THIRD QUARTER 2002

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Chief Executive Officer

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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 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 nine months ended September 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 nine months ended September 30, 2002 was $81,977 and $236,327, respectively, an increase of $7,194 or 9.62 percent and $19,372 or 8.93 percent, compared to the same periods in 2001. The three-month increase was primarily due to an increase of $17,983 in net interest income, which was partially offset by increases of $3,887 in noninterest expenses, $5,800 in provision for income taxes and $638 in provision for loan losses. The year-to-date increase in net income was primarily attributed to increases of $52,285 in net interest income and $5,641 in noninterest income, which were partially offset by increases of $24,782 in noninterest expenses, $10,870 in provision for income taxes, and $2,902 in provision for loan losses. Reference *Results of Operations* for additional details.

- Total assets at September 30, 2002 increased $574,856 or 3.84 percent compared to December 31, 2001. The increase in total assets is primarily due to increases of $680,679 in gross loan volume and $6,630 in cash and cash equivalents, partially offset by a decrease of $132,628 in investment securities. Other assets decreased by $12,410 from December 31, 2001 to September 30, 2002, which was primarily attributed to decreases of $7,457 in receivables related to District Association IRS settlement refunds and related interest, $10,129 related to adjustments for SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities,*" and $6,702 in net deferred tax assets, which were partially offset by increases of $3,797 in mortgage loans held for resale, $2,384 in prepaid retirement expense and $2,536 in insurance related receivables.

- Total liabilities at September 30, 2002 increased $434,751 or 3.49 percent as compared to December 31, 2001. Bonds and notes outstanding at September 30, 2002 increased $546,145 or 4.51 percent in order to fund the above noted additional loan volume. Other liabilities decreased $38,820 from December 31, 2001, primarily due to decreases of $26,825 in disbursement accounts related to timing differences in loan activity and $15,505 in short-term funds held. These decreases were offset by accrual increases of $4,880 related to postretirement benefits and $3,020 for Farm Credit System Insurance Corporation (FCSIC) premiums.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District 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 the District's assets.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2002 was $13,558,568, an increase of $680,679 or 5.29 percent as compared to December 31, 2001, and an increase of $1,298,084 or 10.59 percent compared to September 30, 2001. Loan growth is projected to be moderate in the fourth quarter of 2002 and to show further moderation in 2003.

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 product companies divest themselves of their timber holdings, and 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.

The combined credit quality remained constant during the third quarter of 2002 compared to December 31, 2001 and September 30, 2001. Nonaccrual loan assets for the combined District at September 30, 2002 were also relatively stable at .88% of total loan assets. During the third quarter of 2002, the District charged off approximately $11 million related to a lumber processing loan that was placed in nonaccrual status in the second quarter of this year.

The allowance for loan losses at September 30, 2002 of $300,692, or 2.22 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 September 30, 2002, AgFirst and all District Associations exceeded all regulatory liquidity requirements. Cash, cash equivalents and investment securities totaled $1,876,863 or 12.08 percent of total assets at September 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 $546,145 or 4.51 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 $135,384 from December 31, 2001 to September 30, 2002. The increase was primarily the result of $236,327 related to net income and stock issuances of $9,468, which were partially offset by stock retirements of $15,518, retirements of surplus of $69,430, accrued and paid preferred stock dividends of $14,164 and $9,443, and cash patronage payments of $7,995. Accumulated other comprehensive income decreased in the amount of $4,129 as of September 30, 2002.

Key financial condition comparisons:

	9/30/02	**12/31/01**
Shareholders' Equity* to Assets	15.55%	15.24%
Debt to Shareholders' Equity*	5.34:1	5.46:1
Allowance for Loan Losses to Loans	2.22%	2.34%

** Shareholders' Equity does not include preferred stock.*

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended September 30, 2002 was $139,735, an increase of $17,983 or 14.77 percent compared to the three months ended September 30, 2001. The nine months ended September 30, 2002 was $404,635, an increase of $52,285 or 14.84 percent compared to the same period ended September 30, 2001. The increase in net interest income for the three months and nine months ended September 30, 2002 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 nine months ended September 30, 2002 was $11,051 and $39,261, respectively, a decrease of $464 for the quarter and a $5,641 increase for the nine months as compared to the same periods in 2001. The three-month decrease was primarily related to the reduction in

Association tax refund interest, which was offset by an increase in loan fees. The year-to-date increase was primarily attributed to an increase of $5,029 in fees related to secondary mortgage market activity, participation loans, prepayment fees, and other miscellaneous loan activity, as well as the $4,597 gain recognized on the sale of $433 million of rural home mortgage loans to Fannie Mae (FNMA). These year-to-date increases were offset by a decrease of approximately $4 million in interest related to District Association federal tax settlement refunds received in 2001.

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 $65,476 and $192,915, respectively, an increase of $3,887 and $24,782, respectively, as compared to the corresponding periods in 2001. The three-month increase was attributed in part to an increase in salaries and employee benefits of $6,222, which was related mostly to retirement and health insurance expense and standard merit increases. In addition, increases occurred in called debt expense of $1,622, operating expenses of $2,985 and FCSIC premiums of $1,029. The increases for the quarter were offset by the decrease in realized losses on investments from the charge-off of $7,600 of an investment during the third quarter of 2001. The nine-month increase was primarily attributed to a $14,076 increase in salaries and employee benefits related to retirement and health insurance expense and standard merit increases. Other operating expenses increased $6,079 year-to-date due in part to Districtwide strategic initiative projects, and FCSIC premium increased $3,020. These increases were offset by a $1,446 decrease in realized losses on investments, which compares the $4,799 net loss on investments for the nine months in 2001 for the above referenced investment to the additional charge-off of $3,353 during the first quarter of 2002. The year-to-date increase in miscellaneous expense was primarily due to an increase in called debt expense of $2,206.

Provision for Income Taxes

The provision/(benefit) for income taxes for the three months and nine months ended September 30, 2002 was ($1,823) and $671, respectively. This represents a decrease in benefit of $5,800 for the quarter and a $10,870 increase in provision year-to date, as compared to the same periods in 2001. The variance for the nine-month period is primarily due to the fact that in 2001, District Associations recognized federal tax refunds, which were offset by deferred tax asset adjustments related to the formation of holding company structures.

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	2.08%	2.15%
Return on Average Shareholders' Equity *	13.50%	13.67%
Net Interest Income as a Percentage of Average Earning Assets	3.57%	3.46%
Chargeoffs, Net of (Recoveries), to Average Loans	0.11%	0.03%

** Shareholders' Equity does not include preferred stock.*

Combined Balance Sheets

(dollars in thousands)	September 30, 2002	December 31, 2001
	(unaudited)	
Assets		
Cash and cash equivalents	$ 346,171	$ 339,541
Investment securities	1,530,695	1,663,323
Loans	13,558,568	12,877,889
Less: allowance for loan losses	300,692	301,615
Net loans	13,257,876	12,576,274
Accrued interest receivable	172,725	143,685
Investments in other Farm Credit System institutions	20,407	19,596
Premises and equipment, net	76,884	75,106
Other property owned	5,958	5,925
Other assets	125,833	138,243
Total assets	$ 15,536,549	$ 14,961,693
Liabilities		
Bonds and notes	$ 12,661,854	$ 12,115,709
Accrued interest payable	48,113	60,443
Dividends and patronage refunds payable	8,844	69,088
Other liabilities	171,251	210,071
Total liabilities	12,890,062	12,455,311
Commitments and contingencies (Note 3)		
Preferred Stock	230,560	225,839
Shareholders' Equity		
Protected borrower equity	16,031	19,261
Capital stock and participation certificates	124,519	127,271
Retained earnings		
Allocated	666,608	733,378
Unallocated	1,605,857	1,393,592
Accumulated other comprehensive income	2,912	7,041
Total shareholders' equity	2,415,927	2,280,543
Total liabilities and equity	$ 15,536,549	$ 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 September 30, 2002	For the three months ended September 30, 2001	For the nine months ended September 30, 2002	For the nine months ended September 30, 2001
Interest Income				
Investment securities	$ 15,029	$ 24,186	$ 48,054	$ 87,328
Loans	211,493	232,609	631,261	716,487
Total interest income	226,522	256,795	679,315	803,815
Interest Expense	86,787	135,043	274,680	451,465
Net interest income	139,735	121,752	404,635	352,350
Provision for loan losses	5,156	4,518	13,983	11,081
Net interest income after provision for loan losses	134,579	117,234	390,652	341,269
Noninterest Income				
Loan fees	8,311	7,349	24,148	19,119
Fees for financially related services	1,211	1,058	2,751	3,110
Miscellaneous	1,529	3,108	12,362	11,391
Total noninterest income	11,051	11,515	39,261	33,620
Noninterest Expenses				
Salaries and employee benefits	35,594	29,372	107,943	93,867
Occupancy and equipment	5,873	6,339	16,767	16,339
Insurance Fund premium	1,029	—	3,020	—
Other operating expenses	14,981	11,996	42,595	36,516
Intra-System financial assistance expenses	3,853	3,545	11,450	10,449
Realized losses (gains) on investments, net	(32)	7,530	3,321	4,799
Miscellaneous	4,178	2,807	7,819	6,163
Total noninterest expenses	65,476	61,589	192,915	168,133
Income before income taxes	80,154	67,160	236,998	206,756
Provision (benefit) for income taxes	(1,823)	(7,623)	671	(10,199)
Net income	$ 81,977	$ 74,783	$ 236,327	$ 216,955

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					216,955		216,955
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						15,384	15,384
Change in fair value of derivative instruments						(4,884)	(4,884)
Total comprehensive income							226,418
Preferred stock issued	225,000						225,000
Protected borrower equity retired		(3,665)					(3,665)
Capital stock/participation certificates issued/retired, net			(5,807)				(5,807)
Dividends declared/paid			218		(534)		(316)
Preferred stock dividends accrued	7,029				(7,029)		—
Preferred stock dividends paid	(1,469)						(1,469)
Patronage distribution							
Cash					(8,431)		(8,431)
Retained earnings retired				(75,012)			(75,012)
Patronage distribution adjustment				1,803	(2,726)		(923)
Balance at September 30, 2001	$230,560	$ 19,969	$ 127,267	$ 630,801	$ 1,500,398	$ 8,013	$ 2,517,008
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					236,327		236,327
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							232,198
Protected borrower equity retired		(3,230)					(3,230)
Capital stock/participation certificates issued/retired, net			(2,820)				(2,820)
Dividends declared/paid			68		(149)		(81)
Preferred stock dividends accrued	14,164				(14,164)		—
Preferred stock dividends paid	(9,443)						(9,443)
Patronage distribution							
Cash					(7,995)		(7,995)
Retained earnings retired				(69,430)			(69,430)
Patronage distribution adjustment				2,660	(1,754)		906
Balance at September 30, 2002	$230,560	$ 16,031	$ 124,519	$ 666,608	$ 1,605,857	$ 2,912	$ 2,646,487

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the nine months ended September 30, 2002	2001
Cash flows from operating activities:		
Net income	$ 236,327	$ 216,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	8,915	7,841
Provision for loan losses	13,983	11,081
(Gains) losses on other property owned, net	(283)	(672)
Realized (gains) losses on investments, net	3,321	4,799
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(29,040)	(29,076)
(Increase) decrease in investments in other Farm Credit System institutions	(811)	(83)
(Increase) decrease in other assets	12,410	(33,167)
Increase (decrease) in accrued interest payable	(12,330)	(22,005)
Increase (decrease) in other liabilities	(38,744)	(3,648)
Total adjustments	(42,579)	(64,930)
Net cash provided by (used in) operating activities	193,748	152,025
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	(698,142)	(1,172,217)
Purchase of premises and equipment, net	(10,693)	(13,849)
Proceeds from sale of other property owned	2,731	5,215
Net cash provided by (used in) investing activities	(566,617)	(838,501)
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
Protected borrower equity retired	(3,230)	(3,665)
Capital stock and participation certificates issued/retired, net	(2,820)	(5,807)
Patronage refunds and dividends paid	(67,414)	(59,354)
Dividends paid on preferred stock	(9,443)	(1,469)
Retained earnings retired	(69,430)	(75,012)
Net cash provided by (used in) financing activities	379,499	846,666
Net increase (decrease) in cash and cash equivalents	6,630	160,190
Cash and cash equivalents, beginning of period	339,541	326,204
Cash and cash equivalents, end of period	$ 346,171	$ 486,394
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 999	$ 467
Loans transferred to other property owned	3,556	5,268
Patronage refund and dividends payable	17,519	10,216
Accrued dividends on preferred stock	14,164	7,029
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	$ 287,010	$ 473,470
Taxes paid, net	(5,772)	(2,811)

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 third 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 nine months ended September 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 September 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	11,081
Loans (charged off), net of recoveries	(2,108)
Balance at 9-30-01	$ 293,840
Balance at 12-31-01	$ 301,615
Provision for loan losses	13,983
Loans (charged off), net of recoveries	(14,906)
Balance at 9-30-02	$ 300,692

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 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

	9/30/02	12/31/01 *(Audited)*
Cash and investment securities	$ 1,832,383	$ 1,928,577
Loans	11,820,988	11,128,810
Less: allowance for loan losses	25,155	25,616
Net loans	11,795,833	11,103,194
Other assets	203,302	201,634
Total assets	$ 13,831,518	$ 13,233,405
Bonds and notes	$ 12,661,854	$ 12,115,709
Other liabilities	88,419	163,909
Total liabilities	12,750,273	12,279,618
Preferred stock	230,560	225,839
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

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

Statement of Income Data

	For the three months ended September 30, 2002	2001	For the nine months ended September 30, 2002	2001
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 (expense), net	(15,989)	(18,353)	(43,598)	(36,558)
Net income	$ 48,786	$ 28,892	$ 143,389	$ 85,741