THIRD QUARTER 2001

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Chief Executive Officer

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October 29, 2001

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

(dollars in thousands, except as noted)

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

FINANCIAL OVERVIEW

- Net income for the three months ended September 30, 2001 was $28,892, an increase of $8,466 or 41.45 percent, compared to the three months ended September 30, 2000. Net income for the nine months ended September 30, 2001 was $85,741, an increase of $19,073 or 28.61 percent, compared to the same period ended September 30, 2000. The three-month increase was primarily attributed to the $14,977 increase in net interest income and a $2,980 increase in noninterest income related to loan prepayment fees and loan fees for the participation and secondary market portfolios, which were partially offset by an increase of $8,991 in noninterest expense related to net realized losses on investments and expense related to called debt. The year-to-date increase in net income was primarily attributed to the $25,251 increase in net interest income and an increase of $4,556 in noninterest income mostly due to loan prepayment fees and participation loan fees, which were offset by an increase in provision for loan losses of $1,500 and an increase in noninterest expense of $9,234 related to net realized losses on investments and expense related to called debt.

- Total assets increased 8.49 percent from December 31, 2000 to September 30, 2001 due primarily to a $1,123,185 increase in gross loans outstanding offset by a decrease of $121,043 in investments and cash and cash equivalents. Other assets increased $13,609, which was primarily related to adjustments of $14,471 for SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and $2,676 in deferred fees related to the issuance of the preferred stock.

- Total liabilities increased 6.16 percent compared to December 31, 2000. Bonds and notes outstanding at September 30, 2001 increased $772,894 in order to fund the above noted additional loan volume. During the second quarter of 2001, *Ag***First** issued $225 million of mandatorily redeemable preferred stock, which also contributed to the year-to-date funding of the additional loan volume (Refer to Note 4 in the notes to the consolidated financial statements of this report for additional information).

- Other liabilities decreased from December 31, 2000 by $59,362 primarily due to the payment of patronage to the District Associations, accrued at December 31, 2000 and paid in 2001, which was partially offset by adjustments related to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

- Credit quality in the *Ag***First** portfolio at September 30, 2001 has slightly improved compared to December 31, 2000 and September 30, 2000. Nonaccrual loan assets in the *Ag***First** loan portfolio at September 30, 2001 are $874 compared to $902 at December 31, 2000 and $11,269 at September 30, 2000.

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

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2001 was $10,619,688, an 11.83 percent increase compared to December 31, 2000 volume and a 16.43 percent increase compared to September 30, 2000. These increases are attributed to the additional volume in District Association direct notes, as well as growth within the participation loan portfolio and secondary market loan portfolio.

The allowance for loan losses at September 30, 2001 of $24,116 is .23 percent of total gross loan volume and 1.69 percent of *Ag***First**'s participation volume. Management considers the allowance to be adequate to absorb potential losses on existing loans.

Liquidity and Funding Sources

As of September 30, 2001, *Ag***First** exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratios applied under the FCA Regulations. At September 30, 2001, *Ag***First**'s permanent capital ratio was 19.31 percent, core surplus ratio was 9.27 percent, total surplus ratio was 18.51 percent, and net collateral ratio was 106.94 percent. Cash and investment securities totaled $2,120,631 or 16.41 percent of total assets. Interest-bearing liabilities, consisting of bonds and notes, increased by $772,894 or 7.02 percent, compared to bonds and notes outstanding at December 31, 2000. Interest-bearing liabilities have increased in order to fund a portion of the increase in loan volume, with the issuance of the preferred stock in the second quarter contributing to the funding of the year-to-date additional loan volume.

Capital Resources

Total shareholders' equity, excluding preferred stock, increased $89,312 from December 31, 2000 to September 30, 2001. This 12.99 percent net increase is the result of an increase of $85,741 in retained earnings related to net income and an increase of $9,463 in accumulated other comprehensive income, which were offset by $7,029 in accrued and paid dividends related to the preferred stock.

Key financial condition comparisons:

	9/30/01	**12/31/00**
Shareholders' Equity* to Assets	6.07%	5.77%
Shareholders' Equity and Preferred Stock to Assets	7.80%	N/A
Allowance for Loan Losses to Loans	.23%	.23%

** Excludes preferred stock (See Note 4)*

RESULTS OF OPERATIONS

Net interest income for the three months ended September 30, 2001 was $49,245 compared to $34,268 for the same period in the prior year, or a 43.71 percent increase. For the nine months ended September 30, 2001, net interest income was $125,299 compared to $100,048 for the same period of 2000, or a 25.24 percent increase. The increases in net interest income for the three months and nine months are due primarily to the increased average volume in earning assets for each of the periods measured and a decrease in funding costs due to *Ag***First**'s ability to call and replace a significant amount of debt in a lower interest rate environment.

Noninterest income increased $2,980 for the three months ended September 30, 2001, and increased $4,556 for the nine months ended September 30, 2001, compared to the same periods of 2000. The increase for the three months ended September 30, 2001 was primarily attributed to a $1,830 increase in loan prepayment fees and a $1,154 increase in participation loan fees. The nine months ended September 30, 2001 increase was primarily attributed to a $2,157 increase in loan prepayment fees and a $2,606 increase in participation loan fees.

Noninterest expense for the three and nine months ended September 30, 2001 was $22,428 and $45,113 respectively, increases of $8,991 and $9,234 respectively, as compared to the corresponding periods of 2000. The increase for the three months ended September 30, 2001 was primarily attributed to the $2,737 in expenses related to called debt and $7,530 in net realized losses related to investments, both of which were offset by the decrease of $2,850 in intra-system financial assistance expense. Net losses related to investments include a one-time charge-off of $7,600 on an asset backed security investment. The increase for the nine months ended September 30, 2001 was primarily attributed to $6,063 in expenses related to called debt and $4,799 in net realized losses related to investments, both of which were offset by the decrease of $3,402 in intra-system financial assistance expense. Net losses related to investments include a one-time charge-off of $7,600 on an asset-backed-security investment, which was offset by a realized gain of $2,801 related to the sale of investments during 2001.

Key results of operations comparisons:

	Annualized for the nine months ended 9/30/01	**For the year ended 12/31/00**
Return on Average Assets	0.93%	0.81%
Return on Average Assets*	0.85%	N/A
Return on Average Shareholders' Equity *	14.30%	12.72%
Net Interest Income as a Percentage of Average Earning Assets	1.38%	1.23%

** Excludes preferred stock (See Note 4)*

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2001	December 31, 2000
	(unaudited)	
Assets		
Cash and cash equivalents	$ 452,310	$ 241,588
Investment securities	1,668,321	2,000,086
Loans	10,619,688	9,496,503
Less: allowance for loan losses	24,116	21,416
Net loans	10,595,572	9,475,087
Accrued interest receivable	65,239	72,101
Investments in other Farm Credit System institutions	77,165	78,623
Premises and equipment, net	16,557	9,889
Other assets	50,334	36,725
Total assets	$ 12,925,498	$ 11,914,099
Liabilities		
Bonds and notes	$ 11,787,451	$ 11,014,557
Accrued interest payable	98,703	120,708
Other liabilities	31,698	91,060
Total liabilities	11,917,852	11,226,325
Commitments and contingencies		
Preferred Stock (Note 4)	230,560	—
Shareholders' Equity		
Capital stock and participation certificates	302,326	301,189
Retained earnings	466,747	388,035
Accumulated other comprehensive income (loss)	8,013	(1,450)
Total shareholders' equity	777,086	687,774
Total liabilities and equity	$ 12,925,498	$ 11,914,099

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

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2001	2000	For the nine months ended September 30, 2001	2000
Interest Income				
Investment securities and other	$ 24,178	$ 38,304	$ 87,302	$ 109,531
Loans	160,080	164,148	489,169	458,700
Total interest income	184,258	202,452	576,471	568,231
Interest Expense	135,013	168,184	451,172	468,183
Net interest income	49,245	34,268	125,299	100,048
Provision for loan losses	2,000	1,500	3,000	1,500
Net interest income after provision for loan losses	47,245	32,768	122,299	98,548
Noninterest Income				
Loan fees	4,058	1,037	7,877	3,133
Miscellaneous	17	58	678	866
Total noninterest income	4,075	1,095	8,555	3,999
Noninterest Expenses				
Salaries and employee benefits	3,858	3,647	11,722	11,413
Occupancy and equipment	2,256	1,820	5,020	4,569
Other operating expenses	2,184	1,565	6,673	5,986
Intra-System financial assistance expenses	3,539	6,389	10,435	13,837
Realized losses on investments, net	7,530	—	4,799	—
Miscellaneous	3,061	16	6,464	74
Total noninterest expenses	22,428	13,437	45,113	35,879
Net income	$ 28,892	$ 20,426	$ 85,741	$ 66,668

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

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 1999	$ —	$ 300,088	$ 359,325	$ (11,034)	$ 648,379
Comprehensive income					
Net income			66,668		66,668
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				3,180	3,180
Total comprehensive income					69,848
Capital stock/participation certificates issued/retired, net		1,100			1,100
Balance at September 30, 2000	$ —	$ 301,188	$ 425,993	$ (7,854)	$ 719,327
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			85,741		85,741
Unrealized gains (losses) on investments available for sale and derivative instruments				10,500	10,500
Total comprehensive income					95,204
Preferred stock issued	225,000				225,000
Capital stock/participation certificates issued/retired, net		1,137			1,137
Preferred stock dividends paid			(1,469)		(1,469)
Preferred stock dividends accrued	5,560		(5,560)		—
Balance at September 30, 2001	$ 230,560	$ 302,326	$ 466,747	$ 8,013	$ 1,007,646

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2001	2000
Cash flows from operating activities:		
Net income	$ 85,741	$ 66,668
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	1,688	1,663
Provision for loan losses	3,000	1,500
Realized (gains) losses on investments, net	4,799	—
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	6,862	(7,890)
(Increase) decrease in investments in other Farm Credit System institutions	1,458	(44)
(Increase) decrease in other assets	(13,609)	12,902
Increase (decrease) in accrued interest payable	(22,005)	16,007
Increase (decrease) in other liabilities	(59,362)	(72,558)
Total adjustments	(77,169)	(48,420)
Net cash provided by (used in) operating activities	8,572	18,248
Cash flows from investing activities:		
Investment securities purchased	(1,233,163)	(1,701,923)
Investment securities sold or matured	1,575,513	1,839,720
Net (increase) decrease in loans	(1,123,485)	(548,741)
Purchase of premises and equipment, net	(8,356)	(4,290)
Net cash provided by (used in) investing activities	(789,491)	(415,234)
Cash flows from financing activities:		
Bonds and notes issued	32,517,579	18,438,401
Bonds and notes retired	(31,750,606)	(18,167,414)
Preferred stock issued	225,000	—
At-risk equity:		
Capital stock and participation certificates issued/retired, net	1,137	1,100
Dividends paid on preferred stock	(1,469)	—
Net cash provided by (used in) financing activities	991,641	272,087
Net increase (decrease) in cash and cash equivalents	210,722	(124,899)
Cash and cash equivalents, beginning of period	241,588	342,874
Cash and cash equivalents, end of period	$ 452,310	$ 217,975
Supplemental schedule of non-cash investing and financing activities:		
Accrued dividends on preferred stock	$ 5,560	$ —
Change in unrealized gains (losses) on investments and derivative instruments, net	10,500	3,180
Supplemental information:		
Interest paid	$ 473,177	$ 452,176

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

Notes to the Consolidated Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended, requires derivatives to be reported on the balance sheet as assets and liabilities, measured at fair value. Changes in the values of those derivatives are accounted for as gains or losses or as a component of other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. The Bank adopted the Statement, as amended, on January 1, 2001 and effects on the balance sheet and income statement were insignificant.

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

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

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-99	$ 19,466
Provision for loan losses	1,500
Loans (charged off), net of recoveries	(550)
Balance at 9-30-00	$ 20,416
Balance at 12-31-00	$ 21,416
Provision for loan losses	3,000
Loans (charged off), net of recoveries	(300)
Balance at 9-30-01	$ 24,116

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

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

NOTE 4 — PREFERRED STOCK

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