SECOND QUARTER 2002

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F. A. Lowrey

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Chief Executive Officer

Richard Kriebel

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Chairman of the Board

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 consolidated financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and its subsidiary for the three months and six months ended June 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 June 30, 2002 was $51,143, an increase of $19,811 or 63.23 percent, compared to the three months ended June 30, 2001. Net income for the six months ended June 30, 2002 was $94,603, an increase of $37,754 or 66.41 percent, compared to the same period ended June 30, 2001. The three-month increase was primarily attributed to the $22,111 increase in net interest income and a $4,597 gain related to the sale of rural home mortgage loans. Offsetting these items were increases of $5,057 in noninterest expense and $1,000 in provision for loan losses. The year-to-date increase in net income was primarily attributed to the $48,158 increase in net interest income and the loan sale gain (referenced above), which were offset by increases in provision for loan losses of $1,000 and noninterest expense of $14,321.

- Total assets increased $323,091 or 2.44 percent from December 31, 2001 to June 30, 2002 due primarily to a $314,549 increase in gross loans outstanding and a $88,983 increase in cash and cash equivalents, which were partially offset by a decrease of $81,995 in investments. Other assets remained relatively stable compared to December 31, 2001.

- Total liabilities increased $237,503 or 1.93 percent as compared to December 31, 2001. Bonds and notes outstanding at June 30, 2002 increased $310,646 in order to fund the above noted additional loan volume. Other liabilities decreased $69,356 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.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2002 was $11,443,359, a 2.83 percent increase compared to the volume of $11,128,810 at December 31, 2001, and a 10.89 percent increase compared to the volume of $10,319,346 at June 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 June 30, 2002, reflected a 13.58 percent increase compared to June 30, 2001.

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 Associations' patronage dividends. Associations generally operate as cooperatives, and as such, distribute earnings to member/borrowers through patronage and other related cash distributions which reduce the borrowing costs of their members. Within the past twelve months, Associations' market shares have grown noticeably when compared to commercial banks.

Overall credit quality in the AgFirst portfolio at June 30, 2002 remained relatively stable as compared to December 31, 2001 and June 30, 2001. Nonaccrual loan assets in the AgFirst loan portfolio at June 30, 2002 increased to $11,418 compared to $704 at December 31, 2001 and $823 at June 30, 2001. The increases in nonaccrual volume as of June 30, 2002, were primarily related to two loans, one of which totals $6.2 million and was placed in nonaccrual status based on potential cash flow stress related to the bankruptcy of its largest customer. The loan is well collateralized; however, asset values in the troubled telecom industry are under extreme pressure due to over-capacity. The second loan totals $4.5 million and is part of a larger credit facility that AgFirst sub-participates in 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 AgFirst's loss exposure. On July 31, 2002, an $865 write-down of the loan was recorded with potential existing for further charge-offs. The borrower filed for protection under Chapter 7 of the Federal Bankruptcy code effective August 9, 2002. However, with the guarantee and underlying collateral coverage, total charge-offs related to this loan will have an immaterial impact on AgFirst's financial condition.

The allowance for loan losses at June 30, 2002 of $27,389 represents .24 percent of total gross loan volume and 1.88 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 June 30, 2002, AgFirst exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under the FCA Regulations. At June 30, 2002, AgFirst's permanent capital ratio was 20.20 percent, core surplus was 10.88 percent, total surplus was 19.99 percent, and net collateral was 106.88 percent. Cash, cash equivalents and investment securities totaled $1,935,565 or 14.28 percent of total assets at June 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 $310,646, or 2.56 percent, at June 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 increased $85,587 from December 31, 2001 to June 30, 2002. This 11.76 percent increase is the result of an increase of $94,603 in retained earnings related to net income, an increase of $2,785 in accumulated other comprehensive income and stock issuances of $348, which were partially offset by dividends paid for preferred stock of $9,443 and $2,706 related to stock retirements.

Key financial condition comparisons:

	6/30/02	**12/31/01**
Shareholders' Equity to Assets	6.00%	5.50%
Total Liabilities to Shareholders' Equity	15.39:1	16.87:1
Allowance for Loan Losses to Loans	.24%	.23%

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the three months ended June 30, 2002 was $63,104 compared to $40,993 in the same period of the prior year, an increase of $22,111 or 53.94 percent. For the six months ended June 30, 2002, net interest income was $124,212 compared to $76,054 for the comparable period of 2001, an increase of $48,158 or 63.32 percent. The increases in net interest income for the three months and six 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 increased $3,757 for the quarter ended June 30, 2002, and $ 4,917 for the six months ended June 30, 2002, compared to the same periods of 2001. The increase for the quarter is mostly 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 offset by a decrease in loan fees of $713. The year-to-date increase is primarily due to the realized gain on the loan sale referenced above and a $367 increase in loan fees.

Noninterest Expense

Noninterest expense for the three and six months ended June 30, 2002 was $17,552 and $37,006 respectively, an increase of $5,057 and $14,321 respectively, as compared to the corresponding periods of 2001. The quarter ended June 30, 2002 increase is primarily attributed to increases of $2,445 in purchased services related to Districtwide strategic initiative projects and $1,472 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 partially attributed to the realized loss on investments of $3,353, which represents the charge-off of the remaining principal balance of an investment downgraded in 2001. Also, during the first quarter of 2001, gains in the amount of $2,731 were realized on the sale of investments. In addition, the six months ended June 30, 2002 reflect increases of $3,715 in purchased services related to Districtwide strategic initiative projects, $1,049 in occupancy and equipment dollars primarily attributed to capital projects, and $2,567 in salaries and employee benefits. The increase in salaries and employee benefits resulted from increases in retirement and health insurance expense as well as standard merit increases.

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	1.44%	1.05%
Return on Average Shareholders' Equity	24.63%	17.40%
Net Interest Income as a Percentage of Average Earning Assets	1.91%	1.50%

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2002**	**December 31, 2001**
	(unaudited)	
Assets		
Cash and cash equivalents	$ 354,237	$ 265,254
Investment securities	1,581,328	1,663,323
Loans	11,443,359	11,128,810
Less: allowance for loan losses	27,389	25,616
Net loans	11,415,970	11,103,194
Accrued interest receivable	55,164	56,771
Investments in other Farm Credit System institutions	77,719	77,765
Premises and equipment, net	18,171	16,822
Other assets	53,907	50,276
Total assets	$ 13,556,496	$ 13,233,405
Liabilities		
Bonds and notes	$ 12,426,355	$ 12,115,709
Accrued interest payable	56,656	60,442
Other liabilities	34,111	103,467
Total liabilities	12,517,122	12,279,618
Commitments and contingencies		
Preferred Stock	225,839	225,839
Shareholders' Equity		
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

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 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 and other	$ 16,313	$ 28,258	$ 33,012	$ 63,124
Loans	139,960	162,816	279,075	329,089
Total 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				
Loan fees	1,729	2,442	4,186	3,819
Miscellaneous	4,862	392	5,211	661
Total noninterest income	6,591	2,834	9,397	4,480
Noninterest Expenses				
Salaries and employee benefits	5,283	3,811	10,431	7,864
Occupancy and equipment	1,972	1,276	3,793	2,744
Other operating expenses	4,586	2,141	8,204	4,489
Intra-System financial assistance expenses	3,688	3,479	7,584	6,896
Realized losses (gains) on investments, net	(70)	(89)	3,353	(2,731)
Miscellaneous	2,093	1,877	3,641	3,423
Total noninterest expenses	17,552	12,495	37,006	22,685
Net income	$ 51,143	$ 31,332	$ 94,603	$ 56,849

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			56,849		56,849
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					60,941
Preferred stock issued	225,000				225,000
Capital stock/participation certificates issued/retired, net		1,137			1,137
Preferred stock dividends accrued	2,308		(2,308)		—
Preferred stock dividends paid	(1,469)				(1,469)
Balance at June 30, 2001	$ 225,839	$ 302,326	$ 442,576	$ 2,642	$ 973,383
Balance at December 31, 2001	$ 225,839	$ 281,803	$ 439,104	$ 7,041	$ 953,787
Comprehensive income					
Net income			94,603		94,603
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					97,388
Capital stock/participation certificates issued/retired, net		(2,358)			(2,358)
Preferred stock dividends accrued	9,443		(9,443)		—
Preferred stock dividends paid	(9,443)				(9,443)
Balance at June 30, 2002	$ 225,839	$ 279,445	$ 524,264	$ 9,826	$1,039,374

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

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30, 2002	2001
Cash flows from operating activities:		
Net income	$ 94,603	$ 56,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	2,051	1,077
Provision for loan losses	2,000	1,000
Realized (gains) losses on investments, net	3,353	(2,731)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	1,607	5,321
(Increase) decrease in investments in other Farm Credit System institutions	46	1,405
(Increase) decrease in other assets	(3,631)	(10,004)
Increase (decrease) in accrued interest payable	(3,786)	(25,518)
Increase (decrease) in other liabilities	(69,356)	(59,813)
Total adjustments	(67,716)	(89,263)
Net cash provided by (used in) operating activities	26,887	(32,414)
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	(314,776)	(822,843)
Purchase of premises and equipment, net	(3,400)	(6,368)
Net cash provided by (used in) investing activities	(230,318)	(752,151)
Cash flows from financing activities:		
Bonds and notes issued	24,022,415	21,109,468
Bonds and notes retired	(23,718,200)	(20,548,568)
Preferred stock issued	—	225,000
Capital stock and participation certificates issued/retired, net	(2,358)	1,137
Dividends paid on preferred stock	(9,443)	(1,469)
Net cash provided by (used in) financing activities	292,414	785,568
Net increase (decrease) in cash and cash equivalents	88,983	1,003
Cash and cash equivalents, beginning of period	265,254	241,588
Cash and cash equivalents, end of period	$ 354,237	$ 242,591
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	$ 191,661	$ 296,428

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 second 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 six months ended June 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 June 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	1,000
Loans (charged off), net of recoveries	—
Balance at 6-30-01	$ 22,416
Balance at 12-31-01	$ 25,616
Provision for loan losses	2,000
Loans (charged off), net of recoveries	(227)
Balance at 6-30-02	$ 27,389

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 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.