THIRD QUARTER 2000

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F. A. Lowrey
Chief Executive Officer

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Chairman of the Board

October 27, 2000

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 *Ag***First** *Farm Credit Bank* (the Bank) and the District Associations (the District) for the nine months ended September 30, 2000. These comments should be read in conjunction with the accompanying financial statements and the 1999 Annual Report of *Ag***First** *Farm Credit Bank* and the District Associations.

Final net income for the nine months ended September 30, 2000 was $173,570, an increase of $13,603 or 8.5 percent, compared to the nine months ended September 30, 1999, while net income for the three months ended September 30, 2000 was $63,072, an increase of $3,785 or 6.38 percent, compared to the three months ended September 30, 1999. The year-to-date increase in net income was primarily attributed to a $5.1 million increase in net interest income, a reduction in the provision for loan losses of $2.9 million, a $5.5 million decrease in Insurance Fund premium, and a $9.7 million decrease in Intra-System financial assistance expenses, which were partially offset by a $9 million increase in salaries and employee benefits resulting primarily from Association consolidation activity. The increase in net income for the third quarter compared to prior year was primarily the result of a $2.7 million increase in net interest income, a reduction of $4.6 million in provision for income taxes, and a decrease of $1.2 million in Insurance Fund premium, which were partially offset be an increase of $1.8 million in salaries and benefits and a $2.5 million increase in Intra-System financial assistance expense. See Note 11 in the 1999 Annual Report for further discussion regarding the calls of Financial Assistance Corporation bonds.

Total assets at September 30, 2000 increased 2.4 percent compared to December 31, 1999. The $560 million increase in loan volume and accrued interest was primarily offset by the $268 million decrease in investments and cash and cash equivalents. Other assets increased $8.2 million from December 31, 1999 to September 30, 2000 primarily due to a $3.6 million increase in prepaid retirement expense and an increase in miscellaneous receivables of $2.1 million.

Credit quality for the District at September 30, 2000 improved slightly compared to December 31, 1999, with an Acceptable rating of 90.3 percent and 89.3 percent, respectively. Percentages for Other Assets Especially Mentioned (OAEM) at September 30, 2000 and December 31, 1999 were 6.9 and 7.5, respectively. Nonaccrual loan assets at September 30, 2000 were .84 percent of total loan assets as compared to .96 percent at December 31, 1999.

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.

DISTRICT OPERATIONS

As of January 1, 2000, the District consisted of the Bank, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and thirty-three associations. During the course of the year, several associations either consolidated or announced their intent to consolidate during 2000. Association consolidation/merger activity for 2000 and 2001 includes, with new names in parenthesis:

(East Carolina)	Tar Heel and East Carolina - July 1, 2000
(MidAtlantic)	Keystone, Delaware, Central Maryland, Marva and Chesapeake – July 1, 2000
(Palmetto)	Edisto and Palmetto – July 1, 2000
(Farm Credit Group)	Cape Fear and Pee Dee – January 1, 2001
(Farm Credit of the Virginias)	West Virginia, Roanoke, Southwest Virginia, and Blue Ridge – January 1, 2001

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2000 was $10,657,154, a 4.85 percent increase over the December 31, 1999 amount of $10,164,673, and a 3.76 percent increase compared to September 30, 1999. The increase since December 31, 1999 is mostly attributable to seasonality of the portfolio while the year-to-year increase can be attributed to business development activity that has resulted in increases in market share for the District Associations.

The allowance for loan losses at September 30, 2000 of $282,546 is 2.65 percent of gross loan volume and 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, 2000, the Bank exceeded all regulatory liquidity requirements. Cash and investment securities totaled $2,225,722, or 17.08 percent of total assets. Interest-bearing liabilities, consisting of bonds and notes, increased by $270,987, or 2.62 percent, compared to bonds and notes outstanding at December 31, 1999. This increase was primarily attributed to the aforementioned increases in loan volume. Other liabilities have decreased $17.4 million from December 31, 1999 to September 30, 2000 due to an $11.4 reduction in the control disbursement account (related to timing differences with loan activity) and a $6.8 million reduction in the Farm Credit System Insurance Corporation premium.

Capital Resources

Total members' equity increased $81.9 million from December 31, 1999 to September 30, 2000. This net increase was primarily the result of a $173.5 million increase in retained earnings from current year net income, partially offset by revolvements of $65.2 million and stock retirements of $23.7 million.

Key financial condition comparisons:

	9/30/00	**12/31/99**
Members' Equity to Assets	16.58%	16.34%
Debt to Members' Equity	5.03:1	5.12:1
Allowance for Loan Losses to Loans	2.65%	2.74%

RESULTS OF OPERATIONS

Net interest income for the nine months ended September 30, 2000 was $327,415 compared to $322,295 in the same period of 1999. The increase in net interest income was due to increased loan volume and in the investment securities portfolio, although there was a decrease in the net interest margin. The increase for the three months ended September 30, 2000 of $2.7 million compared to the prior year would be attributed to the same reasons as noted for the year-to-date increase. This increase in net interest income was also partially offset as a result of lower interest income from nonaccrual loans for the nine months ended September 30, 2000 compared to the same period in 1999. Interest from nonaccrual loans totaled $11,202 in the nine months ended September 30, 2000 compared to $12,896 in the same period of 1999.

Noninterest income for the nine months ended September 30, 2000 decreased $2,022, or 10.5 percent, compared to the same period in 1999. This decrease is mostly attributable to a decreased level of loan fees, prepayment fee penalties and fees for financially related services. For the quarter ending September 30, 2000, noninterest income increased $275 compared to the period ending September 30, 1999. Contributing to this increase was the increase of loan fees for the Bank and Associations and other gains related to the Associations, offset by the reduction in fees for financially related services.

Noninterest expense decreased from $164,416 for the nine months of 1999, to $159,713 for the comparable period in 2000. This $4.7 million decrease is mostly attributable to the $9.7 million decrease in Intra-System financial assistance and $5.5 million in Insurance Fund premium expense, offset by the $9 million increase in salaries and employee benefits, which are mainly the result of severance and early retirements related to Association consolidations. For the three months ended September 30, 2000 and September 30, 1999, noninterest expense increased $3.9 million, or 8.2 percent, comparing the current and prior year periods. The increase is mostly attributable to the increase in Intra-System financial assistance expense due primarily to the call in August 2000 of an $89 million issuance. Refer to Note 11 in the 1999 Annual Report for further discussion regarding the calls of Financial Assistance Corporation bonds.

The provision for income taxes for the nine months ended September 30, 2000 decreased from the same period in 1999 primarily due to a $3 million deferred tax asset booked in the third quarter 2000 by a consolidating Association to achieve consistent tax accounting within the new entity.

Key results of operations comparisons:

	Annualized for the nine months ended 9/30/00	**For the year ended 12/31/99**
Return on Average Assets	1.84%	1.78%
Return on Average Members' Equity	11.00%	10.63%
Net Interest Income as a Percentage of Average Earning Assets	3.50%	3.56%
Chargeoffs, Net of (Recoveries), to Average Loans	0.01%	0.03%

IRS TAX SETTLEMENT

District Agricultural Credit Associations (ACAs) have filed refund claims with the Internal Revenue Service asserting that earnings from their long-term mortgage lending activities are exempt from taxation. Settlement negotiations are in process to resolve this issue, which, if successful, would result in a refund of a portion of taxes previously paid. No potential recovery has been accrued to income pending a final resolution of this issue.

The terms of the settlement agreements stipulate that income generated by ACAs will be taxable in future periods. However, ACAs may reorganize, with the approval of their stockholders and FCA, to operate their long-term mortgage lending activities through a newly created Federal Land Credit Association (FLCA) subsidiary. As part of the settlement agreement, the IRS has confirmed that FLCAs formed in this manner are tax-exempt. The ACAs' effective tax rates could be reduced in future years if the ACAs' reorganizations occur.

Combined Balance Sheets

(dollars in thousands)	**September 30, 2000**	**December 31, 1999**
	(unaudited)	
Assets		
Cash and cash equivalents	$ 258,575	$ 391,515
Investment securities	1,967,147	2,101,764
Loans	10,657,154	10,164,673
Less: allowance for loan losses	282,546	278,953
Net loans	10,374,608	9,885,720
Accrued interest receivable	221,917	150,986
Investments in other Farm Credit System institutions	16,966	16,922
Premises and equipment, net	69,165	63,985
Other property owned	9,189	8,178
Other assets	115,299	107,069
Total assets	$ 13,032,866	$ 12,726,139
Liabilities		
Bonds and notes	$ 10,598,054	$ 10,327,067
Accrued interest payable	130,810	114,803
Dividends and patronage refunds payable	5,425	50,135
Other liabilities	137,726	155,162
Total liabilities	10,872,015	10,647,167
Commitments and contingent liabilities		
Members' Equity		
Protected borrower equity	24,140	28,297
At-risk equity:		
Capital stock and participation certificates	133,391	152,639
Retained earnings		
Allocated	597,750	659,297
Unallocated	1,413,424	1,249,773
Accumulated other comprehensive income (loss)	(7,854)	(11,034)
Total members' equity	2,160,851	2,078,972
Total liabilities and members' equity	$ 13,032,866	$ 12,726,139

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, 2000	1999	For the nine months ended September 30, 2000	1999
Interest Income				
Investment securities and other	$ 38,310	$ 28,980	$ 109,563	$ 81,132
Loans	241,801	216,364	686,405	633,028
Total interest income	280,111	245,344	795,968	714,160
Interest Expense	168,265	136,167	468,553	391,865
Net interest income	111,846	109,177	327,415	322,295
Provision for loan losses	2,676	2,826	4,742	7,630
Net interest income after provision for loan losses	109,170	106,351	322,673	314,665
Noninterest Income				
Loan fees	2,920	2,501	9,883	10,765
Fees for financially related services	1,134	1,573	3,076	3,863
Gains (losses) from other property owned, net	42	241	86	317
Realized gains (losses) on investments, net	—	2	—	(2)
Miscellaneous	1,430	934	4,157	4,281
Total noninterest income	5,526	5,251	17,202	19,224
Noninterest Expenses				
Salaries and employee benefits	29,148	27,360	97,404	88,412
Occupancy and equipment	5,485	4,732	15,038	14,116
Insurance Fund premium	—	1,186	100	5,596
Other operating expenses	11,119	11,024	33,282	32,148
Intra-System financial assistance expenses	6,394	3,904	13,852	23,555
Miscellaneous	9	15	37	589
Total noninterest expenses	52,155	48,221	159,713	164,416
Income before income taxes	62,541	63,381	180,162	169,473
Provision (benefit) for income taxes	(531)	4,094	6,592	9,506
Net income	$ 63,072	$ $59,287	$ 173,570	$ 159,967

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

Combined Statements of Changes in Members' Equity

(unaudited)

		At-Risk Equity				
		Capital	Retained Earnings		Accumulated	
	Protected	Stock and			Other	Total
	Borrower	Participation			Comprehensive	Members'
(dollars in thousands)	Equity	Certificates	Allocated	Unallocated	Income	Equity
Balance at December 31, 1998	$ 34,546	$ 164,019	$ 620,678	$1,197,760	$ (6,085)	$2,010,918
Comprehensive income						
Net income				159,967		159,967
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					(3,737)	(3,737)
Total comprehensive income						156,230
Protected borrower equity retired	(5,631)					(5,631)
At-risk equity:						
Capital stock/participation certificates issued/retired, net		(10,614)				(10,614)
Dividends declared/paid		709		(1,090)		(381)
Patronage distribution						
Cash				(10,206)		(10,206)
Allocated retained earnings			11,196	(11,196)		—
Retained earnings retired			(57,354)			(57,354)
Patronage distribution adjustment			(718)	1,552		834
Balance at September 30, 1999	$ 28,915	$ 154,114	$ 573,802	$1,336,787	$ (9,822)	$2,083,796
Balance at December 31, 1999	$ 28,297	$ 152,639	$ 659,297	$1,249,773	$ (11,034)	$2,078,972
Comprehensive income						
Net income				173,570		173,570
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments					3,180	3,180
Total comprehensive income						176,750
Protected borrower equity retired	(4,157)					(4,157)
At-risk equity:						
Capital stock/participation certificates issued/retired, net		(19,524)				(19,524)
Dividends declared/paid		276		(658)		(382)
Patronage distribution						
Cash				(5,937)		(5,937)
Allocated retained earnings			3,348	(3,348)		—
Retained earnings retired			(65,233)			(65,233)
Patronage distribution adjustment			338	24		362
Balance at September 30, 2000	$ 24,140	$ 133,391	$ 597,750	$1,413,424	$ (7,854)	$2,160,851

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

Combined Statements of Cash Flows

(unaudited)

	For the nine months ended September 30,	
(dollars in thousands)	**2000**	**1999**
Cash flows from operating activities:		
Net income	$ 173,570	$ 159,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	8,115	7,469
Provision for loan losses	4,742	7,630
(Gains) losses on other property owned, net	(86)	(317)
Realized (gains) losses on investments, net	—	2
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(70,931)	(46,401)
(Increase) decrease in investments in other Farm Credit System institutions	(44)	(6,396)
(Increase) decrease in other assets	(8,230)	4,563
Increase (decrease) in accrued interest payable	16,007	31,799
Increase (decrease) in other liabilities	(17,385)	(12,049)
Total adjustments	(67,812)	(13,700)
Net cash provided by operating activities	105,758	146,267
Cash flows from investing activities:		
Investment securities purchased	(1,701,923)	(1,647,847)
Investment securities sold or matured	1,839,720	1,457,992
Net (increase) decrease in loans	(498,065)	(384,885)
Purchase of premises and equipment, net	(13,295)	(6,816)
Proceeds from sale of other property owned	3,459	4,421
Net cash used in investing activities	(370,104)	(577,135)
Cash flows from financing activities:		
Bonds and notes issued	18,438,401	30,110,469
Bonds and notes retired	(18,167,414)	(29,511,256)
Protected borrower equity retired	(4,157)	(5,631)
At-risk equity:		
Capital stock and participation certificates issued/retired, net	(19,524)	(10,614)
Patronage refunds and dividends paid	(50,667)	(59,135)
Retained earnings retired	(65,233)	(57,354)
Net cash provided by financing activities	131,406	466,479
Net increase (decrease) in cash and cash equivalents	(132,940)	35,611
Cash and cash equivalents, beginning of period	391,515	378,447
Cash and cash equivalents, end of period	$ 258,575	$ 414,058
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	$ 334	$ 1,175
Loans transferred to other property owned	4,769	7,714
Patronage refund and dividends payable	6,319	10,587
Change in unrealized gains (losses) on investments, net	3,180	(3,737)
Supplemental information:		
Interest paid	$ 452,546	$ 360,066
Taxes paid, net	11,851	9,877

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 *Ag***First** *Farm Credit Bank* (the Bank or *Ag***First**) and the accounts of the district Agricultural Credit Associations (ACAs) and Production Credit Association (PCA), collectively referred to as Associations, and reflect the investments in and allocated earnings of the service organizations in which *Ag***First** has a partial ownership interest. All significant transactions and balances among the Bank and the 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, 1999, are contained in the 1999 Annual Report to Stockholders. These unaudited third quarter 2000 financial statements should be read in conjunction with the 1999 Annual Report to Stockholders.

In June 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 138, an amendment of Statement No. 133. This Statement amends the accounting and reporting for certain derivative instruments and certain hedging activities. FASB Statement No. 133, 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 will be 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 impact on the Bank of adopting this Standard is not expected to be material.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles. The results for the nine months ended September 30, 2000 are not necessarily indicative of the results to be expected for the year ending December 31, 2000.

The District maintains allowances for loan losses in accordance with generally accepted accounting principles. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of September 30, 2000, 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 12-31-98	$ 269,906
Provision for loan losses	7,630
Loans (charged off), net of recoveries	(2,064)
Balance at 9-30-99	$ 275,472
Balance at 12-31-99	$ 278,953
Provision for loan losses	4,742
Loans (charged off), net of recoveries	(1,149)
Balance at 9-30-00	$ 282,546

NOTE 3 — OTHER COMPREHENSIVE INCOME

The following represents the reclassification amount:

	For the nine months ended September 30, 2000	1999
Unrealized holding gains (losses) arising during the period	$ 3,180	$(3,739)
Less: reclassification adjustment for gains (losses) included in net income	—	(2)
Net unrealized gains (losses) on investments	$ 3,180	$(3,737)

NOTE 4 — 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.

Actions are pending against the Bank 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 the Bank and Associations.

NOTE 5 — BANK ONLY FINANCIAL DATA

Condensed financial information of *Ag***First** follows:

Balance Sheet Data

	9/30/00	12/31/99 (Audited)
Cash and investment securities	$ 2,185,122	$ 2,444,638
Loans	9,121,008	8,572,817
Less: allowance for loan losses	20,416	19,466
Net loans	9,100,592	8,553,351
Other assets	190,803	193,144
Total assets	$ 11,476,517	$ 11,191,133
Bonds and notes	$ 10,598,054	$ 10,327,067
Other liabilities	159,136	215,687
Total liabilities	10,757,190	10,542,754
Capital stock and participation certificates	301,188	300,088
Retained earnings	425,993	359,325
Accumulated other comprehensive income (loss)	(7,854)	(11,034)
Total members' equity	719,327	648,379
Total liabilities and members' equity	$ 11,476,517	$ 11,191,133

Statement of Income Data

	For the three months ended September 30,		For the nine months ended September 30,	
	2000	1999	2000	1999
Interest income	$ 202,452	$ 172,731	$ 568,231	$ 500,540
Interest expense	168,184	136,107	468,183	391,663
Net interest income	34,268	36,624	100,048	108,877
Provision for loan losses	1,500	2,000	1,500	4,050
Net interest income after provision for loan losses	32,768	34,624	98,548	104,827
Noninterest income (expense), net	(12,342)	(10,378)	(31,880)	(41,093)
Net income	$ 20,426	$ 24,246	$ 66,668	$ 63,734