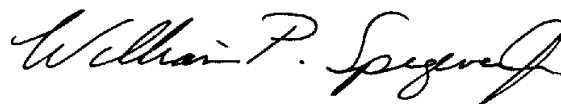
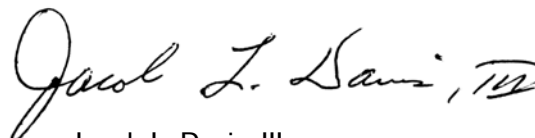


FIRST QUARTER 2003

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William P. Spigener, Jr.
Chief Executive Officer



Jacob L. Davis, III
Chairman of the Board

April 29, 2003

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2003. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2002 Annual Report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including poultry, timber, cotton, and onions. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

The gross loan volume of the Association as of March 31, 2003, was \$490,777, a decrease of \$3,242 as compared to \$494,019 at December 31, 2002. Net loans outstanding at March 31, 2003, were \$479,256 as compared to \$482,501 at December 31, 2002. Net loans accounted for 94.21 percent of total assets at March 31, 2003, as compared to 93.33 percent of total assets at December 31, 2002.

The decrease in gross and net loan volume during the reporting period is attributed primarily to the pay-down of short-term farm operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from \$3,839 at December 31, 2002, to \$3,796 at March 31, 2003. This decrease is primarily the result of payments received on nonaccrual loans.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current

and expected future conditions. The allowance for loan losses at March 31, 2003, was \$11,521 compared to \$11,518 at December 31, 2002, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2003

Net income for the three months ended March 31, 2003, totaled \$3,462, as compared to \$3,432 for the same period in 2002, an increase of \$30. The increase is primarily attributed to the increased net interest income. Net interest income increased \$298, for the three months ended March 31, 2003, as compared to the same period in 2002.

At March 31, 2003, interest income on accruing loans decreased \$368 compared to March 31, 2002. Nonaccrual income was \$150 for the three months ended March 31, 2003, as compared to \$258 for the same period in 2002. Interest expense decreased \$774 for the three months ended March 31, 2003, as compared to the comparable period of 2002. Noninterest income for the three months ended March 31, 2003, totaled \$1,922, as compared to \$1,752 for the same period of 2002, an increase of \$170. Noninterest expense for the three months ended March 31, 2003, increased \$427 compared to the same period of 2002. This increase is attributed primarily to increases for salaries and employee benefits.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2003, was \$416,210 as

compared to \$427,819 at December 31, 2002. The decrease during the period is primarily attributed to the decrease in loan volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2003, increased to \$76,578 from the December 31, 2002, total of \$73,195. The increase is primarily attributed to the increase in retained earnings in excess of the reduction of capital stock, participation certificates and revolved equities.

Total capital stock and participation certificates were \$3,805 on March 31, 2003, compared to \$3,993 on December 31, 2002. This decrease is attributed to the retirement of capital stock and participation certificates on loans liquidated in the normal course of business and new loans being capitalized at the new lower regulatory level.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2003, the Association's total surplus ratio and core surplus ratio were 15.00 percent and 10.08 percent, respectively, and the permanent capital ratio was 15.62 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

IRS TAX SETTLEMENT

As previously disclosed in the 2002 Annual Report, System Agricultural Credit Associations (ACAs) entered into a settlement process with the IRS to resolve conclusively the status of all claimed refunds and the ongoing tax status of the ACAs using another ACA as a model. In August 2000, the model ACA reached a settlement agreement with the IRS, which established the collectibility of a portion of the claimed refunds of taxes previously paid, plus interest, related to income earned in prior years from the mortgage lending activities of the ACA. This settlement agreement also confirmed that all income generated by an ACA will be taxable in future periods. However, an ACA may reorganize to operate their long-term mortgage lending activities through a newly created Federal Land Credit Association (FLCA) and their short- and intermediate-term lending activities through a newly created Production Credit Association (PCA) subsidiary. The Association reorganized in such a manner effective January 1, 2001. While the reorganization created a Production Credit Association (PCA) subsidiary the decision has now been made to continue short- and

intermediate-term lending activities through the ACA. Income earned by the ACA and the PCA subsidiary, if utilized, is taxable. Income earned by the FLCA subsidiary is exempt from taxation. The Association has now executed individual settlement agreements with the IRS and has recognized its expected refund of taxes previously paid as income. The amount of the Association refund, \$1,316, was recorded as a reduction to the provision for income taxes during the period ending March 31, 2001. No potential recovery of interest on the expected refund of taxes paid was recognized as income during the period ending March 31, 2002 and \$1 was recognized as income during the period ending March 31, 2003.

During the period ending March 31, 2003, the Association received no refunds and \$1 in interest on the settlement previously recorded.

AgSouth Farm Credit, ACA
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2003	December 31, 2002
	<i>(unaudited)</i>	
Assets		
Cash	\$ 47	\$ 1,615
Loans	490,777	494,019
Less: allowance for loan losses	11,521	11,518
Net loans	479,256	482,501
Accrued interest receivable	5,603	5,952
Investment in other Farm Credit institutions	8,464	8,430
Premises and equipment, net	3,125	3,032
Other assets	12,241	15,470
Total assets	\$ 508,736	\$ 517,000
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 416,210	\$ 427,819
Accrued interest payable	1,430	1,533
Patronage refund payable	318	3,541
Postretirement benefits other than pensions	3,076	2,916
Other liabilities	11,124	7,996
Total liabilities	432,158	443,805
Commitments and contingencies		
Members' Equity		
Protected borrower equity	963	1,130
Capital stock and participation certificates	2,842	2,863
Retained earnings		
Allocated	39,803	40,114
Unallocated	38,541	34,659
Accumulated other comprehensive income (loss)	(5,571)	(5,571)
Total members' equity	76,578	73,195
Total liabilities and members' equity	\$ 508,736	\$ 517,000

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

AgSouth Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2003	2002
Interest Income		
Loans	\$ 8,599	\$ 9,075
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	4,312	5,086
Net interest income	4,287	3,989
Provision for (reversal of) loan losses	—	—
Net interest income after provision for (reversal of) loan losses	4,287	3,989
Noninterest Income		
Loan fees	927	554
Fees for financially related services	40	55
Equity in earnings of AgFirst Farm Credit Bank	913	947
Gains (losses) on other property owned, net	(9)	2
Miscellaneous	51	194
Total noninterest income	1,922	1,752
Noninterest Expense		
Salaries and employee benefits	1,891	1,649
Occupancy and equipment	183	191
Insurance Fund premium	143	36
Other operating expenses	519	433
Total noninterest expense	2,736	2,309
Income before income taxes	3,473	3,432
Provision (benefit) for income taxes	11	—
Net income	\$ 3,462	\$ 3,432

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

AgSouth Farm Credit, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2001	\$ 1,618	\$ 2,972	\$ 36,935	\$ 33,113	\$ —	\$ 74,638
Net income				3,432		3,432
Protected borrower equity retired	(194)					(194)
Capital stock/participation certificates issued		97				97
Capital stock/participation certificates retired		(120)				(120)
Retained earnings retired			(4)			(4)
Distribution adjustment			286	(403)		(117)
Balance at March 31, 2002	\$ 1,424	\$ 2,949	\$ 37,217	\$ 36,142	\$ —	\$ 77,732
Balance at December 31, 2002	\$ 1,130	\$ 2,863	\$ 40,114	\$ 34,659	\$ (5,571)	\$ 73,195
Net income				3,462		3,462
Protected borrower equity retired	(167)					(167)
Capital stock/participation certificates issued		90				90
Capital stock/participation certificates retired		(111)				(111)
Retained earnings retired			(17)			(17)
Distribution adjustment			(294)	420		126
Balance at March 31, 2003	\$ 963	\$ 2,842	\$ 39,803	\$ 38,541	\$ (5,571)	\$ 76,578

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

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of AgSouth Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2002, are contained in the 2002 Annual Report to Stockholders. These unaudited first quarter 2003 consolidated financial statements should be read in conjunction with the 2002 Annual Report to Stockholders.

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 generally accepted accounting principles. The results for the three months ended March 31, 2003, are not necessarily indicative of the results to be expected for the year ending December 31, 2003.

Certain amounts in prior period consolidated financial statements have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2003, the allowance for losses is 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 12-31-01	\$ 11,458
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>8</u>
Balance at 3-31-02	<u>\$ 11,466</u>
Balance at 12-31-02	\$ 11,518
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>3</u>
Balance at 3-31-03	<u>\$ 11,521</u>