SECOND QUARTER 2002

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Chief Executive Officer

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July 29, 2002

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, for the three months and six months ended June 30, 2002. These comments should be read in conjunction with the accompanying financial statements and the 2001 Annual Report of AgFirst Farm Credit Bank and District Associations.

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

- Net income for the three months and six months ended June 30, 2002 was $81,527 and $154,350, respectively, an increase of $2,416 or 3.05 percent and $12,178 or 8.57 percent, compared to the same periods in 2001. The three-month increase was primarily due to increases of $16,941 in net interest income and $368 in noninterest income, which were partially offset by increases of $10,681 in noninterest expenses, $2,706 in provision for income taxes, and $1,506 in provision for loan losses. The year-to-date increase in net income was primarily attributed to increases of $34,302 in net interest income, $6,105 in noninterest income, which were partially offset by increases of $20,895 in noninterest expenses, $5,070 in provision for income taxes, and $2,264 in provision for loan losses. Reference *Results of Operations* for additional details.

- Total assets at June 30, 2002 increased $285,815 or 1.91 percent compared to December 31, 2001. The increase in total assets is primarily due to increases of $320,686 in gross loan volume and $61,378 in cash and cash equivalents, partially offset by a decrease of $81,995 in investment securities. Other assets decreased by $16,752 from December 31, 2001 to June 30, 2002, which was primarily attributed to decreases of $8,040 in receivables related to District Association IRS settlement refunds and related interest, $9,704 related to adjustments for SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities,*" and $6,572 in net deferred tax assets, which were partially offset by an increase of $5,605 in prepaid retirement expense.

- Total liabilities increased $212,791 or 1.71 percent as compared to December 31, 2001. Bonds and notes outstanding at June 30, 2002 increased $310,646 or 2.56 percent in order to fund the above noted additional loan volume. Other liabilities decreased $31,407 from December 31, 2001, primarily due to decreases of $22,444 in disbursement accounts related to timing differences in loan activity and $13,422 in short-term funds held. These decreases were offset by accrual increases of $3,269 related to postretirement benefits and $1,992 for Farm Credit System Insurance Corporation premiums.

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

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2002 was $13,198,575, an increase of $320,686 or 2.49 percent as compared to December 31, 2001, and an increase of $1,234,469 or 10.32 percent compared to June 30, 2001. The increases as of June 30, 2002 continue to be consistent with the trends in other Farm Credit Institutions and are attributed to increased market share in loan portfolios. Net farm income is projected to decline in 2002 due to lower livestock and poultry prices. However, agricultural portfolios were bolstered in the spring after passage of new Federal farm legislation. This legislation provides significant support to feedgrains and cotton through marketing loans programs and supplemental payments.

District Association retail volume continues to increase with growth being attributed, in part, to the growing favor with which borrowers are viewing Associations due to the Associations' patronage payments. Associations generally operate as cooperatives, and as such, distribute earnings to member/borrowers through patronage distributions. This tangible benefit of borrowing from an Association has had a positive impact on the Associations' ability to attract and retain loan volume. In addition, Associations have experienced increased lending opportunities in the timber industry as major wood-products companies have divested themselves of a significant portion of their timber holdings.

Drought conditions dominate the discussions and news coverage in much of AgFirst's chartered territory, especially the mid-Atlantic states, the Carolinas and Georgia, as of June 30, 2002. The drought is most severe in Delmarva and the Piedmont sections of Virginia and the Carolinas. In the most severely affected areas, double cropping was not an option this year. As of June 30th, District Associations reporting good conditions qualified their reports by stating that two weeks without rain would significantly alter the projected crop outcome because of the cumulative effect of several years of below normal rainfall. Farmers and ranchers in the drought-affected areas will probably incur a setback to their financial positions for fiscal 2002, according to Association sources. The Associations also reported that an increase in delinquencies and some deterioration in credit quality were the most likely consequences to their institutions.

Credit quality remained relatively constant during the second quarter of 2002 compared to December 31, 2001 and June 30, 2001. Nonaccrual loan assets for the combined District at June 30, 2002 were .80 percent of total loans outstanding as compared to .56 percent at December 31, 2001 and .58 percent at June 30, 2001. The increase in nonaccrual assets is primarily due to a $25.9 million credit facility being placed in nonaccrual status during the second quarter. AgFirst participates in this facility with five District Associations. A portion of the facility has a loss guarantee backed by the full faith and credit of the United States Government, which limits the District's loss exposure. While a chargeoff is likely, the amount is not fully determinable; however, with the guarantee and underlying collateral coverage, any chargeoff will have an immaterial impact on the District's financial condition.

The allowance for loan losses at June 30, 2002 of $309,034, or 2.34 percent of gross loan volume, is considered by management to be adequate to absorb potential losses on existing loans. Refer to Note 2, *"Allowance for Loan Losses"* in the notes to the combined financial statements of this report for further information.

Liquidity and Funding Sources

As of June 30, 2002, AgFirst and all District Associations exceeded all regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled $1,982,247 or 13.00 percent of total assets at June 30, 2002, compared to $2,002,864 or 13.39 percent as of December 31, 2001. Interest-bearing liabilities, consisting of bonds and notes, increased by $310,646 or 2.56 percent, compared to bonds and notes outstanding at December 31, 2001. Interest-bearing liabilities were increased in order to fund the increase noted above in loan volume.

Capital Resources

Total shareholders' equity increased $73,024 from December 31, 2001 to June 30, 2002. The increase was primarily the result of $154,350 related to net income and stock issuances of $6,640, which were partially offset by retirements of surplus of $63,960, stock retirements of $12,778, accrued and paid preferred stock dividends of $9,443, and cash patronage payments of $5,456.

Key financial condition comparisons:

	6/30/02	**12/31/01**
Shareholders' Equity* to Assets	15.44%	15.24%
Debt to Shareholders' Equity*	5.38:1%	5.46:1
Allowance for Loan Losses to Loans	2.34%	2.34%

*Shareholders' Equity does not include preferred stock.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2002 was $134,409, an increase of $16,941 or 14.42 percent compared to the three months ended June 30, 2001. The six months ended June 30, 2002 was $264,900, an increase of $34,302 or 14.88 percent compared to the same period ended June 30, 2001. The increase in net interest income for the three months and six months continues to be primarily the result of growth in accruing loan volume and the Bank's ability to exercise call options on debt in a favorable interest rate environment, offset somewhat by lower earnings on assets funded with Association net worth.

Beginning in 2001 and continuing in 2002, AgFirst executed call options on a significant volume of fixed-rate debt, replacing the called debt with lower-cost, fixed-rate debt. Although loan prepayment activity offsets a portion of the benefit achieved by calling debt, the efficiency of calling large blocks of debt results in a significant improvement in net interest margin. The lower interest rates that enable AgFirst to exercise call options on debt have a negative impact on Association net interest income. In funding Association loans, each Association's net worth is primarily used to fund variable rate loans. Such a funding strategy preserves the market value of the Associations' net worth in any rate environment, but exposes the Associations to variances in net interest income as short-term rates rise and fall. In other words, from a shareholder's point-of-view, his or her investment in an Association behaves like a variable rate instrument.

Noninterest Income

Noninterest income for the three and six months ended June 30, 2002 was $13,895 and $28,210, respectively, an increase of $368 and $6,105 as compared to the same periods in 2001. The three- month increase was primarily attributed to a $700 increase in miscellaneous income which was the result of $4,597 in gains realized on $433 million of rural home mortgage loans sold to Fannie Mae, offset by a decrease of $3,860 in interest related to District Association federal tax settlement refunds. The year-to-date increase was due primarily to an increase of $4,067 in fees related to participation loans, prepayment fees and rural home mortgage loan activity and a $2,550 increase in miscellaneous income resulting from the $4,597 realized gain on the rural home mortgage loan sale referenced above, offset by a decrease of $2,401 in interest related to District Association federal tax settlement refunds.

Noninterest Expense

Noninterest expense for the three and six months ended June 30, 2002 was $62,694 and $127,439, respectively, an increase of $10,681 and $20,895, respectively, as compared to the corresponding periods in 2001. The three-month increase was primarily attributed to the $6,873 increase in salaries and employee benefits, related mostly to retirement and health insurance expense and standard merit increases, as well as increases of $1,578 in other operating expenses related to purchased services mostly attributed to Districtwide strategic initiative projects and $1,005 in Farm Credit System Insurance Corporation premiums. The six-month increase was primarily attributed to a $7,854 increase in salaries and employee benefits related to retirement and health insurance expense and standard merit increases and an increase of $6,084 in realized losses on investments. During the first quarter of 2002, $3,353 was recorded to charge-off the remaining principal balance of an investment downgraded in 2001. This is compared to the first quarter of 2001, during which gains in the amount of $2,731 were realized on the sales of investments. In addition, the six months ended June 30, 2002 reflects increases of $3,094 in other operating expenses related to purchased services mostly attributed to Districtwide strategic initiative projects and $1,991 in Farm Credit System Insurance Corporation premiums.

Provision for Income Taxes

The provision/(benefit) for income taxes for the three months and six months ended June 30, 2002 was ($1,194) and $2,494, respectively. This represents an increase of $2,706 and $5,070, respectively, as compared to the same periods in 2001. The $5 million increase in provision for the six-month period is primarily due to the fact that in 2001, District Associations recognized approximately $15 million in federal tax refunds offset by $9 million of deferred tax asset adjustments related to the formation of holding company structures. This is compared to approximately $6 million of federal and state refunds recognized by Associations during 2002 offset by deferred tax asset adjustments of approximately $7 million as holding company structures were implemented at the beginning of the year.

Key results of operations comparisons:

	Annualized for the six months ended 6/30/02	**For the year ended 12/31/01**
Return on Average Assets	2.05%	2.15%
Return on Average Shareholders' Equity *	13.35%	13.67%
Net Interest Income as a Percentage of Average Earning Assets	3.53%	3.46%
Chargeoffs, Net of (Recoveries), to Average Loans	0.02%	0.03%

*Shareholders' Equity does not include preferred stock.

Combined Balance Sheets

(dollars in thousands)	June 30, 2002	December 31, 2001
	(unaudited)	
Assets		
Cash and cash equivalents	$ 400,919	$ 339,541
Investment securities	1,581,328	1,663,323
Loans	13,198,575	12,877,889
Less: allowance for loan losses	309,034	301,615
Net loans	12,889,541	12,576,274
Accrued interest receivable	152,545	143,685
Investments in other Farm Credit System institutions	20,075	19,596
Premises and equipment, net	76,167	75,106
Other property owned	5,442	5,925
Other assets	121,491	138,243
Total assets	$ 15,247,508	$ 14,961,693
Liabilities		
Bonds and notes	$ 12,426,355	$ 12,115,709
Accrued interest payable	56,656	60,443
Dividends and patronage refunds payable	6,427	69,088
Other liabilities	178,664	210,071
Total liabilities	12,668,102	12,455,311
Commitments and contingencies		
Preferred Stock	225,839	225,839
Shareholders' Equity		
Protected borrower equity	16,524	19,261
Capital stock and participation certificates	123,915	127,271
Retained earnings		
Allocated	672,090	733,378
Unallocated	1,531,212	1,393,592
Accumulated other comprehensive income	9,826	7,041
Total shareholders' equity	2,353,567	2,280,543
Total liabilities and equity	$ 15,247,508	$ 14,961,693

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2002	For the three months ended June 30, 2001	For the six months ended June 30, 2002	For the six months ended June 30, 2001
Interest Income				
Investment securities	$ 16,320	$ 28,269	$ 33,025	$ 63,142
Loans	211,266	239,492	419,768	483,878
Total interest income	227,586	267,761	452,793	547,020
Interest Expense	93,177	150,293	187,893	316,422
Net interest income	134,409	117,468	264,900	230,598
Provision for loan losses	5,277	3,771	8,827	6,563
Net interest income after provision for loan losses	129,132	113,697	256,073	224,035
Noninterest Income				
Loan fees	6,617	6,517	15,837	11,770
Fees for financially related services	707	1,139	1,540	2,052
Miscellaneous	6,571	5,871	10,833	8,283
Total noninterest income	13,895	13,527	28,210	22,105
Noninterest Expenses				
Salaries and employee benefits	36,271	29,398	72,349	64,495
Occupancy and equipment	5,568	4,826	10,894	9,980
Insurance Fund premium	1,005	—	1,991	—
Other operating expenses	14,134	12,556	27,614	24,520
Intra-System financial assistance expenses	3,693	3,484	7,597	6,904
Realized losses (gains) on investments, net	(70)	(89)	3,353	(2,731)
Miscellaneous	2,093	1,838	3,641	3,376
Total noninterest expenses	62,694	52,013	127,439	106,544
Income before income taxes	80,333	75,211	156,844	139,596
Provision (benefit) for income taxes	(1,194)	(3,900)	2,494	(2,576)
Net income	$ 81,527	$ 79,111	$ 154,350	$ 142,172

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2000	$ —	$ 23,634	$ 132,856	$ 704,010	$ 1,302,163	$ (1,450)	$ 2,161,213
Comprehensive income							
Net income					142,172		142,172
Cumulative effect of a change in accounting for derivatives						(1,037)	(1,037)
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						7,400	7,400
Change in fair value of derivative instruments						(2,271)	(2,271)
Total comprehensive income							146,264
Preferred stock issued	225,000						225,000
Protected borrower equity retired		(3,240)					(3,240)
Capital stock/participation certificates issued/retired, net			(5,465)				(5,465)
Dividends declared/paid			188		(403)		(215)
Preferred stock dividends accrued	2,308				(2,308)		—
Preferred stock dividends paid	(1,469)						(1,469)
Patronage distribution							
Cash					(6,002)		(6,002)
Retained earnings retired				(70,031)			(70,031)
Patronage distribution adjustment				1,962	(2,691)		(729)
Balance at June 30, 2001	$225,839	$ 20,394	$ 127,579	$ 635,941	$ 1,432,931	$ 2,642	$ 2,445,326
Balance at December 31, 2001	$225,839	$ 19,261	$ 127,271	$ 733,378	$ 1,393,592	$ 7,041	$ 2,506,382
Comprehensive income							
Net income					154,350		154,350
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						9,216	9,216
Change in fair value of derivative instruments						(6,431)	(6,431)
Total comprehensive income							157,135
Protected borrower equity retired		(2,737)					(2,737)
Capital stock/participation certificates issued/retired, net			(3,401)				(3,401)
Dividends declared/paid			45		(212)		(167)
Preferred stock dividends accrued	9,443				(9,443)		—
Preferred stock dividends paid	(9,443)						(9,443)
Patronage distribution							
Cash					(5,456)		(5,456)
Nonqualified allocated retained earnings				11	(11)		—
Retained earnings retired				(63,960)			(63,960)
Patronage distribution adjustment				2,661	(1,608)		1,053
Balance at June 30, 2002	$225,839	$ 16,524	$ 123,915	$ 672,090	$ 1,531,212	$ 9,826	$ 2,579,406

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2002	2001
Cash flows from operating activities:		
Net income	$ 154,350	$ 142,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	5,957	5,189
Provision for loan losses	8,827	6,563
(Gains) losses on other property owned, net	(292)	(801)
Realized (gains) losses on investments, net	3,353	(2,731)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(8,860)	(9,126)
(Increase) decrease in investments in other Farm Credit System institutions	(479)	(126)
(Increase) decrease in other assets	16,752	(37,204)
Increase (decrease) in accrued interest payable	(3,787)	(25,518)
Increase (decrease) in other liabilities	(31,358)	22,151
Total adjustments	(9,887)	(41,603)
Net cash provided by (used in) operating activities	144,463	100,569
Cash flows from investing activities:		
Investment securities purchased	(1,088,140)	(842,129)
Investment securities sold or matured	1,175,998	919,189
Net (increase) decrease in loans	(323,919)	(870,934)
Purchase of premises and equipment, net	(7,018)	(9,550)
Proceeds from sale of other property owned	2,551	4,689
Net cash provided by (used in) investing activities	(240,528)	(798,735)
Cash flows from financing activities:		
Bonds and notes issued	24,022,415	21,109,469
Bonds and notes retired	(23,718,200)	(20,548,569)
Preferred stock issued	—	225,000
Protected borrower equity retired	(2,737)	(3,240)
Capital stock and participation certificates issued/retired, net	(3,401)	(5,465)
Patronage refunds and dividends paid	(67,231)	(58,921)
Dividends paid on preferred stock	(9,443)	(1,469)
Retained earnings retired	(63,960)	(70,031)
Net cash provided by (used in) financing activities	157,443	646,774
Net increase (decrease) in cash and cash equivalents	61,378	(51,392)
Cash and cash equivalents, beginning of period	339,541	326,204
Cash and cash equivalents, end of period	$ 400,919	$ 274,812
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 999	$ 467
Loans transferred to other property owned	2,824	1,998
Patronage refund and dividends payable	15,066	7,686
Accrued dividends on preferred stock	9,443	2,308
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ (1,144)	$ —
Increase (decrease) in bonds and notes	(9,332)	—
Decrease (increase) in other assets	9,704	—
Increase (decrease) in other liabilities	(249)	—
Supplemental information:		
Interest paid	$ 191,680	$ 341,940
Taxes paid, net	(6,796)	3,267

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

Notes to the Combined Financial Statements

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with accounting principles generally accepted in the United States of America (GAAP). The results for the six months ended June 30, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

The District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of June 30, 2002, the allowances for losses are adequate in management's opinion to provide for possible losses on existing loans.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-00	$ 284,867
Provision for loan losses	6,563
Loans (charged off), net of recoveries	(473)
Balance at 6-30-01	$ 290,957
Balance at 12-31-01	$ 301,615
Provision for loan losses	8,827
Loans (charged off), net of recoveries	(1,408)
Balance at 6-30-02	$ 309,034

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of systemwide bond and discount note obligations. Additionally, the banks are contingently liable for the systemwide obligations of the System banks. The total consolidated Systemwide debt securities of the System were $84.6 billion at June 30, 2002.

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

NOTE 4 — BANK ONLY FINANCIAL DATA

Condensed financial information of AgFirst follows:

Balance Sheet Data

	6/30/02	12/31/01 *(Audited)*
Cash and investment securities	$ 1,935,565	$ 1,928,577
Loans	11,443,359	11,128,810
Less: allowance for loan losses	27,389	25,616
Net loans	11,415,970	11,103,194
Other assets	204,961	201,634
Total assets	$ 13,556,496	$ 13,233,405
Bonds and notes	$ 12,426,355	$ 12,115,709
Other liabilities	90,767	163,909
Total liabilities	12,517,122	12,279,618
Preferred stock	225,839	225,839
Capital stock and participation certificates	279,445	281,803
Retained earnings	524,264	439,104
Accumulated other comprehensive income	9,826	7,041
Total shareholders' equity	813,535	727,948
Total liabilities and equity	$ 13,556,496	$ 13,233,405

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

Statement of Income Data

	For the three months ended June 30, 2002	For the three months ended June 30, 2001	For the six months ended June 30, 2002	For the six months ended June 30, 2001
Interest income	$ 156,273	$ 191,074	$ 312,087	$ 392,213
Interest expense	93,169	150,081	187,875	316,159
Net interest income	63,104	40,993	124,212	76,054
Provision for loan losses	1,000	—	2,000	1,000
Net interest income after provision for loan losses	62,104	40,993	122,212	75,054
Noninterest income (expense), net	(10,961)	(9,661)	(27,609)	(18,205)
Net income	$ 51,143	$ 31,332	$ 94,603	$ 56,849