THIRD QUARTER 2002

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F. A. Lowrey

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Chief Executive Officer

Richard Kriebel

Richard Kriebel
Chairman of the Board

October 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 consolidated financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and its subsidiary for the three months and nine months ended September 30, 2002. These comments should be read in conjunction with the accompanying consolidated financial statements and the 2001 Annual Report of AgFirst Farm Credit Bank and its subsidiary.

FINANCIAL OVERVIEW

- Net income for the three months ended September 30, 2002 was $48,786, an increase of $19,894 or 68.86 percent, compared to the three months ended September 30, 2001. Net income for the nine months ended September 30, 2002 was $143,389, an increase of $57,648 or 67.24 percent, compared to the same period ended September 30, 2001. The three-month increase was primarily attributed to the $15,530 increase in net interest income, a $2,000 decrease in provision for loan losses, and a $3,252 decrease in noninterest expense. The year-to-date increase in net income was primarily attributed to the $63,688 increase in net interest income, a $4,597 gain related to the sale of rural home mortgage loans and a $1,000 decrease in provision for loan losses, which were offset by an increase in noninterest expense of $11,069.

- Total assets increased $598,113 or 4.52 percent from December 31, 2001 to September 30, 2002 due primarily to a $692,178 increase in gross loans outstanding and a $36,434 increase in cash and cash equivalents, which were partially offset by a decrease of $132,628 in investments. Other assets increased $2,808 from December 31, 2001, primarily due to increases in receivables from Associations, loan servicing assets and prepaid retirement expense. These increases were offset by the decrease of $10,129 related to SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities."*

- Total liabilities increased $470,655 or 3.83 percent as compared to December 31, 2001. Bonds and notes outstanding at September 30, 2002 increased $546,145 in order to fund the above noted additional loan volume. Other liabilities decreased $63,161 from December 31, 2001, which was primarily attributed to the $67,786 payment of Bank patronage to the District Associations and other financial institutions, which was accrued in December 2001. This decrease was partially offset by increases of $3,020 in Farm Credit System Insurance Corporation premium and $1,350 related to adjustment for SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities."*

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2002 was $11,820,988, a 6.22 percent increase compared to the volume of $11,128,810 at December 31, 2001, and an 11.31 percent increase compared to the volume of $10,619,688 at September 30, 2001. Growth in AgFirst's loan volume was primarily the result of growth in the District Associations' retail volume, which is funded through a direct note payable to AgFirst. Growth in the AgFirst direct note volume as of September 30, 2002, reflected a 14 percent increase compared to September 30, 2001.

District Association retail volume continues to increase with growth attributed to several factors. Based on reports from Associations, the growth is the result of less competition from commercial banks, the decision by some borrowers to build liquidity into their balance sheets while interest rates are at historical lows, large volumes of timber changing hands as large forest products companies divest themselves of their timber holdings, and to the growing favor with which borrowers view Associations' patronage dividends. Within the past twelve months, Associations' market shares have grown noticeably when compared to commercial banks.

Many areas of the territory serviced by AgFirst suffered severe drought conditions in 2002. This stress, accompanied by a slow economic recovery, may indicate future credit quality problems in the Associations' retail portfolios. However, Associations expect loan losses to be minimal as a result of conservative underwriting practices and strong borrower balance sheets. To the extent losses do occur, Association earnings, reserves and capital insulate AgFirst from any direct exposure to loss.

Overall credit quality, as measured by the percent of acceptable assets, in the AgFirst portfolio at September 30, 2002 remained relatively stable as compared to December 31, 2001 and September 30, 2001. Despite the stability in the overall numbers, several individual commodity concentrations, including telecommunications, rural electric, farm supply and forestry, did experience significant adversity during 2002. As a result, nonaccrual loan assets in the AgFirst loan portfolio at September 30, 2002 increased to $33,892 compared to $704 at December 31, 2001 and $874 at September 30, 2001.

During the third quarter, AgFirst charged off $2.2 million related to a $4.5 million lumber processing loan that was transferred to nonaccrual during the second quarter of 2002. No additional charge-offs are anticipated at this time.

The allowance for loan losses at September 30, 2002 of $25,155 represents .21 percent of total gross loan volume and 1.75 percent of AgFirst's participation volume. Management considers this allowance to be adequate to absorb potential losses on existing loans.

Liquidity and Funding Sources

As of September 30, 2002, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the FCA Regulations. At September 30, 2002, AgFirst's permanent capital ratio was 21.76 percent, core surplus was 12.13 percent, total surplus was 21.54 percent, and net collateral was 107.05 percent. Cash, cash equivalents and investment securities totaled $1,832,383 or 13.25 percent of total assets at September 30, 2002, compared to $1,928,577 or 14.57 percent of total assets at December 31, 2001. Interest-bearing liabilities, consisting of bonds and notes, increased by $546,145, or 4.51 percent, at September 30, 2002, compared to bonds and notes outstanding at December 31, 2001. Interest-bearing liabilities increased in order to fund growth in AgFirst's accruing portfolios.

Capital Resources

Total shareholders' equity and preferred stock increased $127,458 from December 31, 2001 to September 30, 2002. This 13.36 percent increase is the result of an increase of $143,389 in retained earnings related to net income, partially offset by accrued and paid preferred stock dividends of $14,164 and $9,443, $2,706 related to stock retirements and a decrease of $4,129 in accumulated other comprehensive income.

Key financial condition comparisons:

	9/30/02	**12/31/01**
Shareholders' Equity to Assets	6.15%	5.50%
Total Liabilities to Shareholders' Equity	14.99:1	16.87:1
Allowance for Loan Losses to Loans	.21%	.23%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended September 30, 2002 was $64,775 compared to $49,245 in the same period of the prior year, an increase of $15,530 or 31.54 percent. For the nine months ended September 30, 2002, net interest income was $188,987 compared to $125,299 for the comparable period of 2001, an increase of $63,688 or 50.83 percent. The increases in net interest income for the three months and nine months continue to be primarily the result of growth in accruing loan volume (discussed above) and the Bank's ability to exercise call options on debt in a favorable interest rate environment.

AgFirst continues to execute call options on significant quantities 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 currently results in a significant improvement in net interest margin.

Noninterest Income

Noninterest income decreased $888 for the quarter ended September 30, 2002, and increased $4,029 for the nine months ended September 30, 2002, compared to the same periods of 2001. The decrease for the quarter is mostly attributed to a decrease in prepayment fees and participation loan fees totaling $978. The year-to-date increase is primarily attributed to the $4,597 realized gain related to the rural home mortgage loan sale. In May 2002, AgFirst sold $433 million of long-term standby loans to Fannie Mae (FNMA) with servicing retained by AgFirst for the sold portfolio. The realized gain was partially offset by a decrease in loan fees of $611.

Subsequent to September 30, 2002, AgFirst delivered approximately $350 million in rural home loans to FNMA and will recognize a gain on the sale in excess of $9 million.

Noninterest Expense

Noninterest expense for the three and nine months ended September 30, 2002 was $19,176 and $56,182 respectively, a decrease of $3,252 for the quarter and an increase of $11,069 for the year- to-date, as compared to the corresponding periods of 2001. The quarter ended September 30, 2001 was inflated due to a $7,600 charge-off of a downgraded investment. The quarter ended September 30, 2002 decrease is primarily attributed to the absence of the charge-off, offset by increases of $2,169 in other operating expenses and $1,309 in salaries and employee benefits primarily related to increases in retirement and healthcare expense as well as standard merit increases. The year-to-date increase is mostly attributed to the increases of $3,876 in salaries and employee benefits which resulted from increases in retirement and health insurance expense as well as standard merit increases, $3,810 in other operating expenses primarily related to purchased services for Districtwide strategic initiative projects, and $997 in Intra-System financial assistance expense. The decrease of $1,446 in realized losses on investments compares the $4,799 net loss for the nine months ended September 30, 2001 to the additional charge-off of an investment of $3,353 during the first quarter of 2002. The year-to-date increase in miscellaneous expense is mostly attributed to the $2,206 in expenses related to called debt.

Key results of operations comparisons:

	Annualized for the nine months ended 9/30/02	**For the year ended 12/31/01**
Return on Average Assets	1.42%	1.05%
Return on Average Shareholders' Equity	24.01%	17.40%
Net Interest Income as a Percentage of Average Earning Assets	1.90%	1.50%

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2002	December 31, 2001
	(unaudited)	
Assets		
Cash and cash equivalents	$ 301,688	$ 265,254
Investment securities	1,530,695	1,663,323
Loans	11,820,988	11,128,810
Less: allowance for loan losses	25,155	25,616
Net loans	11,795,833	11,103,194
Accrued interest receivable	53,994	56,771
Investments in other Farm Credit System institutions	77,719	77,765
Premises and equipment, net	18,505	16,822
Other assets	53,084	50,276
Total assets	$ 13,831,518	$ 13,233,405
Liabilities		
Bonds and notes	$ 12,661,854	$ 12,115,709
Accrued interest payable	48,113	60,442
Other liabilities	40,306	103,467
Total liabilities	12,750,273	12,279,618
Commitments and contingencies (Note 3)		
Preferred Stock	230,560	225,839
Shareholders' Equity		
Capital stock and participation certificates	279,444	281,803
Retained earnings	568,329	439,104
Accumulated other comprehensive income	2,912	7,041
Total shareholders' equity	850,685	727,948
Total liabilities and equity	$ 13,831,518	$ 13,233,405

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, 2002	2001	For the nine months ended September 30, 2002	2001
Interest Income				
Investment securities and other	$ 15,024	$ 24,178	$ 48,036	$ 87,302
Loans	136,532	160,080	415,607	489,169
Total interest income	151,556	184,258	463,643	576,471
Interest Expense	86,781	135,013	274,656	451,172
Net interest income	64,775	49,245	188,987	125,299
Provision for loan losses	—	2,000	2,000	3,000
Net interest income after provision for loan losses	64,775	47,245	186,987	122,299
Noninterest Income				
Loan fees	3,080	4,058	7,266	7,877
Miscellaneous	107	17	5,318	678
Total noninterest income	3,187	4,075	12,584	8,555
Noninterest Expenses				
Salaries and employee benefits	5,167	3,858	15,598	11,722
Occupancy and equipment	1,661	2,256	5,454	5,020
Other operating expenses	4,353	2,184	12,557	6,673
Intra-System financial assistance expenses	3,848	3,539	11,432	10,435
Realized losses (gains) on investments, net	(32)	7,530	3,321	4,799
Miscellaneous	4,179	3,061	7,820	6,464
Total noninterest expenses	19,176	22,428	56,182	45,113
Net income	$ 48,786	$ 28,892	$ 143,389	$ 85,741

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, 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, net of reclassification adjustments				15,384	15,384
Change in fair value of derivative instruments				(4,884)	(4,884)
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 accrued	7,029		(7,029)		—
Preferred stock dividends paid	(1,469)				(1,469)
Balance at September 30, 2001	$ 230,560	$ 302,326	$ 466,747	$ 8,013	$1,007,646
Balance at December 31, 2001	$ 225,839	$ 281,803	$ 439,104	$ 7,041	$ 953,787
Comprehensive income					
Net income			143,389		143,389
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments				10,180	10,180
Change in fair value of derivative instruments				(14,309)	(14,309)
Total comprehensive income					139,260
Capital stock/participation certificates issued/retired, net		(2,359)			(2,359)
Preferred stock dividends accrued	14,164		(14,164)		—
Preferred stock dividends paid	(9,443)				(9,443)
Balance at September 30, 2002	$ 230,560	$ 279,444	$ 568,329	$ 2,912	$1,081,245

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, 2002	2001
Cash flows from operating activities:		
Net income	$ 143,389	$ 85,741
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	3,086	1,688
Provision for loan losses	2,000	3,000
Realized (gains) losses on investments, net	3,321	4,799
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	2,777	6,862
(Increase) decrease in investments in other Farm Credit System institutions	46	1,458
(Increase) decrease in other assets	(2,808)	(13,609)
Increase (decrease) in accrued interest payable	(12,329)	(22,005)
Increase (decrease) in other liabilities	(63,161)	(59,362)
Total adjustments	(67,068)	(77,169)
Net cash provided by (used in) operating activities	76,321	8,572
Cash flows from investing activities:		
Investment securities purchased	(1,617,922)	(1,233,163)
Investment securities sold or matured	1,757,409	1,575,513
Net (increase) decrease in loans	(694,639)	(1,123,485)
Purchase of premises and equipment, net	(4,769)	(8,356)
Net cash provided by (used in) investing activities	(559,921)	(789,491)
Cash flows from financing activities:		
Bonds and notes issued	36,355,365	32,517,579
Bonds and notes retired	(35,823,529)	(31,750,606)
Preferred stock issued	—	225,000
Capital stock and participation certificates issued/retired, net	(2,359)	1,137
Dividends paid on preferred stock	(9,443)	(1,469)
Net cash provided by (used in) financing activities	520,034	991,641
Net increase (decrease) in cash and cash equivalents	36,434	210,722
Cash and cash equivalents, beginning of period	265,254	241,588
Cash and cash equivalents, end of period	$ 301,688	$ 452,310
Non-cash changes related to hedging activities:		
Decrease (increase) in loans	$ (1,824)	$ 981
Increase (decrease) in bonds and notes	(9,320)	13,413
Decrease (increase) in other assets	10,129	(14,471)
Increase (decrease) in other liabilities	1,350	6,979
Supplemental information:		
Interest paid	$ 286,985	$ 473,177

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 AgFirst Farm Credit Bank (AgFirst) 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, 2001, are contained in the 2001 Annual Report. These unaudited third quarter financial statements should be read in conjunction with the 2001 Annual Report.

The accompanying consolidated 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 nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

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, 2002, 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 12-31-00	$ 21,416
Provision for loan losses	3,000
Loans (charged off), net of recoveries	(300)
Balance at 9-30-01	$ 24,116
Balance at 12-31-01	$ 25,616
Provision for loan losses	2,000
Loans (charged off), net of recoveries	(2,461)
Balance at 9-30-02	$ 25,155

NOTE 3 — COMMITMENTS AND CONTINGENCIES

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 $86.7 billion at September 30, 2002.

Actions are pending against AgFirst 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 financial position of the Bank.