the tree was able to add a thick layer of wood to its trunk.

In a year when most companies grew narrow rings, AgFirst Farm Credit Bank once again laid down a wide ring—its fourth consecutive wide ring. In 2002, we enjoyed record earnings and exceptional growth. These earnings built capital to support future growth and made possible the largest distribution to our member-associations in our history. Associations, in turn, provided strong patronage distributions to their cooperative owners.

From the acorn Congress planted in 1916 when it established the Farm Credit System, AgFirst has grown into a strong, solid, stable oak, capable of withstanding the winds of change. The year 2002, with its uncertain economy and unstable markets, proved that AgFirst is, indeed, a mighty oak. Its deep roots provide a solid anchor for the rural economy.

Our purpose is clear, our performance is strong and our commitment to those we serve is unwavering.

From an Acorn

Acorns provide a vehicle for growth. By the time a single oak tree reaches 80 years of age, it produces thousands of acorns.

Our 86-year-old tree is producing millions of acorns. In 2002, AgFirst posted record earnings of $194.1 million and achieved a record 23.75 percent return on equity. Our balance sheet is sound and well-constructed, and our liquidity is well in excess of regulatory requirements. Asset quality remains high, and growth has continued at a strong but manageable pace, with an 11 percent increase in assets during 2002.

Nurturing Growth

Focus is an invaluable asset to any company. Our focus is and always has been improving the economic well-being of rural America. Toward this goal, we continue to focus on four major asset groups.


Andy Lowrey and Richard Kriebel

Association Funding. The 24 retail lending associations affiliated with AgFirst have continued to grow at a rapid pace. Why? Every year since 1989, they have paid patronage refunds to their borrowers, a total of $1.5 billion. Their growth proves that rural America appreciates the value of doing business on a cooperative basis.

As the associations have grown, our direct note has increased correspondingly. Behind this growth, proper portfolio management is addressed by diversification of loans held and sold.

Capital Markets. With approximately $1.6 billion in participations and syndications, our Capital Markets Unit provides needed liquidity to a vital part of rural America. Our borrowers include a wide range of businesses involved in the production of food and fiber, as well as rural utilities. We will continue seeking high-quality participations and syndications throughout the nation to grow our portfolio.

Secondary Mortgage Markets. Buying home and part-time farm loans from retail lenders across America, we meet a growing demand for the financing of rural housing. Rapidly declining interest rates have created a great deal of activity in this business line. During the year, we purchased $532 million in these types of assets, and today we service more than nine thousand loans. In addition, we sold $792 million of these assets in 2002, generating a $14 million gain.

Investments. We hold investments for the purposes of liquidity management and interest rate risk management. As a Government-Sponsored Enterprise, our access to funding is generally assured. If this access were temporarily unavailable, our high-quality, short-term investment portfolio would allow us to generate funds for an extended period of time without having to access the debt market.

Cultivating Value

The value proposition we create for our associations, their customers and rural America is without equal in our industry. Because we provide information systems and back-office support for our retail lenders, they don't have to make costly investments to create their own solutions. The resulting synergies and economies of scale—as well as our cooperative approach—create a competitive advantage for our associations.

To provide the value our customers have come to expect, we know we must constantly improve our systems. We've upgraded several systems over the past few years and plan to make more enhancements in the future. We're always looking for solutions that will save our associations time and money.

On October 8, 2001, we introduced Credit Delivery, a loan origination application system. During 2002, Credit Delivery was systematically delivered to our retail lenders, stabilized and improved. Fully implemented in July, more than 55,000 transactions were processed using this new tool, substantially improving our efficiency.

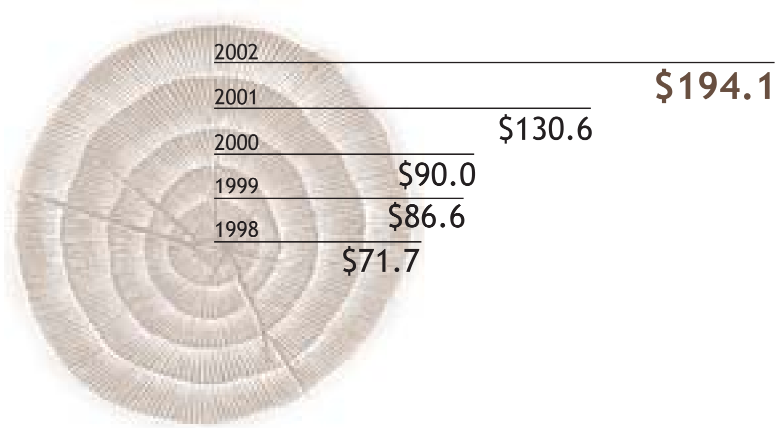
Growing to New Heights

Our staff and board have a passion for the success of those we serve, and they are AgFirst's most valuable asset. With their commitment, their desire to achieve and pride in performance, our tree will grow to new heights of excellence. I congratulate each of them for the efforts that have led to this year's superior results. We indeed have a proud heritage and a promising future.

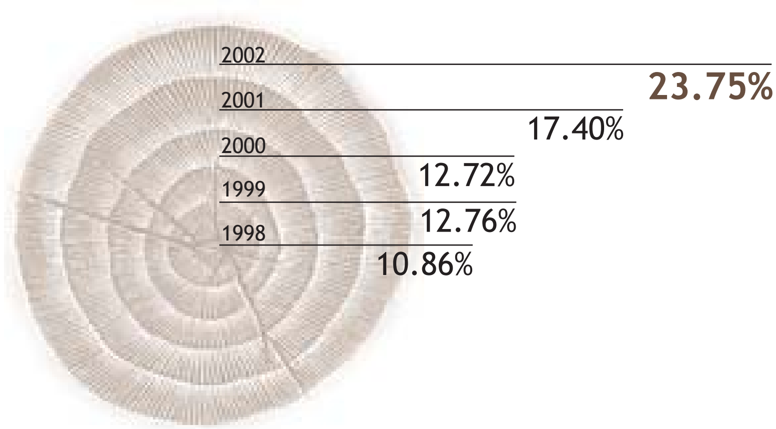
F. A. (ANDY) LOWREY
Chief Executive Officer

RICHARD KRIEBEL
Chairman of the Board

NET INCOME (in millions)



RETURN ON EQUITY



Good timber does not grow with ease; the stronger the wind, the stronger the trees.

J. Willard Marriott

Who We Are and What We Do

AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. We provide funding and services to 24 Agricultural Credit Associations (ACAs or associations) in 15 eastern states and Puerto Rico. The ACAs, in turn, provide financing to more than 80,000 farmers, ranchers, rural homeowners and agribusinesses. We also operate a Capital Markets Unit, which arranges and participates in loans for agribusinesses, and a Secondary Mortgage Market Unit, which buys, sells and services rural home and agricultural loans throughout the United States.

How We Are Organized and Funded

AgFirst is owned by its affiliated ACAs. The ACAs benefit from their ownership of AgFirst in two important ways. In the delivery of funding and services to all 24 ACAs, AgFirst achieves economies of scale that could not be achieved by the associations individually. In addition, AgFirst shares its profits with the associations through patronage refunds. The patronage refunds we pay our associations reduce their cost of borrowing and, ultimately, their borrowers' cost of borrowing.

Like all banks in the Farm Credit System, AgFirst obtains its funds through the sale of notes and bonds to the investing public. Because the System issues large volumes of securities and its securities carry agency status, the associations we serve enjoy a dependable and competitively priced source of capital.

"The loans we buy from AgFirst's Capital Markets Unit help us grow and diversify our portfolio. And, because AgFirst has the capital and expertise to buy large credits, we're able to lend to some of the largest companies in our territory. These services not only reduce our portfolio risk, but also enhance returns for all our stockholders."

Richard Eason,
CEO,
Cape Fear Farm Credit

What We Deliver

Through their affiliation with AgFirst, the ACAs have access to a broad range of financial tools that allows them to compete in today's global economy. These tools include:

- Lines of credit that enable borrowers to take advances at their choice of Prime, LIBOR or fixed rate.
- Credit Delivery, a loan origination system developed by AgFirst and used by all 24 of our member-associations.
- AgriLine®, an automated system that enables borrowers to write their own loan advances by check.
- *FastCash*, a product that enables associations to send loan advances to their borrowers' checking accounts overnight through the Automated Clearing House system.
- AutoDraft, a service that automatically drafts borrowers' loan payments.
- AccountAccess, an online service that provides loan and payment information to borrowers via a secure Internet site, and LoanLine, a service that provides the same information by telephone.
- AutoBorrow, a cash management product for commercial borrowers developed by AgFirst in partnership with Bank of America.

These products and services have helped our associations grow and gain market share throughout their chartered territories.

Our Lines of Business

Association Funding & Services. AgFirst's primary line of business is to provide funds to the ACAs. Each ACA is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration. AgFirst has in place with each of the 24 associations a revolving line of credit, referred to as a direct note. Each of the associations funds its lending and general corporate activities by borrowing under its direct note.

AgFirst provides each association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger, and a human resources/payroll system. With AgFirst providing such systems, the associations are able to achieve efficiencies ordinarily afforded only much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/association lending process.

The ACAs operate as cooperatives and, like AgFirst, share their profits with their borrowers/owners. Since 1989, ACAs affiliated with AgFirst have paid patronage refunds totaling more than $1.5 billion to their borrowers. This cooperative relationship delivers tremendous value to borrowers and is considered a significant factor driving loan growth in the ACAs.

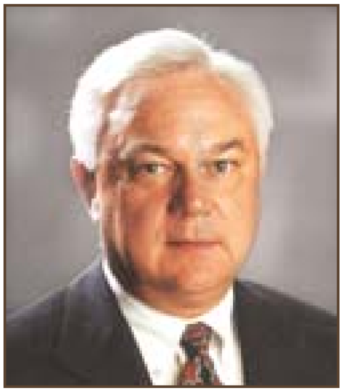
"At MidAtlantic, we prefer to spend our time marketing our products and services, not developing them. It makes sense to work as part of a bigger organization and benefit from having a central source–AgFirst–that understands what we are trying to do and provides us with the services we need. That allows us to focus on what's most important to us–our borrowers."

Bob Frazee,
CEO,
MidAtlantic Farm Credit

Our Lines of Business (continued)

Capital Markets. Through our Capital Markets Unit, we act as an arranger, lead lender or participant in credit facilities for many large agribusinesses throughout the nation. We partner with our affiliated ACAs, commercial banks, insurance companies and other Farm Credit institutions in loan participations and syndications related to food, agriculture and rural utilities. During 2002, our Capital Markets Unit portfolio grew by almost five percent to $1.6 billion in loans outstanding.

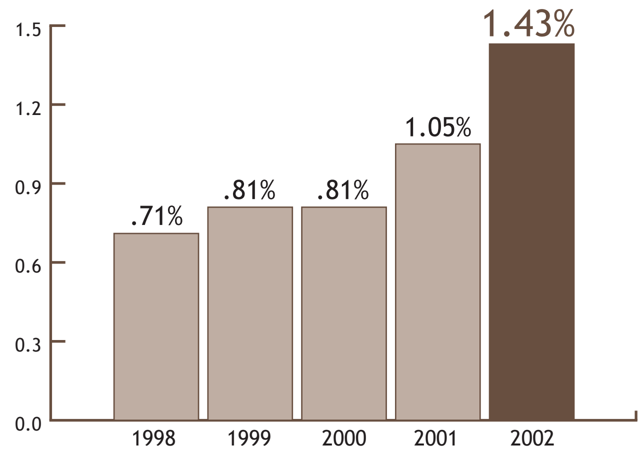
Secondary Mortgage Market. AgFirst operates a Secondary Mortgage Market Unit (SMMU) to facilitate the purchase and sale of loans in the secondary market. Loans purchased by the SMMU are generally guaranteed by Fannie Mae or Farmer Mac. By providing an avenue for the sale of loans on rural properties, the SMMU brings multiple benefits to its network of sellers: new market opportunities, a source of fee income and a mechanism to free up capital for future growth. Through their affiliation with AgFirst, sellers also bring liquidity and competitive rates to rural America.



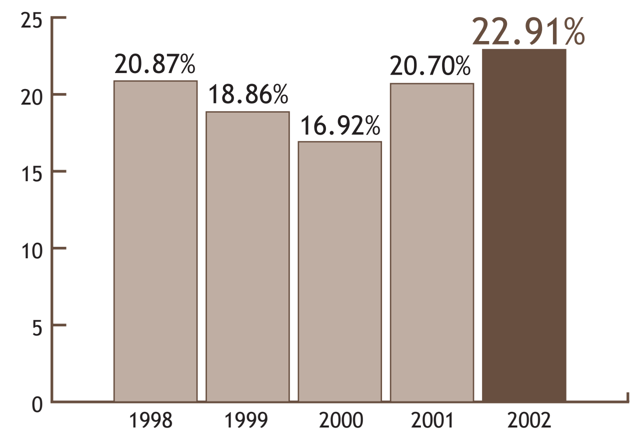
"Our partnership with the AgFirst Secondary Mortgage Market Unit enables us to offer our rural home borrowers an interest rate that is competitive with their urban neighbors. The fee income we generate by selling these loans to AgFirst increases patronage refunds to all of our borrowers."

Larry Shoffner,
CEO,
Carolina Farm Credit

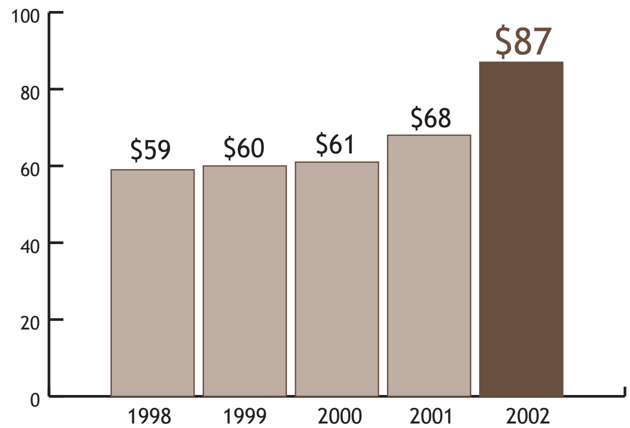
RETURN ON ASSETS



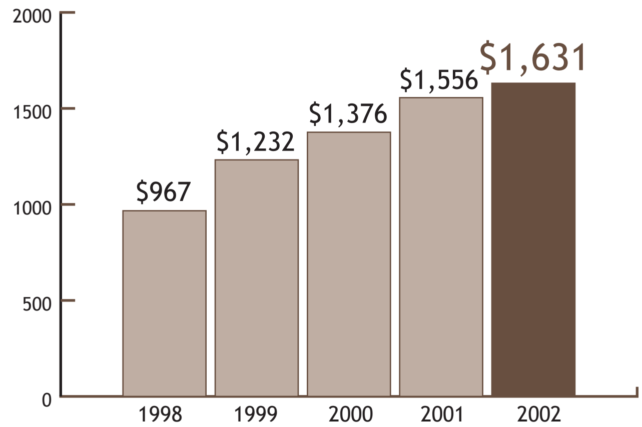
PERMANENT CAPITAL RATIO



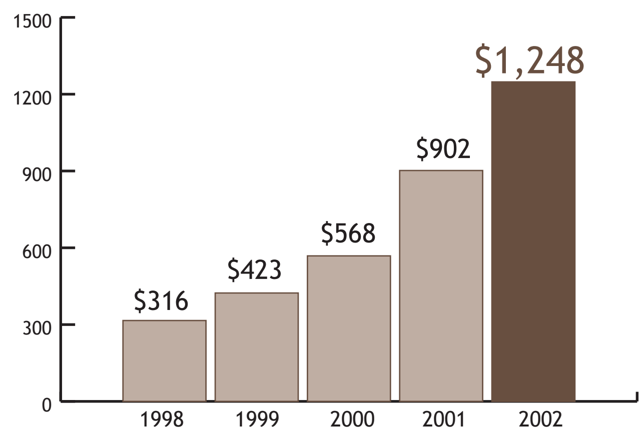
PATRONAGE PAID TO ASSOCIATIONS (in millions)



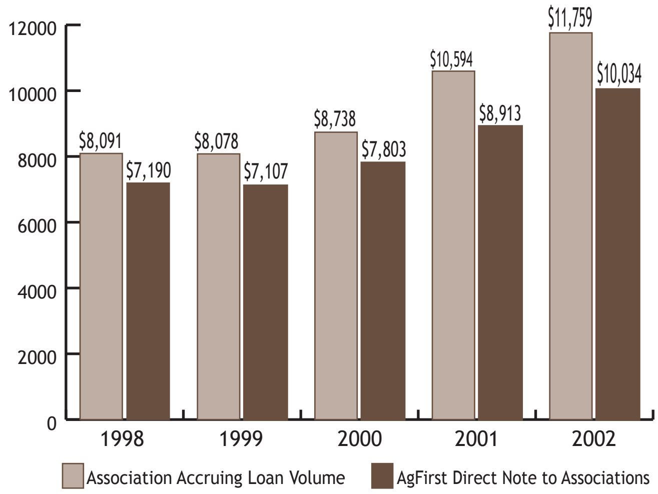
PARTICIPATIONS/SYNDICATIONS YEAR-END VOLUME (in millions)



LOANS SERVICED BY SECONDARY MORTGAGE MARKET UNIT (in millions)



TRENDS (in millions)



The cultivation of trees is the
cultivation of the good, the beautiful
and the ennobling in man.

J. Sterling Morton

REPORT OF MANAGEMENT

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of AgFirst Farm Credit Bank (the Bank) 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 consolidated 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 consolidated financial statements, and that the assets of the Bank 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 Bank 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 Audit Committee of the Board of Directors and to the chief executive officer.

The consolidated financial statements have been examined by independent public accountants, whose report appears elsewhere in this annual report. The Bank is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that the 2002 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.

Richard Kriebel
Chairman of the Board

F. A. Lowrey
Chief Executive Officer

Leon T. Amerson
Chief Financial Officer

February 19, 2003

The following commentary reviews the financial condition and results of operations of AgFirst Farm Credit Bank (the Bank or AgFirst) for the years ended December 31, 2002, 2001 and 2000. This information should be read in conjunction with the accompanying consolidated financial statements, the notes to the consolidated financial statements and other sections of this annual report. See Note 1, *Organization and Operations*, in the notes to the consolidated financial statements for a discussion of the operations of AgFirst.

Financial Overview

The following information provides an overview, in capsule form, of AgFirst's financial results for the year 2002 as compared to the years 2001 and 2000:

- The aggregate principal amount of loans outstanding at December 31, 2002 was $12.0 billion compared to $11.1 billion at December 31, 2001, and $9.5 billion at December 31, 2000, reflecting increases of 7.90 percent and 26.45 percent compared to 2001 and 2000, respectively.
- Final net income totaled $194.1 million for the twelve months ending December 31, 2002, reflecting a 48.64 percent and 115.60 percent increase compared to the years ending December 31, 2001 and 2000, respectively.
- AgFirst's ratio of total shareholders' equity to total assets decreased from 5.50 percent at December 31, 2001 and 5.77 percent at December 31, 2000 to 5.15 percent at December 31, 2002 — primarily attributable to an increase in loans outstanding.
- AgFirst's return on average total assets and return on average shareholders' equity for the year ended December 31, 2002 were 1.43 percent and 23.75 percent, respectively, compared to 1.05 percent and 17.40 percent for the year ended December 31, 2001, and .81 percent and 12.72 percent for the year ended December 31, 2000.

Loans

AgFirst's loan portfolio primarily consists of direct notes receivable from affiliated Associations, loan participations purchased, and loans purchased through AgFirst's secondary mortgage market activities.

	2002	
(dollars in thousands)	$	%
Direct Notes	$ 10,033,923	83.56 %
Participations purchased, net	1,631,311	13.59
Secondary Mortgage	344,383	2.87
SFAS No. 133 Adjustment	(2,176)	(.02)
Other Financial Institutions	600	–
Total	$ 12,008,041	100.00 %

	2001	
(dollars in thousands)	$	%
Direct Notes	$ 8,913,269	80.09 %
Participations purchased, net	1,556,413	13.99
Secondary Mortgage	661,648	5.95
SFAS No. 133 Adjustment	(3,199)	(.03)
Other Financial Institutions	679	–
Total	$ 11,128,810	100.00 %

	2000	
(dollars in thousands)	$	%
Direct Notes	$ 7,802,732	82.16 %
Participations purchased, net	1,375,691	14.49
Secondary Mortgage	315,526	3.32
SFAS No. 133 Adjustment	–	–
Other Financial Institutions	2,554	.03
Total	$ 9,496,503	100.00 %

The table illustrates that the preponderance of loan growth came through the direct note. Since the direct notes are used primarily to support Association lending activities, the growth is a direct result of growth in the Associations' loan portfolios. The Associations' growth is consistent with trends in other Farm Credit System institutions and is attributed to a diverse agricultural economy, with income bolstered by significant government support for certain crops, commercial banks reducing their exposures to agriculture, and borrowers becoming increasingly aware of the value proposition inherent in Farm Credit's cooperative structure.

Direct Notes

AgFirst's primary line of business is to provide funds to affiliated Associations. Each Association is a Federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (the FCA). AgFirst has in place with each of the twenty-four Associations, a revolving line of credit, referred to as a *direct note*. Each of the Associations funds its lending and general corporate activities by borrowing under its direct note. All assets of the Associations secure the direct notes and lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of those Associations which have restructured as holding companies. (See Note 1, *Organization and Operations*, in the notes to the consolidated financial statements for further discussion.) Each GFA contains minimum liquidity and earnings requirements that must be maintained by the Associations.

Although AgFirst's loans to the Associations are evidenced by direct notes that are with full recourse to the borrowing Associations, the Associations' ability to repay is, of course, significantly dependent upon repayment of loans made by them to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations as indirect borrowers of AgFirst.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's credit classifications, periodic meetings with Association Management and Boards, and prior-approval of transactions that exceed the Association's delegated authority (which is determined by AgFirst). In addition, Associations are subject to an annual audit by independent accountants and examination by the FCA.

All Associations exceeded the minimum GFA and regulatory requirements for earnings and capital in 2002. It is anticipated that all Associations will receive unqualified audits from their external auditors. No Association is operating under a supervisory action and the litigation in which Agricultural Credit Associations (ACAs) are involved is typically loan related and poses no threat to their viability.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower hold limits, commodity hold limits, etc. AgFirst and the Associations actively purchase and sell participations to achieve diversified portfolios and utilize guarantees from other agencies, including Farmer Mac, the Farm Services Agency, and the Small Business Administration. At December 31, 2002, Associations collectively had $833.7 million under various government or Government Sponsored Enterprise (GSE) guarantee programs.

Each Association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market. The following table illustrates the risk bearing capacity of the Associations.

	Permanent Capital Ratio	Core Surplus Ratio	Allowance/ Loans
High	25.03%	24.44%	3.55%
Mean	15.15%	11.19%	2.39%
Low	11.77%	8.04%	1.50%

Affiliated Associations serve all or a portion of fifteen states and Puerto Rico. This wide geographic dispersion is a natural risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations.

State	2002	2001	2000
North Carolina	17%	17%	18%
Florida	14	14	14
Georgia	12	13	13
Virginia	11	11	12
Pennsylvania	11	9	9
South Carolina	7	9	8
Maryland	6	6	7
Ohio	5	5	5
Alabama	3	3	3
Kentucky	3	2	2
Mississippi	2	2	2
Delaware	2	2	2
Puerto Rico	2	2	2
West Virginia	2	2	1
Louisiana	2	2	1
Tennessee	1	1	1
Total	100%	100%	100%

Only five states have volume representing more than 10 percent of the total. Commodity diversification and borrowers with relatively high levels of non-farm income mitigate the concentration in these states.

Credit quality within the combined Association portfolio improved slightly during the twelve months ending December 31, 2002. At year-end, the combined Association net loans were classified as follows:

	2002	2001	2000
Acceptable	92.54%	92.05%	90.29%
OAEM	4.95	5.38	6.89
Adverse	2.51	2.57	2.82
Total	100.00%	100.00%	100.00%

Delinquencies were .81 percent of total loan assets at year-end 2002 compared to .74 percent at year-end 2001. Nonearning assets for the combined ACAs represented .80 percent of total loan assets or $95 million as of December 31, 2002, and .73 percent or $77.5 million as of December 31, 2001.

Net chargeoffs totaled $13.24 million and reflected a $10 million increase compared to the prior year-end. Essentially all the chargeoffs are attributable to a single loan participated by several Associations and AgFirst. As a percentage of the $11.8 billion in total loan assets, the net chargeoff for the combined Associations was only .11 percent.

Farm Credit System credit quality is an indirect beneficiary of government support as that support enables borrowers to honor their commitments. As a politically sensitive issue, analysts often question the dependability of government support and the impact that a reduction in support would have on agricultural lenders. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a small percentage of net farm income in the territory served by the Associations. In addition, the diversified nature and significant non-farm influence on the District's portfolio mitigate the impact of lower government income support for program crops.

Earnings for the combined Associations totaled $202.4 million for 2002, producing an average return on assets of 1.75 percent and an average return on equity of 10.55 percent. Combined earnings are below the 2001 level of $241 million, but the net difference can be attributed almost entirely to IRS refunds received in 2001.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger, and a human resources/payroll system. With AgFirst providing such systems, the Associations are able to achieve efficiencies ordinarily afforded only to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates direct note advances that match the repricing and maturity characteristics of each underlying loan. By employing this system, interest rate risk is virtually eliminated at the Associations.

The diversity of income sources supporting Association loan repayment mitigates credit risk to AgFirst. The Associations' credit portfolios are comprised of a number of segments having varying agricultural characteristics. The following table/chart illustrates the aggregate credit portfolio of the Associations by major commodity segments.

	Percent of Portfolio		
Commodity Group	2002	2001	2000
Poultry	13%	15%	15%
Forestry	11	9	9
Grain	9	10	11
Cattle	8	9	9
Dairy	7	7	7
Fruits/Vegetables	5	6	5
Nursery/Greenhouse	5	5	5
Processing	5	2	2
Rural Home	4	6	6
Swine	4	4	5
Tobacco	4	6	5
Citrus	4	3	3
Cotton	4	5	3
Other	17	13	15
Total	100%	100%	100%

The table illustrates that commodity concentrations exceeded 5 percent in five segments. The concentration in these segments is mitigated by a prevalence of non-farm income among the borrowers. The following table demonstrates this phenomenon by segregating part-time farm loans into a unique segment.

	Percent of Portfolio		
Commodity Group	2002	2001	2000
Part-time Farmers	45%	44%	42%
Poultry	11	12	12
Dairy	7	7	7
Grain	5	6	5
Forestry	4	4	4
Cattle	3	3	3
Cotton	3	3	3
Nursery/Greenhouse	3	3	3
Swine	3	4	5
Tobacco	3	3	3
Other	13	11	13
Total	100%	100%	100%

Loans $5 million or greater, which represent the commercial and corporate side of agribusiness, comprise approximately 4 percent of Association loan volume. As mentioned above, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending unit as well as the Associations' own lending staff.

Approximately 68 percent of outstanding loan volume is comprised of loans under $500 thousand, and loans less than $100 thousand make up 26 percent of loan volume. This diversification among borrowers is another key component of the Associations' stable credit quality and solid financial performance over time.

Participations/Syndications

AgFirst has an active Capital Markets Unit that purchases and sells large loan participations and syndications. The Capital Markets Unit works with the Associations to originate loans within the District's territory, providing commercial loan expertise to augment the Associations' staffs, as needed, as well as providing an outlet for loans that exceed an Association's hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage its own hold positions.

The AgFirst Participation/Syndication portfolio *average* outstanding volume for the twelve months ended December 31, 2002 totaled $1.47 billion, which reflects an increase of $90.4 million or 6.55 percent, compared to 2001. The following table shows participation loans outstanding as of December 31.

			Variance	
	2002	2001	$	%
Participations Purchased	$ 1,953,302	$ 1,922,886	$ 30,416	1.58%
Less: Participations Sold	321,991	366,473	(44,482)	(12.14)
Net Outstanding	1,631,311	1,556,413	74,898	4.81
Available Commitment	891,048	729,418	161,630	22.16
Total Exposure	$ 2,522,359	$ 2,285,831	$ 236,528	10.35

Like the Associations, AgFirst employs a number of risk management techniques to limit credit exposures. AgFirst has adopted underwriting standards, individual borrower hold limits, commodity hold limits, etc., and is actively involved in the purchase and sale of participations to achieve a diversified portfolio.

The following tables/charts illustrate AgFirst's participation/syndication portfolio by geographic distribution and major commodity segments:

	2002		2001		2000	
	$	%	$	%	$	%
Florida	$ 284,173	17%	$ 268,900	17%	$ 250,413	18%
North Carolina	246,682	15	193,297	12	136,224	10
Virginia	102,229	6	93,738	6	149,681	11
Texas	98,936	6	66,790	4	67,925	5
South Carolina	98,385	6	78,967	5	73,438	5
Missouri	83,479	5	76,010	5	50,652	4
Pennsylvania	82,564	5	78,104	5	35,010	3
California	81,791	5	65,203	4	37,738	3
Georgia	78,568	5	143,918	9	83,027	6
Minnesota	66,492	4	73,948	5	112,180	8
Illinois	62,075	4	28,279	2	17,373	1
New York	54,063	3	61,154	4	45,277	3
Ohio	44,920	3	59,814	4	70,014	5
Oklahoma	33,977	2	21,527	1	14,804	1
Other	212,977	14	246,764	17	231,935	17
Total	$ 1,631,311	100%	$ 1,556,413	100%	$ 1,375,691	100%

	Percent of Portfolio		
Commodity Group	**2002**	**2001**	**2000**
Meat Products	14%	14%	19%
Electric Utilities	13	14	16
Agribusiness	12	12	14
Telephone Utilities	9	10	7
Sugar Cane/Sugar Beets	8	10	10
Citrus	7	6	6
Swine	7	6	6
Poultry & Eggs	6	3	4
Horticulture	5	4	4
Forestry	4	7	1
Sawmill/Planning Mills	4	3	3
Other	11	11	10
Total	100%	100%	100%

Credit Quality at year-end 2002 reflected some year-to-year deterioration due to stress in discrete segments of the portfolio. Despite the decline, overall credit quality in the Participations/Syndications portfolio remains acceptable.

Telecommunications show signs of slight recovery, though there remains significant over-capacity in the wireless sector. The power generation industry continues to be pressured by overcapacity, with the excess not expected to be absorbed until 2004, based on projected growth in power usage. Sawmills will continue to feel the pressure from Canadian lumber and could be adversely affected by any material downturn in the housing industry.

At December 31, 2002, fully acceptable volume was 91.74 percent compared to 94.51 percent at December 31, 2001. The OAEM category increased from 3.08 percent to 4.94 percent – the result of downgrading two sawmill loans, two telecommunications loans, and two energy loans in response to the aforementioned stress in those sectors. However, these loans continue to perform as agreed.

Substandard volume increased from 2.40 percent at year-end 2001 to 3.33 percent, primarily due to the downgrade of a single farm-related business loan. The company is currently operating under forbearance and is liquidating non-core assets. The current status of this loan has been incorporated in AgFirst's allowance for loan loss analysis (see *Provision for Loan Losses*).

Secondary Mortgage Market Loans

AgFirst operates a Secondary Mortgage Market Unit (SMMU) to facilitate the purchase and sale of loans in the secondary market. Loans purchased by the SMMU are generally guaranteed by Fannie Mae and/or Farmer Mac, thereby exposing AgFirst to little credit risk. Technically, the guarantees are in the form of *Long-term, Standby Commitments to Purchase*, which give AgFirst the right to deliver delinquent loans to the "guarantor" at par.

At December 31, 2002, SMMU loans outstanding totaled $345 million, as illustrated by the following chart.

(dollars in millions)	$	%
Rural Home Loans - Guaranteed	$ 233	67 %
Part-time Farm Loans - Guaranteed	95	28
Agricultural Loans - Guaranteed	5	1
Non-guaranteed Loans	12	4
Total	$ 345	100 %

Rural home loans are loans that conform to Fannie Mae underwriting standards and are guaranteed by Fannie Mae and Farmer Mac. These loans, which are readily marketable, are held by AgFirst as "available for sale." During 2002, AgFirst purchased $532 million of such loans, but sold $792 million, resulting in the net outstanding balance of $233 million. Net gains on the sale of these loans totaled $14 million in 2002.

Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that do not conform to Fannie Mae standards. These loans are guaranteed by Farmer Mac and are accounted for as "held-to-maturity."

AgFirst owns $5 million of *agricultural loans* that are guaranteed by Farmer Mac. This segment is small, due primarily to the Associations' propensity to hold agricultural loans (their core business) in-portfolio. Through AgFirst, a number of Associations obtain Farmer Mac guarantees for qualifying segments of their agricultural portfolios, thereby eliminating the need to sell those loans to the Bank.

The $12 million of non-guaranteed loans generally consists of loans that are being held for eventual delivery to, or guarantee by, Fannie Mae or Farmer Mac. All such loans are secured by first-lien mortgages and are considered very high quality assets.

AgFirst services the loans that it purchases, and typically retains servicing on loans sold. The total volume being serviced as of December 31, 2002 was $1.25 billion, with the servicing asset valued at $13 million.

Purchases of rural home and part-time farm loans ended the year at a robust rate, with purchases during the month of December exceeding $60 million. The significant volume of purchases is attributed to the historically low interest rate environment, which borrowers are taking advantage of to re-finance or "trade up." As a relatively new participant in the secondary housing loan market, AgFirst has been a net beneficiary of the home financing boom. As rates rise, it is anticipated that the growth rate in this segment will moderate somewhat.

With access to GSE funding, AgFirst has the capacity to hold the rural home loans without assuming excessive interest rate risk. This ability affords the option of hedging purchased loans by funding to maturity, predominantly with callable debt. When rates fall, as they have over the past year, AgFirst can call the underlying debt at par and sell the loans for a net gain. In a rising rate environment, AgFirst can simply hold the loans and generate an acceptable spread. The ability to efficiently fund these very liquid assets provides AgFirst with an additional balance sheet management tool.

Results of Operations

Net Income

AgFirst net income totaled $194,133 for the year ended December 31, 2002, an increase of $63,527 over 2001, while 2001 income increased $40,563 over 2000. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion.

	Year Ended December 31,	
(dollars in thousands)	**2002**	**2001**
Net income (for prior year)	$ 130,606	$ 90,043
Increase (decrease) due to:		
Total interest income	(133,226)	(34,964)
Total interest expense	204,104	84,582
Net interest income	70,878	49,618
Provision for loan losses	(3,500)	(2,000)
Noninterest income	12,150	6,878
Noninterest expense	(16,001)	(13,933)
Total increase (decrease) in net income	63,527	40,563
Net income	$ 194,133	$ 130,606

Interest Income

Total interest income for the year ended December 31, 2002 was $607,411, a decrease of $133,226 as compared to the same period of 2001. Likewise, total interest income for 2001 was $740,637, a decrease of $34,964 as compared to the same period of 2000. The year-to-year decreases are primarily attributed to the decreasing rate environment seen during that period; however, increases in average earning assets were significant in offsetting the impact of the rate environment.

The following table illustrates the impact that volume and yield changes had on interest income over these periods.

	Year Ended December 31,	
(dollars in thousands)	**2002-2001**	**2001-2000**
Increase in average earning assets	$ 1,116,520	$ 1,315,379
Average yield (prior year)	6.02%	7.05%
Interest income variance attributed to change in volume	67,179	92,796
Average earning assets (current year)	13,425,956	12,309,435
Increase (decrease) in average yield	(1.49%)	(1.03%)
Interest income variance attributed to change in yield	(200,405)	(127,760)
Net change in interest income	$ (133,226)	$ (34,964)

Interest Expense

Total interest expense for the year ended December 31, 2002 was $351,751, a decrease of $204,104 as compared to the same period of 2001. Total interest expense for the year ended December 31, 2001 was $555,855, a decrease of $84,582 as compared to the same period of 2000. The decrease in interest expense is primarily attributed to falling interest rates and the issuance of preferred stock, offset somewhat by an increase in interest-bearing liabilities to support asset growth.

Dividends on preferred stock, although fixed, are not reflected as expense. Rather, dividends are treated as an adjustment to capital. Since the preferred stock essentially replaced a like amount of debt, its issuance removed expense. Preferred stock dividends recognized for 2002 totaled $18,887, compared to $11,751 in 2001.

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

(dollars in thousands)	Year Ended December 31, 2002-2001	Year Ended December 31, 2001-2000
Increase in average interest-bearing liabilities	$ 1,004,400	$ 1,150,022
Average rate (prior year)	4.85%	6.21%
Interest expense variance attributed to change in average interest-bearing liabilities	48,729	71,457
Average interest-bearing liabilities (current year)	12,461,564	11,457,163
Increase (decrease) in average rate	(2.03%)	(1.36%)
Interest expense variance attributed to change in rate	(252,833)	(156,039)
Net change in interest expense	$ (204,104)	$ (84,582)

Net Interest Income

Net interest income increased from 2000 to 2001 and from 2001 to 2002 as illustrated by the following table:

Analysis of Net Interest Income

(dollars in thousands)	2002 Avg. Balance	2002 Interest	2001 Avg. Balance	2001 Interest	2000 Avg. Balance	2000 Interest
Loans	$ 11,489,521	$ 544,575	$ 10,186,358	$ 636,118	$ 8,756,545	$ 627,511
Cash & Investments	1,936,435	62,836	2,123,077	104,519	2,237,511	148,090
Total Earning Assets	$ 13,425,956	$ 607,411	$ 12,309,435	$ 740,637	$ 10,994,056	$ 775,601
Interest-Bearing Liabilities	$ 12,461,564	$ (351,751)	$ 11,457,163	$ (555,855)	$ 10,307,141	$ (640,437)
Impact of Capital	$ 964,392		$ 852,272		$ 686,915	
NET INTEREST INCOME		$ 255,660		$ 184,782		$ 135,164

	2002 Average Yield	2001 Average Yield	2000 Average Yield
Yield on Loans	4.74%	6.24%	7.17%
Yield on Cash & Investments	3.24%	4.92%	6.62%
Yield on Earning Assets	4.52%	6.02%	7.05%
Cost of Interest-Bearing Liabilities	2.82%	4.85%	6.21%
Spread	1.70%	1.17%	.84%
Impact of Capital	.20%	.33%	.39%
Net Interest Income/Avg. Earning Assets	1.90%	1.50%	1.23%

Net interest income for 2002 was $70,878 greater than 2001. The increase was primarily due to a $1,116,520 increase in average earning assets, an improvement in spread, and the impact of preferred stock.

The Bank's spread improved by 53 basis points due primarily to AgFirst's ability to exercise call options on debt during the decline in interest rates, effectively lowering its cost of funds relative to the assets, which did not prepay as quickly. The spread is expected to return to more normal levels through time, as asset prepayments "catch up" to called debt levels or as the assets and underlying funding mature or reprice in the normal course of business.

Net interest income in 2001 was $49,618 greater than 2000. The increase was primarily due to a $1,315,379 increase in average earning assets, an improvement in spread, and the issuance of preferred stock.

Provision for Loan Losses

The Bank assesses risks inherent in its portfolio on an ongoing basis and establishes an appropriate reserve for loan losses. The provision for loan losses totaled $8,000 in 2002 compared to $4,500 and $2,500 in 2001 and 2000, respectively. Despite recording a provision in each of the last three years, the ratio of allowance for loan losses to loans outstanding remained at .23 percent in both 2000 and 2001 due to growth in the loan portfolio. The increase to .26 percent in 2002 reflects the addition of additional reserves in response to deterioration in a single loan in AgFirst's participations/syndications portfolio (See *Loans – Participations/Syndications*).

Analysis indicates that an allowance for losses for AgFirst's direct note and secondary mortgage market portfolios is not justified. All of AgFirst's allowance for losses reflects reserves for risks identified in the participations/syndications portfolio. Allowance for losses as a percent of participations/syndications outstanding was 1.93 percent, 1.67 percent and 1.56 percent in 2002, 2001 and 2000, respectively.

Noninterest Income

Noninterest income for the year ended December 31, 2002 was $25,659, an increase of $12,150 compared to 2001 and $19,028 compared to 2000. The increase from 2001 was primarily due to gains on the sale of rural home loans to Fannie Mae totaling $14.3 million. The increase in noninterest income from 2000 to 2001 was primarily due to increased loan fees related to capital markets activities and prepayment penalty income.

Noninterest Expense

Noninterest expense for the year ended December 31, 2002 was $79,186, an increase of $16,001 over the same period of 2001 and $29,934 compared to 2000. The following table illustrates the sources of variance.

(dollars in thousands)	Year Ended December 31, 2002	2001
Prior Year Noninterest Expense	$ 63,185	$ 49,252
Change in Expense:		
Salaries and employee benefits	4,992	1,324
Occupancy and equipment	819	915
Intra-System financial assistance expense	1,310	(3,169)
Realized losses on investments, net	(3,410)	4,798
Other operating expenses	6,194	795
Called debt expense	3,903	9,180
Miscellaneous	2,193	90
Noninterest Expense	$ 79,186	$ 63,185

Salaries and employee benefits have trended up over the two-year period. The substantial increase from 2001 to 2002 was heavily influenced by increasing benefits expense. Poor investment performance and lower rates resulted in substantially higher FAS 87 (pension) expense. Lower rates and increasing healthcare trends had a similar impact on FAS 106 (post-retirement healthcare) expense. AgFirst, along with other participating Associations, adopted changes to their respective benefits plans during 2002 in an effort to moderate future increases.

Intra-System financial assistance decreased from 2000 to 2001. In 2000, AgFirst recorded expenses related to calling Financial Assistance Corporation bonds. This extraordinary expense resulted in the high 2000 level. Expense increased from 2001 to 2002, largely the result of lower interest rates (which increased the present value of the obligations) and AgFirst's receiving a higher allocation of expense due to loan growth. See Note 11, *Intra-System Financial Assistance,* in the notes to the consolidated financial statements for further information

Despite the high-quality nature of its investment portfolio, AgFirst experienced an unusual loss during 2001 and 2002. A "AAA-rated" security owned by AgFirst was downgraded to "below investment grade" in a single action. With no viable means to divest itself of the security, AgFirst wrote the value down by $7.6 million during 2001. During 2002, an additional $3.4 million was charged off for this investment, bringing its carrying value to zero. Subsequent to writing the security off, recoveries of $1.9 million were realized, resulting in the net chargeoff of $1.5 million during 2002.

Other operating expenses increased significantly from 2001 to 2002. The increase was primarily due to the following:

- During 2002, AgFirst incurred substantial purchased service expenses related to a thorough review and revamping of its accounting processes in preparation of implementing new financial systems in the 2003 – 2004 timeframe.
- Farm Credit System Insurance Corporation (FCSIC) premiums increased in response to growth in System obligations. The FCSIC targets a secure base amount equal to 2 percent of System obligations. Growth throughout the system resulted in the secure base amount decreasing relative to obligations – leading to a premium increase from zero to .03 percent of retail loans outstanding and a resulting expense of $632. FCSIC expense is expected to increase substantially in 2003 as premiums move to .12 percent of retail loans outstanding.
- Furniture and equipment expenses increased, as a result of a technology renovation aimed at improving AgFirst's technical infrastructure and updating various systems.

Unamortized concession (debt issuance expense) is amortized over the life of the underlying debt security. When securities are called prior to maturity, any unamortized concession is expensed. Falling interest rates enabled AgFirst to call a substantial amount of debt during 2002 and 2001, resulting in called debt expense of $13,518 and $9,615, respectively.

Liquidity and Funding Sources

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

Investments, Cash and Cash Equivalents

FCA Regulations provide that a Farm Credit Bank may hold certain eligible investments, in an amount not to exceed 30 percent of its total loans outstanding, to satisfy FCA's liquidity reserve requirement, manage surplus short-term funds, and manage interest rate risk. AgFirst maintains an investment portfolio comprised primarily of short-duration, high-quality investments. The high-quality, short-duration nature of the portfolio guarantees that investments can be converted to cash quickly, without significant risk of loss.

Cash and investment securities outstanding as of December 31, 2002 totaled $2.51 billion compared to $1.93 billion and $2.24 billion at December 31, 2001 and 2000, respectively. The increase is primarily attributed to efforts by AgFirst to increase its liquidity coverage.

AgFirst's investment portfolio consisted of the following security types as of December 31, 2002.

	$	%
Money Market Instruments	$ 603	24 %
Agency CMOs	950	38
Agency ARM Securities	811	33
Non-Agency Whole Loans	38	2
Commercial MBS	3	–
Asset-backed Securities	65	3
	$ 2,470	100 %

As illustrated, money market instruments (Fed Funds, Master Notes and Repos) represented 24 percent of the portfolio. U.S. Agency-guaranteed mortgage securities made up an additional 71 percent of the portfolio. The remaining 5 percent of the portfolio, while not Government or Agency-guaranteed, consists of highly rated, liquid securities.

AgFirst has adopted a liquidity policy that establishes a "minimum coverage" level. "Coverage" is defined as the number of days that maturing debt could be funded through the sale of liquid investments and Agency-guaranteed rural home loans. At December 31, 2002, AgFirst's coverage was approximately 121 days.

Systemwide Debt Securities

The primary source of funds for AgFirst is the issuance of Systemwide debt securities through the Federal Farm Credit Banks Funding Corporation. At December 31, 2002, AgFirst had $13.5 billion in total debt outstanding compared to $12.1 billion at December 31, 2001 and $11.0 billion at December 31, 2000. The year-to-year increases were primarily due to the increases in loan volume. Refer to Note 7, *Bonds and Notes,* for additional information related to debt.

Asset/Liability Management

AgFirst 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 Associations include prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three- and five-year Treasury-indexed 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 payment (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 AgFirst asset/liability management process is to generate a stable and adequate level of net interest income in any interest rate environment. AgFirst 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 AgFirst's interest-earning assets and interest-bearing liabilities and 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. The following tables represent AgFirst's projected change in net interest income and market value of equity for various rate movements as of December 31, 2002.

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
400 BP Shock	$213,921	(2.11%)
200 BP Shock	217,259	(.59%)
0 BP	218,540	–
-61 BP Shock *	249,097	13.98%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities	Equity	% Change
Book Value	$14,688,168	$13,921,500	$766,668	–
400 BP Shock	13,755,636	13,050,362	705,274	(19.16%)
200 BP Shock	14,194,495	13,413,247	781,248	(10.45%)
0 BP	14,625,729	13,753,305	872,424	–
-61 BP Shock *	14,743,199	13,831,509	911,690	4.50%

* *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate.*

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2002. The amount of assets and liabilities shown, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity and anticipated prepayments and, in the case of liabilities, the exercise of call options.

Repricing/Maturity Gap Analysis

(dollars in thousands)	Less than or Equal to to 1 Year	Greater than 1 Year Less than 5 Years	Greater than or Equal to 5 Years	Total
Short and Intermediate-Term Loans				
Fixed	$ 2,743,250	$ 1,308,517	$ 214,244	$ 4,266,011
Variable	3,744,258	–	–	3,744,258
Total Short and Intermediate-Term Loans	6,487,508	1,308,517	214,244	8,010,269
Long-Term Real Estate Loans				
Fixed	1,514,329	1,330,632	851,160	3,696,121
Variable	254,472	46,343	836	301,651
Total Long-Term Real Estate Loans	1,768,801	1,376,975	851,996	3,997,772
Total Loans	8,256,309	2,685,492	1,066,240	12,008,041
Cash and Investments	2,043,236	394,255	75,446	2,512,937
TOTAL INTEREST EARNING ASSETS	$ 10,299,545	$ 3,079,747	$ 1,141,686	$ 14,520,978
Source of Funds				
Interest Bearing Liabilities	$ 12,246,536	$ 1,060,000	$ 232,000	$ 13,538,536
Preferred Stock	–	–	225,839	225,839
Interest Rate Swaps	75,000	(75,000)	–	–
Equity	–	–	756,845	756,845
TOTAL SOURCE OF FUNDS	$ 12,321,536	$ 985,000	$ 1,214,684	$ 14,521,220
Interest Rate Sensitivity Gap	$ (2,021,991)	$ 2,094,747	$ (72,998)	
Sensitivity Gap as a % of Total Earning Assets	(13.92%)	14.43%	(.50%)	
Cumulative Gap	$ (2,021,991)	$ 72,756	$ (242)	
Cumulative Gap as a % of Total Earning Assets	(13.92%)	.50%	–%	
Rate Sensitive Assets/Rate Sensitive Liabilities	.84	3.13	.94	

At December 31, 2002, approximately $2.5 billion of callable bonds were "in the money," resulting in the $2.0 billion liability sensitive position in the first tranche. Stable or falling rates would result in the bonds being called, resulting in further improvement in AgFirst's net interest margin. Rising rates would simply result in the bonds not being called and liability-sensitive position would immediately shift toward a neutral sensitivity position, as reflected in the net interest income sensitivity analysis, above.

At December 31, 2002, AgFirst had outstanding interest rate swaps with notional amounts totaling $877.7 million and purchased interest rate caps with notional amounts totaling $1.76 billion. These derivative transactions were executed to reduce interest rate risk and/or reduce funding costs.

AgFirst policy prohibits the use of derivatives for speculative purposes. Refer to Note 17, *Derivative Instruments and Hedging Activities,* in the notes to the consolidated financial statements for additional information. The following table shows the activity in derivatives during the year ended December 31, 2002.

Disclosures for Derivative Financial Instruments

Notional amounts *(dollars in millions)*	**Receive Fixed**	**Pay Fixed**	**Amortizing Floating for Floating**	**Other Derivative Products**	**Total**
Balance at December 31, 2001	$ 650	$ –	$ 747	$ 394	$ 1,791
Additions	193	–	–	1,400	1,593
Maturities/amortizations	(650)	–	(63)	(32)	(745)
Balance at December 31, 2002	$ 193	$ –	$ 684	$ 1,762	$ 2,639

Various uses of derivative instruments at December 31, 2002

(dollars in millions)	
Interest rate swaps utilized to create synthetic floating-rate debt to achieve a lower cost of funding	$ 193
Asset/liability management purposes	2,084
Other purposes	362
Total interest rate swaps and caps outstanding	$ 2,639

Preferred Stock

On May 17, 2001, AgFirst issued $225 million of Class A Cumulative Preferred Stock. This stock is mandatorily redeemable on December 15, 2016 and carries a stated annual dividend rate of 8.393 percent, with dividends paid semi-annually on June 15th and December 15th. As of December 31, 2002, the stock had accrued unpaid dividends totaling $839. AgFirst paid dividends in 2002 in the amount of $18,887 to preferred stock investors. See Note 8 of the notes to the consolidated financial statements of this annual report for more detailed information concerning the preferred stock issue.

Capital

Total shareholders' equity at December 31, 2002 was $756,845 compared to $727,948 and $687,774 at December 31, 2001 and 2000, respectively. The increasing trend in shareholders' equity is attributed to increases in retained earnings, offset somewhat by a decrease in outstanding capital stock resulting from the retirement and redemption by AgFirst of a portion of its capital stock.

Capital adequacy is evaluated using a number of ratios. For all periods presented, AgFirst exceeded minimum regulatory standards for all of these ratios. Subsequent to the issuance of the preferred stock, FCA now requires AgFirst to maintain a minimum collateral ratio of 104 percent compared to the standard minimum of 103 percent. At December 31, AgFirst's regulatory ratios were:

	Regulatory	**AgFirst Ratio as of**		
	Minimum	**12/31/02**	**12/31/01**	**12/31/00**
Permanent Capital Ratio	7.00%	22.91%	20.70%	16.92%
Total Surplus Ratio	7.00%	22.69%	19.86%	15.50%
Core Surplus Ratio	3.50%	13.20%	10.39%	10.42%
Collateral Ratio	104.00%	105.94%	106.38%	104.95%

The significant improvement in the permanent capital, total surplus and collateral ratios from December 31, 2000 to December 31, 2002 was primarily due to the issuance of $225 million of term preferred stock. The stock had no impact on the core surplus ratio, as term preferred stock is not considered to be "core surplus".

Improvement in the permanent capital, total surplus, and core surplus ratios from December 31, 2001 to December 31, 2002 was primarily attributed to the accumulation of earnings, offset somewhat by asset growth.

Unlike the permanent capital, total surplus and core surplus ratios, the collateral ratio does not incorporate any risk-weighting of assets. The substantial growth in the direct note portfolio, which carries a 20 percent risk weighting in the three capital ratios, more than offset the accumulation of earnings, resulting in the slight decline in the collateral ratio from 2001 to 2002.

Refer to Note 9, *Shareholders' Equity*, in the notes to the consolidated financial statements 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 the Bank would be immaterial in relation to the financial position of the Bank. Refer to Note 14, *Commitments and Contingencies*, in the notes to the consolidated financial statements for additional information.

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 consolidated 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	Bank building and adjacent parking
1441 Hampton Street	Price Brothers, Inc.
1443 Hampton Street	AgFirst Federal Credit Union
1447 Hampton Street	Willis Chiro-Med
1428 Taylor Street	Bandgap Technologies, Inc.
1436 Taylor Street	Enterprise Car Rentals

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 14 to the consolidated financial statements, *Commitments and Contingencies,* included in this annual report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 9 to the consolidated financial statements, *Shareholders' Equity,* included in this annual report to shareholders.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 7, 11 and 14 to the consolidated 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, 2002, 2001 and 2000, is as follows:

Name of Individual or No. in Group	Year	Annual Salary	Annual Bonus	Total
F. A. (Andy) Lowrey	2002	$ 343,213	$ 102,964	$ 446,177
F. A. (Andy) Lowrey	2001	$ 312,648	$ 78,162	$ 390,810
F. A. (Andy) Lowrey	2000	$ 294,945	$ 73,736	$ 368,681
5 Officers	2002	$ 1,087,203	$ 289,658	$ 1,376,861
5 Officers	2001	$ 1,001,801	$ 233,532	$ 1,235,333
5 Officers	2000	$ 942,262	$ 201,102	$ 1,143,364

In addition to a base salary, senior officers earn additional compensation under the Bank'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 2002 bonus was made in the first quarter of 2003.

Disclosure of the total compensation in 2002 to any senior officer, or to any other individual included in the total whose compensation exceeds $50,000, is available to shareholders upon request.

AgFirst Farm Credit Bank Board of Directors

(as of December 31, 2002)

Name	Position	Term of Office
Richard Kriebel	Chairman	December 31, 2003
Paul Lemoine	Vice Chairman	December 31, 2003
E. McDonald Berryman	Director	December 31, 2005
William C. Bess, Jr.	Director	December 31, 2005
Dr. Chester D. Black	Director	December 31, 2002
Robert A. Carson	Director	December 31, 2002
R. Tommy Clay, Sr.	Director	December 31, 2004
Douglas L. Flory*	Director	August 6, 2002
Don W. Freeman	Director	December 31, 2005
Robert L. Holden, Sr.	Director	December 31, 2002
Paul M. House*	Director	December 31, 2003
Thomas W. Kelly	Director	December 31, 2004
M. Wayne Lambertson	Director	December 31, 2005
F. Merrel Lust	Director	December 31, 2005
Eugene W. Merritt, Jr.	Director	December 31, 2002
Dale W. Player	Director	December 31, 2003
J. Dan Raines, Jr.	Director	December 31, 2005
Walter L. Schmidlen, Jr.	Director	December 31, 2004
Robert G. Sexton	Director	December 31, 2003
Robert E. Strayhorn	Director	December 31, 2004

Richard Kriebel, Chairman of the Board, is a contract crop farmer from Benton, Pennsylvania, raising contract forage and grain for total mixed rations to other dairymen in the area. His crops consist of 540 owned-and-leased acres (235 acres of corn and 305 acres of hay). He is a director of *Ag***Choice** Farm Credit, ACA, and a former member of the Columbia County Extension and the Columbia County Planning Commission. During 2002, he served 29 days at AgFirst board meetings and 16 days at other official board functions, and was paid $25,368 in compensation.

Paul Lemoine, Vice Chairman of the Board, is a cattle and row crop farmer from Plaucheville, Louisiana, active in a number of organizations related to farming. He is a member of the Louisiana Cattlemen's Association and the Avoyelles Parish Farm Bureau. During 2002, he served 29 days at AgFirst board meetings and 14 days at other official board functions, and was paid $25,368 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, soybeans, milo and sows, farrow to finish and 1,000 acres of growing timber. He also serves as President of Peanut Farmers LLC in Franklin, Virginia. During 2002, he served 29 days at AgFirst board meetings and 14 days at other official board functions, and was paid $25,368 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 2002, he served 26 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 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 2002, he served 26 days at AgFirst board meetings and 15 days at other official board functions, and was paid $25,368 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 2002, he served 20 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 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 2002, he served 29 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 in compensation.

Douglas L. Flory* resigned his position on the AgFirst Board effective August 6, 2002, to assume a seat on the Board of the Farm Credit Administration. During 2002 prior to his resignation, he served 14 days at AgFirst board meetings and 9 days at other official board functions, and was paid $14,167 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 2002, he served 26 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 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 2002, he served 26 days at AgFirst board meetings and 13 days at other official board functions, and was paid $25,368 in compensation.

Paul M. House* is from Nokesville, Virginia, where he farms 2,800 acres, raising corn, soybeans, wheat, hay and turf grass. He also operates a dairy, milking 300 cows. He serves as a director of the Farm Credit of the Virginias, ACA, is a member of the Virginia Farm Bureau and member/stockholder of Select Sires, Genex and Virginia State Dairymen's Association. During 2002, he served 6 days at AgFirst board meetings and 3 days at other official board functions, and was paid $2,238 in compensation. Mr. House was elected in October 2002 in a special election to fill the unexpired term of Douglas L. Flory.

Thomas W. Kelly, from Tyrone, Pennsylvania, is owner-operator of a 390-acre dairy and crop farm. The dairy herd consists of 160 registered Holsteins whose genetics are merchandized to both domestic and foreign markets. Major crops include corn, alfalfa, soybeans and barley. He currently serves on the board of *Ag***Choice** Farm Credit ACA. During 2002, he served 29 days at AgFirst board meetings and 18 days at other official board functions, and was paid $25,368 in compensation.

M. Wayne Lambertson of Pokomoke City, Maryland, owns and operates a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity broiler operation. He currently serves on the MidAtlantic Farm Credit, ACA board of directors and the board of the Delmarva Poultry Industry DPI, a trade organization. He also serves on the board of the national Farm Credit Council. During 2002, he served 29 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 in compensation.

F. Merrel Lust 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 2002, he served 26 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 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 2002, he served 29 days at AgFirst board meetings and 15 days at other official board functions, and was paid $25,368 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 2002, he served 29 days at AgFirst board meetings and 16 days at other official board functions, and was paid $25,368 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 2002, he served 29 days at AgFirst board meetings and 18 days at other official board functions, and was paid $25,368 in compensation.

Walter L. Schmidlen, Jr., from Elkins, West Virginia, is a dairy and beef farmer. He is owner and operator of a farm machinery business and grows hay and corn on a 700-acre farm. He presently serves on the board of the Farm Credit of the Virginias, ACA, and was a former director of Southern States Cooperative and Sire Power. During 2002, he served 29 days at AgFirst board meetings and 13 days at other official board functions, and was paid $25,368 in compensation.

Robert G. Sexton, a citrus grower, is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association, Vice President of Florida Citrus Packers, and a director of Indian River Citrus League, Seald Sweet Growers and Highland Exchange Service Co-op. He also serves as a director of Farm Credit of South Florida, ACA. In addition, he is a member of the Indian River Farm Bureau and a member of the Marketing and Advisory Committees of the Florida Department of Citrus. During 2002, he served 29 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 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 2002, he served 29 days at AgFirst board meetings and 12 days at other official board functions, and was paid $25,368 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 $182,624 for 2002, $185,267 for 2001, and $159,655 for 2000. Subject to approval by the board, AgFirst allows directors to attend other meetings, committee meetings, or special assignments in addition to service at AgFirst board meetings. Total compensation paid to directors as a group was $473,029 during 2002.

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 consolidated 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 consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 19, 2003, and the Report of Management, which appear in this annual report to shareholders are incorporated herein by reference.

Copies of the Bank's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 503, or writing Patti Trotter, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. These reports can also be viewed or obtained by going to the Bank's website at ***www.agfirst.com***.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
10 Tenth Street, Suite 1400
Atlanta, GA 30309
Telephone (678) 419 1000

Report of Independent Accountants

February 19, 2003

To the Board of Directors and Shareholders
of AgFirst Farm Credit Bank

We have audited the accompanying consolidated balance sheets of AgFirst Farm Credit Bank and its subsidiary as of December 31, 2002, 2001, and 2000, and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Bank'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgFirst Farm Credit Bank and its subsidiary at December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	**December 31, 2002**	**December 31, 2001**	**December 31, 2000**
Assets			
Cash and cash equivalents	$ 359,819	$ 265,254	$ 241,588
Investment securities	2,153,118	1,663,323	2,000,086
Loans	12,008,041	11,128,810	9,496,503
Less: allowance for loan losses	31,155	25,616	21,416
Net loans	11,976,886	11,103,194	9,475,087
Accrued interest receivable	50,470	56,771	72,101
Investments in other Farm Credit System institutions	78,251	77,765	78,623
Premises and equipment, net	18,722	16,822	9,889
Other assets	63,924	50,276	36,725
Total assets	$ 14,701,190	$ 13,233,405	$ 11,914,099
Liabilities			
Bonds and notes	$ 13,538,536	$ 12,115,709	$ 11,014,557
Accrued interest payable	43,732	60,442	120,708
Patronage distribution payable	85,477	67,786	61,333
Minimum pension liability	10,449	–	–
Other liabilities	40,312	35,681	29,727
Total liabilities	13,718,506	12,279,618	11,226,325
Commitments and contingencies (Note 14)			
Preferred Stock (Note 8)	225,839	225,839	–
Shareholders' Equity			
Capital stock and participation certificates	249,444	281,803	301,189
Retained earnings	527,673	439,104	388,035
Accumulated other comprehensive income (loss)	(20,272)	7,041	(1,450)
Total shareholders' equity	756,845	727,948	687,774
Total liabilities and equity	$ 14,701,190	$ 13,233,405	$ 11,914,099

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	For the year ended December 31, 2002	2001	2000
Interest Income			
Investment securities and other	$ 62,836	$ 104,519	$ 148,090
Loans	544,575	636,118	627,511
Total interest income	607,411	740,637	775,601
Interest Expense	351,751	555,855	640,437
Net interest income	255,660	184,782	135,164
Provision for loan losses	8,000	4,500	2,500
Net interest income after provision for loan losses	247,660	180,282	132,664
Noninterest Income			
Loan fees	11,239	12,200	4,911
Gain on sale of rural home loans	14,301	—	—
Miscellaneous	119	1,309	1,720
Total noninterest income	25,659	13,509	6,631
Noninterest Expenses			
Salaries and employee benefits	22,507	17,515	16,191
Occupancy and equipment	7,966	7,147	6,232
Intra-System financial assistance expenses	15,458	14,148	17,317
Realized losses on investments, net	1,388	4,798	—
Other operating expenses	15,985	9,791	8,996
Call debt expense	13,518	9,615	435
Miscellaneous	2,364	171	81
Total noninterest expenses	79,186	63,185	49,252
Net income	$ 194,133	$ 130,606	$ 90,043

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(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			90,043		90,043
Unrealized net gains on investments available for sale				9,584	9,584
Total comprehensive income					99,627
Capital stock/participation certificates issued/retired, net		1,101			1,101
Cash patronage			(61,333)		(61,333)
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			130,606		130,606
Unrealized net gains on investments available for sale				12,588	12,588
Change in fair value of derivative instruments				(3,060)	(3,060)
Total comprehensive income					139,097
Preferred stock issued	225,000				225,000
Capital stock/participation certificates issued/retired, net		(19,386)			(19,386)
Preferred stock dividends accrued	11,751		(11,751)		—
Preferred stock dividends paid	(10,912)				(10,912)
Cash patronage			(67,786)		(67,786)
Balance at December 31, 2001	225,839	281,803	439,104	7,041	953,787
Comprehensive income					
Net income			194,133		194,133
Unrealized net gains on investments available for sale				6,856	6,856
Change in fair value of derivative instruments				(16,782)	(16,782)
Minimum pension liability				(17,387)	(17,387)
Total comprehensive income					166,820
Capital stock/participation certificates issued/retired, net		(32,359)			(32,359)
Preferred stock dividends accrued	18,887		(18,887)		—
Preferred stock dividends paid	(18,887)				(18,887)
Cash patronage			(86,677)		(86,677)
Balance at December 31, 2002	$ 225,839	$ 249,444	$ 527,673	$ (20,272)	$ 982,684

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2002	2001	2000
Cash flows from operating activities:			
Net income	$ 194,133	$ 130,606	$ 90,043
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	4,130	2,731	2,213
Provision for loan losses	8,000	4,500	2,500
Realized losses on investments, net	1,388	4,798	—
Realized gains on mortgage loans held for sale	(14,301)	—	—
Proceeds from sale of mortgage loans held for sale	806,473	—	—
Purchase of mortgage loans held for sale (net of principal repayment)	(531,977)	(346,122)	(85,197)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	6,301	15,330	(10,339)
(Increase) decrease in investments in other Farm Credit System institutions	(486)	858	(824)
(Increase) decrease in other assets	(13,648)	(13,551)	11,053
Increase (decrease) in accrued interest payable	(16,710)	(60,266)	5,905
Increase (decrease) in other liabilities	(2,307)	12,407	(9,824)
Total adjustments	246,863	(379,315)	(84,513)
Net cash provided by operating activities	440,996	(248,709)	5,530
Cash flows from investing activities:			
Investment securities purchased	(3,040,275)	(2,346,707)	(1,977,974)
Investment securities sold or matured	2,555,948	2,691,260	2,089,236
Net increase in loans	(1,141,887)	(1,286,485)	(839,039)
Purchase of premises and equipment, net	(6,030)	(9,664)	(6,297)
Net cash used in investing activities	(1,632,244)	(951,596)	(734,074)
Cash flows from financing activities:			
Bonds and notes issued	49,737,367	44,526,761	25,714,904
Bonds and notes retired	(48,331,322)	(43,429,706)	(25,027,414)
Preferred stock issued	—	225,000	—
Capital stock and participation certificates issued/retired, net	(32,359)	(19,386)	1,101
Patronage refunds and dividends paid	(68,986)	(67,786)	(61,333)
Dividends paid on preferred stock	(18,887)	(10,912)	—
Net cash provided by financing activities	1,285,813	1,223,971	627,258
Net increase (decrease) in cash and cash equivalents	94,565	23,666	(101,286)
Cash and cash equivalents, beginning of period	265,254	241,588	342,874
Cash and cash equivalents, end of period	$ 359,819	$ 265,254	$ 241,588
Non-cash changes related to hedging activities:			
Decrease (increase) in loans	$ (1,024)	$ 3,199	$ —
Increase (decrease) in bonds and notes	(8,478)	9,610	—
Decrease (increase) in other assets	9,328	(11,248)	—
Increase in other liabilities	561	5,735	—
Supplemental information:			
Interest paid	$ 368,461	$ 616,121	$ 634,532

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization and Operations

A. **Organization:** AgFirst Farm Credit Bank (the Bank or AgFirst) 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. The Bank 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. AgFirst and its related associations (District Associations) are collectively referred to as the District. The District Associations jointly own virtually all of AgFirst's stock. As of December 31, 2002, the District consisted of the Bank and twenty-four District ACAs. Effective January 1, 2003, twenty-two District Associations have restructured as holding companies, which includes twenty-two FLCA and PCA subsidiaries.

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the Bank and Associations. The activities of the Bank and 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) ensure 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 the Bank.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' loan portfolios. These lines of credit are collateralized by a pledge of substantially all of each Association's assets. The terms of the revolving lines of credit are governed by a general financing agreement between the Bank and each Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the interest rate risk is effectively transferred to the Bank. Advances are also made to fund general operating expenses of the Associations.

The Associations borrow from the Bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members.

In addition to providing loan funds to District Associations, the Bank provides to the Associations banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, 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. The Bank may also lend to qualifying financial institutions engaged in lending to eligible borrowers.

The Bank owns the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation). The Finance Corporation currently borrows funds from the Bank 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 AgFirst the note receivable from Puerto Rico Farm Credit, 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.

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

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

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

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less.

B. **Investment Securities:** The Bank, 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 Bank's investments may not necessarily be held to maturity and accordingly have been classified as available for sale. Prior to the adoption on January 1, 2001, of Statement of Financial Accounting Standards (SFAS) No. 133 as amended, *Accounting for Derivative Instruments and Hedging Activities*, these investments were reported at fair value together with the fair values of the related hedges in Investment Securities in the Consolidated Balance Sheet. Beginning January 1, 2001, the fair values of the related hedges are reported in other assets or other liabilities in the Consolidated Balance Sheet. Changes in the fair value of investments classified as available for sale and of the related hedges are reflected as direct charges or credits to shareholders' equity. Realized gains and losses are determined using the specific identification method and are recognized in current operations.

C. **Loans and Allowance for Loan Losses:** Loans are carried at their principal amount outstanding less unearned income adjusted for SFAS No. 133 valuation adjustments. Interest on loans is accrued and credited to interest income based upon the principal amount outstanding.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

When loans are in nonaccrual status, payments received in cash may be recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

In cases where a borrower experiences financial difficulties and the Bank 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 the Bank because the effects are considered by management to not be material to the financial position or results of operations of the Bank.

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.

D. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful life of the asset. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

E. **Other Assets and Liabilities:** Direct expenses incurred in issuing debt and preferred stock are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness and term of the preferred stock.

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

F. **Employee Benefit Plans:** Bank employees participate in a districtwide defined benefit retirement plan (the Plan) 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. As a result of the funded status at the Plan's measurement date (September 30) of the underlying Plan, the Bank may record a minimum liability, an intangible asset relating to unrecognized prior service cost and an adjustment to other comprehensive income (loss).

The employees of the Bank are eligible to participate in the thrift/deferred compensation plan (Thrift Plan) of the Bank; 50 percent of employee contributions up to a maximum employee contribution of 6 percent of total compensation are matched by the Bank. Thrift Plan costs are expensed as funded.

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

G. **Income Taxes:** The Bank is exempt from Federal and other income taxes as provided in the Farm Credit Act. The Finance Corporation is eligible to 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*.

H. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. On January 1, 2001, the Bank adopted SFAS No. 133, as amended, which requires derivatives to be recorded in the consolidated balance sheet as assets and liabilities, measured at fair value. Prior to January 1, 2001, derivatives used for hedging purposes generally were not recorded on the balance sheet and the unrealized gains and losses were deferred on those accounts.

In accordance with SFAS No. 133, changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in accumulated other comprehensive income (loss). The gains and losses on the derivative that are deferred and reported in accumulated other comprehensive income (loss) 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 is recorded in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges. The Bank discontinues hedge accounting prospectively when the Bank determines that a hedge has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining accumulated other comprehensive income (loss) would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative will be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

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

Note 3 — Investment Securities

A summary of the amortized cost and fair value of debt securities held as investments at December 31, 2002, 2001 and 2000, is as follows:

	December 31, 2002				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Agency-backed ARM securities	$ 816,230	$ 18,109	$ (16)	$ 834,323	4.59%
Collateralized mortgage obligations	993,620	2,978	(2,942)	993,656	2.55
Other asset-backed securities	65,467	6	(153)	65,320	1.72
CDs, commercial paper and other	259,807	13	(1)	259,819	1.51
Total Investment Securities	$ 2,135,124	$ 21,106	$ (3,112)	$ 2,153,118	3.17%

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

	December 31, 2000				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Agency-backed ARM securities	$ 863,292	$ 2,984	$ (4,261)	$ 862,015	6.75%
Collateralized mortgage obligations	421,194	2,260	(1,283)	422,171	7.15
Other asset-backed securities	617,199	671	(1,801)	616,069	7.05
CDs, commercial paper and other	99,851	—	(20)	99,831	7.02
Total Investment Securities	$ 2,001,536	$ 5,915	$ (7,365)	$ 2,000,086	6.94%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at December 31, 2002, follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 259,807	$ 259,819	1.48%
After one year through five years	6,431	6,433	2.46
After five years through ten years	—	—	—
After ten years	875,266	893,210	3.60
Collateralized mortgage obligations	993,620	993,656	2.55
Total	$ 2,135,124	$ 2,153,118	3.17%

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

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

	Year Ended December 31, 2002	2001	2000
Proceeds on sales	$ 92,510	$ 460,356	$ –
Realized gains	2,035	3,299	–
Realized losses	3,423	8,097	–

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31, 2002	2001	2000
Direct notes receivable from District Associations	$ 10,033,923	$ 8,913,269	$ 7,802,732
Participations, net	1,631,311	1,556,413	1,375,691
Mortgage loans purchased In the secondary market	344,383	661,648	315,526
SFAS No. 133 Adjustment	(2,176)	(3,199)	–
Other	600	679	2,554
Total	$ 12,008,041	$ 11,128,810	$ 9,496,503

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1(B) – *Operations*, these notes are used by the Associations to fund their loan portfolios, and therefore, the Bank's concentration of credit risk in various agricultural commodities approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. While the amounts below represent the Associations' maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Associations' lending activities is collateralized and the Associations' exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Bank's credit risk exposure is considered in the Bank's allowance for loan losses.

Total Association loans consisted of the following commodity types:

	Percent of Portfolio		
Commodity Group	**2002**	**2001**	**2000**
Poultry	13%	15%	15%
Forestry	11	9	9
Grain	9	10	11
Cattle	8	9	9
Dairy	7	7	7
Fruits/Vegetables	5	6	5
Nursery/Greenhouse	5	5	5
Processing	5	2	2
Rural Home	4	6	6
Swine	4	4	5
Tobacco	4	6	5
Citrus	4	3	3
Cotton	4	5	3
Other	17	13	15
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 average recorded investment in impaired loans during 2002, 2001 and 2000 was $28,868, $643 and $8,668, respectively. Impaired loans of $23,563, $704 and $902 at December 31, 2002, 2001 and 2000 had a specific allowance for loan losses totaling $6,000, $0 and $0, respectively.

A summary of changes in the allowance for loan losses, all of which relates to the Bank's participation loan portfolio, follows:

	Year Ended December 31, 2002	2001	2000
Balance at beginning of year	$ 25,616	$ 21,416	$ 19,466
Provision for loan losses	8,000	4,500	2,500
Loans charged off	(2,461)	(300)	(550)
Balance at end of year	$ 31,155	$ 25,616	$ 21,416

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31, 2002	2001	2000
Land	$ 848	$ 848	$ 848
Buildings and improvements	3,300	3,151	4,816
Furniture and equipment	31,050	25,844	22,226
	35,198	29,843	27,890
Less: accumulated depreciation	16,476	13,021	18,001
Total	$ 18,722	$ 16,822	$ 9,889

Note 6 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31, 2002	2001	2000
Other assets:			
Accounts receivable from District Associations	$ 24,512	$ 1,219	$ 9,059
Prepaid expenses	8	65	173
Unamortized debt issue costs	7,168	5,494	4,438
Prepaid retirement expenses	–	8,845	7,492
Intangible asset related to pension	1,797	–	–
Deferred issuance costs – preferred stock	2,331	2,608	–
Derivative assets	1,920	11,248	–
Receivables and other	26,188	20,797	15,563
Total	$ 63,924	$ 50,276	$ 36,725
Other liabilities:			
Other postretirement benefits liability	$ 10,512	$ 9,602	$ 9,064
Pension Liability — SFAS No. 87	10,449	–	–
Accounts payable	1,378	2,684	3,012
Farm Credit System Ins. Corp. payable	4,047	–	114
Financial Assistance Corporation payable	8,087	8,959	10,161
Derivative liabilities	6,295	5,734	–
Other	9,992	8,702	7,376
Total	$ 50,760	$ 35,681	$ 29,727

Note 7 — Bonds and Notes

The Bank's participation in bonds and notes follows:

	December 31, 2002	2001	2000
Systemwide bonds	$ 11,730,728	$ 9,871,936	$ 6,456,729
Systemwide medium-term notes	15,000	44,000	2,579,000
Systemwide discount notes	1,612,088	2,035,723	1,813,946
Other notes payable	180,720	164,050	164,882
Total	$ 13,538,536	$ 12,115,709	$ 11,014,557

Systemwide bonds, medium-term notes, master notes, discount notes and global debt securities (collectively, 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 of AgFirst at December 31, 2002, are as follows:

Year of Maturity	Weighted Average Interest Rate	Amount
2003	1.64%	$ 6,112,004
2004	1.83	3,490,543
2005	2.53	1,492,113
2006	3.35	688,869
2007	3.64	709,777
Subsequent years	4.82	1,045,230
Total	2.22%	$ 13,538,536

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2002, was 117 days.

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

Amount	First Call Date	Year of Maturity
$ 4,406,000	2003	2003-2017
5,000	2004	2012
$ 4,411,000		

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the Banks through the Funding Corporation. Certain conditions must be met before the Bank can participate in the issuance of Systemwide debt securities. As one condition of participation, the Bank 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, 2002, the Bank was and currently remains in compliance with the conditions of participation for the issuances of Systemwide debt securities.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes, and
- Federal Farm Credit Banks Global Debt Securities.

As described in Note 1, the Insurance Fund is available to ensure 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, 2002 the assets of the Insurance Fund aggregated $1.839 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 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, 2002, available funds in the Trust Fund amounted to $131.0 million.

The Bank had no committed commercial bank lines of credit at December 31, 2002.

Note 8 — Mandatorily Redeemable Preferred Stock

As of December 31, 2002, AgFirst had 225,000 shares issued and outstanding of mandatorily redeemable cumulative preferred stock at $1,000.00 per share that is redeemable on December 15, 2016. Dividends on the preferred stock are payable at the rate of 8.393 percent per annum of the $1,000.00 per share par value. Beginning March 15, 2012, the rate will change to a floating rate indexed to the 3-month LIBOR. On or after the dividend payment date in December 15, 2011, the preferred stock will be redeemable in whole or in part at the option of the Bank on any dividend payment date at its par value of $1,000.00 per share. Although the mandatorily redeemable preferred stock has not been included in capital for financial reporting purposes, this preferred stock qualifies as capital for certain regulatory purposes.

Note 9 — Shareholders' Equity

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

A. **Description of Equities:**

In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C and D Common Stock, Participation Certificates, Preferred Stock and other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Bank's business. All Common Stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

The Bank had the following shares outstanding at December 31, 2002:

		Shares Outstanding	
Class	Protected Status	Number	Aggregate Par Value
B Common/Nonvoting	No	4,297,589	$ 21,488
C Common/Voting	No	43,107,335	215,537
D Common/Nonvoting	No	2,351,300	11,756
C Participation Certificates/Nonvoting	No	132,588	663
Total Capital Stock and Participation Certificates		49,888,812	$ 249,444

B. **Capital Stock:**

District Associations are required to maintain ownership in the Bank in the form of Class B or C Common Stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

Additionally, the Bank has issued Class D Common Stock in connection with participations purchased by the Bank from other System institutions. Class D Common Stock issued in connection with participations has no voting rights. Such Stock may be retired at the discretion of the Board, and, if retired, shall be retired at book value, not to exceed its par value. Class D Common Stock shall also be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2%) of the loan amount or $1,000.00, whichever is less, and a maximum not to exceed ten percent (10%) of the loan amount.

C. **Other Equity:**

At the inception of each Other Financing Institution (OFI) loan, the Bank requires OFIs to make cash purchases of participation certificates in the Bank. The Bank has a first lien on these equities for the repayment of any indebtedness to the Bank.

D. **Regulatory Capitalization Requirements and Restrictions:**

FCA's capital adequacy regulations require the Bank 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 FCA that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. The Bank is 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 all System institutions to achieve and maintain additional capital adequacy 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 Bank's permanent capital, total surplus and core surplus ratios at December 31, 2002 were 22.91 percent, 22.69 percent and 13.20 percent, respectively.

Subsequent to the issuance of the preferred stock, FCA now requires AgFirst to maintain a minimum collateral ratio of 104 percent compared to the standard regulatory minimum of 103 percent. At December 31, 2002, the Bank's net collateral ratio was 105.94 percent.

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. The Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

Note 10 — Employee Benefit Plans

The Bank participates in a Districtwide defined benefit retirement plan. This plan is noncontributory and covers substantially all Bank employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times the Bank's salary expense as a percentage of the District's salary expense.

At December 31, 2002, the Accumulated Benefit Obligation (ABO) of the District's defined benefit plan (the Plan) exceeded the fair value of plan assets. In accordance with the provisions of SFAS No. 87, *"Employers' Accounting for Pensions,"* (SFAS No. 87), the recognition of a minimum liability in the amount of the excess of the ABO over the fair value of plan assets is required. At December 31, 2002, a minimum liability for the Bank of $10,449 was recognized. In conjunction with the minimum liability, a reduction in other comprehensive income (loss) of $17,387 and intangible assets in the amount of $1,797 were recorded.

The Bank also participates in a Districtwide Thrift Plan. The Thrift Plan requires the Bank to match 50 percent (50%) of employee optional contributions up to a maximum employee contribution of 6 percent (6%) of total compensation.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability.

The following is a table of retirement and postretirement benefits expenses:

	2002	2001	2000
Pension	$ 2,452	$ 254	$ 173
Thrift/deferred compensation	383	325	320
Other postretirement benefits	2,025	1,634	1,451
Total	$ 4,860	$ 2,213	$ 1,944

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 the Bank 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 consolidated financial statements of the Bank'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 the Bank's financial condition and results of operations.

In 1998, the Bank 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. The Bank expensed $5.9 million in 1998 related to the calling of the $240 million issuance, $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 Bank's financial assistance expense totaled $15 million, $14 million and $17 million in 2002, 2001 and 2000, respectively.

Note 12 — Related Party Transactions

As discussed in Note 1, the Bank lends funds to the District Associations to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Notes 4, 6, 9 and 14.

Interest income recognized on direct notes receivable from District Associations was $438,233, $513,919 and $521,089 for 2002, 2001 and 2000, respectively.

Note 13 — Regulatory Enforcement Matters

At December 31, 2002, there were no regulatory enforcement matters or agreements in place with the FCA.

Note 14 — Commitments and Contingencies

The Bank has various contingent liabilities and commitments outstanding as discussed elsewhere in these notes to the consolidated financial statements. While primarily liable for its portion of bonds and notes, the Bank 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, 2002, were $89.1 billion.

Other actions are pending against the Bank 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 financial position of the Bank.

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

In the normal course of business, the Bank may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments include standby letters of credit, various guarantees and commitments to extend credit.

Standby letters of credit are unconditional commitments issued by the Bank to guarantee the performance of a customer to a third party. As of December 31, 2002, the Bank had $12.8 million outstanding in such guarantees with District Associations. Of the outstanding amount, $6.4 million will expire in less than one year with the remaining $6.4 million expiring in one to three years. The Bank also guarantees lines of credit with commercial banks on behalf of certain District Associations in the amount of $5.2 million. In addition, the Bank had $37 million in letters of credit with non-District entities with $13.8 million expiring in less than one year, $20 million due to expire in one to three years and the remaining $3.2 million have terms that will expire from 2007 to 2011. The Bank also guarantees certain loans held by District Associations in the amount of $21.4 million with terms expiring in 2005. The notional amounts of these guarantees represent the maximum amount of exposure the Bank has related to these instruments as of December 31, 2002.

At December 31, 2002, $829.5 million of commitments to extend credit were outstanding. Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the loan collateral is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

In addition, the Bank owns an 18 percent minority interest in the Farm Credit Leasing Services Corporation (FCLSC), a subsidiary of CoBank, ACB, which is also a bank of the Farm Credit System and is regulated by FCA. Pursuant to a stockholder agreement, AgFirst guarantees its 18 percent pro rata share of FCLSC's note payable to CoBank. At December 31, 2002, the Bank's portion of the FCLSC note payable to CoBank totaled $131.5 million. AgFirst also indemnifies leases in the amount of $4.7 million on behalf of FCLSC with lease terms expiring in 2009.

Note 16 — Disclosures about Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Bank's financial instruments at December 31, 2002, 2001 and 2000. 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.

	December 31, 2002		December 31, 2001		December 31, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:						
Loans	$ 12,008,041	$ 11,924,081	$ 11,128,810	$ 10,993,159	$ 9,496,503	$ 9,490,553
Allowance for loan losses	(31,155)	–	(25,616)	–	(21,416)	–
Loans, net	$ 11,976,886	$ 11,924,081	$ 11,103,194	$ 10,993,159	$ 9,475,087	$ 9,490,553
Derivative assets**	$ 1,920	$ 1,920	$ 11,248	$ 11,248	$ –	$ –
Cash & investment securities	$ 2,512,937	$ 2,512,937	$ 1,928,577	$ 1,928,577	$ 2,245,087	$ 2,245,087
Related interest rate swaps	–	–	–	–	(3,413)	(3,413)
Net cash & investment securities	$ 2,512,937	$ 2,512,937	$ 1,928,577	$ 1,928,577	$ 2,241,674	$ 2,241,674
Financial liabilities:						
Systemwide debt securities	$ 13,538,536	$ 13,223,005	$ 12,115,709	$ 12,134,913	$ 11,014,557	$ 11,032,565
Financial assistance related liabilities*	$ 8,087	$ 10,918	$ 8,959	$ 12,575	$ 10,161	$ 13,780
Derivative liabilities**	$ 6,295	$ 6,295	$ 5,734	$ 5,734	$ –	$ –

* *The above amount excludes the assumption of Third Quarter 1986 Capital Preservation Agreement obligations with a fair value of $6.8 million at December 31, 2002.*
** *Due to the adoption of SFAS No. 133, derivative financial instruments are recorded on the Consolidated Balance Sheets beginning on January 1, 2001.*

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

A. **Loans:** Because no active market exists for the District's loans, fair value is estimated by discounting the expected future cash flows using the District's current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the District's loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

   For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. The carrying value of accrued interest approximates its fair value.

B. **Cash, Federal Funds and Securities Purchased Under Resale Agreements:** The carrying value is a reasonable estimate of fair value.

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

D. **Systemwide Debt Securities:** Bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity Treasury notes, assuming a constant estimated yield spread relationship between Systemwide bonds and notes and comparable Treasury notes.

E. **Financial Assistance Related Liabilities:** As discussed in Note 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 Instruments:** The fair value of derivatives is the estimated amount to be received or paid to replace the instruments at the reporting date, considering current and projected interest rates. Where actively quoted market prices do not exist, estimated fair values are determined through dealer quotes.

G. **Commitments to Extend Credit and Standby Letters of Credit:** The fair value of commitments is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreement and the creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on an estimate of the cost to terminate the agreement or fees currently charged for similar agreements. The estimated market value of off-balance-sheet commitments is considered to be nominal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is also considered not to be significant.

Note 17 — Derivative Instruments and Hedging Activities

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

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

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

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitor the credit standing of and levels of exposure to individual counterparties. The estimated credit risk exposure of $8.6 million with six counterparties represents approximately .33 percent of the total notional amount of interest rate swaps. The Bank does not anticipate nonperformance by any of these counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At December 31, 2002, the Bank had not posted collateral with respect to these arrangements.

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

Note 18 — Additional Derivative Financial Instruments and Other Financial Instruments Disclosures

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

	Maturities of 2002 Derivative Products							
December 31, 2002 *(dollars in millions)*	**2003**	**2004**	**2005**	**2006**	**2007**	**After 2008**	**Total**	**Fair Value**
Long-term Debt Obligations:								
Fixed rate	$ 3,506	$ 1,465	$ 1,072	$ 591	$ 610	$ 1,045	$ 8,289	$ 8,230
Weighted average interest rate	1.83%	2.56%	3.00%	3.69%	4.01%	4.82%	2.80%	
Variable rate	2,425	2,026	420	98	100	–	5,069	5,173
Weighted average interest rate	1.39%	1.30%	1.35%	1.37%	1.36%	–	1.35%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 118	$ 75	$ –	$ –	$ –	$ –	$ 193	$ 195
Weighted average receive rate	2.11%	2.48%	–	–	–	–	2.25%	
Weighted average pay rate	1.46%	1.27%	–	–	–	–	1.39%	
Amortizing floating for floating swaps								
Notional value	–	90	255	339	–	–	684	678
Weighted average receive rate	–	3.35%	2.19%	2.28%	–	–	2.39%	
Weighted average pay rate	–	5.38%	3.31%	2.32%	–	–	3.09%	
Other derivative products								
Notional value – Interest rate caps	–	1,384	378	–	–	–	1,762	1,769
Total notional value	$ 118	$ 1,549	$ 633	$ 339	$ –	$ –	$ 2,639	$ 2,642
Total weighted average rates on swaps:								
Receive rate	2.11%	2.95%	2.19%	2.28%	–%	–%	2.36%	
Pay rate	1.46%	3.51%	3.31%	2.32%	–%	–%	2.72%	

(dollars in millions)	**Less than 1 year**	**1 to 5 Years**	**Over 5 Years**	**Maturity Distribution Netting**	**Exposure**	**Collateral Held**	**Exposure Net of Collateral**
Credit Rating							
AAA	$ –	$ –	$ –	$ –	$ –	$ –	$ –
AA	–	–	6	(4)	2	–	2
A	–	–	2	(2)	–	–	–
Total	$ –	$ –	$ 8	$ (6)	$ 2	$ –	$ 2

Note 19 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2002, 2001 and 2000 follow:

	2002				
	First	Second	Third	Fourth	Total
Net interest income	$ 61,108	$ 63,104	$ 64,775	$ 66,673	$ 255,660
Provision for loan losses	1,000	1,000	—	6,000	8,000
Noninterest income (expense), net	(16,648)	(10,961)	(15,989)	(9,929)	(53,527)
Net income	$ 43,460	$ 51,143	$ 48,786	$ 50,744	$ 194,133

	2001				
	First	Second	Third	Fourth	Total
Net interest income	$ 35,061	$ 40,993	$ 49,245	$ 59,483	$ 184,782
Provision for loan losses	1,000	—	2,000	1,500	4,500
Noninterest income (expense), net	(8,544)	(9,661)	(18,353)	(13,118)	(49,676)
Net income	$ 25,517	$ 31,332	$ 28,892	$ 44,865	$ 130,606

	2000				
	First	Second	Third	Fourth	Total
Net interest income	$ 33,340	$ 32,440	$ 34,268	$ 35,116	$ 135,164
Provision for loan losses	—	—	1,500	1,000	2,500
Noninterest income (expense), net	(9,715)	(9,823)	(12,342)	(10,741)	(42,621)
Net income	$ 23,625	$ 22,617	$ 20,426	$ 23,375	$ 90,043

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