

Farm Credit Services of Mid- America, ACA

2002 Annual Report



2002 ANNUAL REPORT

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Farm Credit Services of Mid-America, ACA

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| | |
|----------------------------------|---|
| ACAs | Seventh District Agricultural Credit Associations |
| AgriBank | AgriBank, FCB |
| District | Seventh Farm Credit District |
| Farm Credit Act | The Farm Credit Act of 1971, as amended |
| FCA | Farm Credit Administration |
| FCS | Farm Credit Services |
| Financial Assistance Corporation | Farm Credit System Financial Assistance Corporation |
| FLCAs | Seventh District Federal Land Credit Associations |
| Funding Corporation | Federal Farm Credit Banks Funding Corporation |
| Insurance Corporation | Farm Credit System Insurance Corporation |
| Insurance Fund | Farm Credit Insurance Fund |
| PCAs | Seventh District Production Credit Associations |
| System | Farm Credit System |

The financial condition and results of operations of AgriBank materially affect shareholders' investment in the Association. A copy of the combined AgriBank, FCB and Seventh District Associations' financial reports may be requested free of charge by contacting the Association at 1601 UPS Drive, P.O. Box 34390, Louisville, Kentucky, 40232, (800) 444-FARM, or through www.e-farmcredit.com or by contacting AgriBank at P.O. Box 64949, St. Paul, MN 55164-0949, (651) 282-8800, or via electronic mail to AGRIBANKMN@farmcredit.com. The District reports are also available through AgriBank's website at www.agribank.com.

Copies of the Association's annual or quarterly reports may be requested, free of charge, by contacting the Association as stated above. The quarterly reports are available 45 days after the end of each calendar quarter.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER



2002 was a good year for your association. As the title of this report indicates, the association experienced continued steady growth throughout all areas of our business. This balanced success positions us for continued growth into 2003 and the coming years.

In the financial area, the biggest news is that our asset base topped \$7 billion. A steady 10% improvement in loan volume was the result of growth in Agribusiness — up 34% to \$678 million — combined with further penetration of the agri-consumer and part-time farmer segments. These areas benefited from historic lows in interest rates, which led many to refinance real estate debt. It's important to note, that while we were growing our business in 2002, we still managed to keep our operating expenses level.

Conversions of current customer loans also added significantly to our retention of loan volume in 2002. Over \$2.3 billion in loans was converted to lower adjustable rates or to longer fixed rates at more favorable terms. This resulted in an estimated interest savings of more than \$111 million to our customers. While new loan originations were down from 2001, it was still a very busy year for new business. By year-end, our mortgage loans totaled \$1.25 billion in new lending for land purchases, refinancing and rural development.

Another growth area was new product introductions. We expanded our product lineup with a new series of convertible loans to the farmer market. Previously available only for consumer loans, these loans proved popular with farmers, giving them a mid-range fixed period along with the savings of a very low rate typically associated with an adjustable loan. Similarly, we improved standards for pricing home loans to farm customers and broadened the options available to them.

Improvements we also made in our internal processes. Most important, was the launching of ConsumerTrac II, a product for residential loans. Now, all loans can be processed through the system along with all necessary paperwork and documentation to support the loan.

Our marketing efforts for the year resulted in improved numbers as well. In the first quarter, we reached milestones with more than 600 farmers signing up for crop insurance and more than 5,500 customers using internet banking. In the fourth quarter, we undertook a major advertising campaign focusing on farmers and agri-consumers. This successful multi-media blitz produced a spike in loan requests, a doubling of activity on our 1-800 numbers, and a favorable book of business for the new year. We also added 700 automatic pay customers in the 4th quarter upping our total using this service to more than 9,000.

In the following pages, you'll find greater details about these initiatives along with financial details. Of course, numbers alone do not tell the whole story. To build on the successes of the year and grow for the near and long term future, we must focus upon the kind of company we are now and who we want to become. With this focus in mind, the association introduced a new mission statement, along with a clear set of corporate values on how we are to go about accomplishing that mission. We believe strongly that a clear mission, vision, and values are crucial to our, and your, success.

As you read this report, we think you'll agree that this year of steady progress demonstrates our commitment to rural America both now and in the future.

A handwritten signature in black ink that reads "Donnie Winters".

Donnie Winters
President and Chief Executive Officer

A handwritten signature in black ink that reads "Gordon Carter".

Gordon Carter
Chairperson, Board of Directors

February 14, 2003

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|-------------|-------------|-------------|-------------|-------------|
| Statement of Condition Data | | | | | |
| Loans | \$6,878,426 | \$6,241,518 | \$5,444,490 | \$4,765,390 | \$4,615,778 |
| Allowance for loan losses | 113,683 | 106,570 | 100,897 | 94,344 | 89,452 |
| Net loans | 6,764,743 | 6,134,948 | 5,343,593 | 4,671,046 | 4,526,326 |
| Investment in AgriBank | 220,225 | 188,817 | 188,817 | 188,817 | 188,817 |
| Other property owned | 663 | 2,454 | 691 | 309 | 225 |
| Other assets | 261,925 | 355,274 | 297,168 | 182,218 | 178,870 |
| Total assets | \$7,247,556 | \$6,681,493 | \$5,830,269 | \$5,042,390 | \$4,894,238 |
| Obligations with maturities of one year or less | \$6,080,984 | \$5,664,546 | \$4,964,509 | \$4,260,668 | \$4,168,294 |
| Obligations with maturities greater than one year | 3,703 | 3,754 | 3,806 | 3,814 | 3,853 |
| Total liabilities | 6,084,687 | 5,668,300 | 4,968,315 | 4,264,482 | 4,172,147 |
| Protected members' equity | 59 | 86 | 491 | 620 | 819 |
| Capital stock and participation certificates | 55,585 | 52,138 | 64,580 | 61,335 | 62,925 |
| Allocated surplus | -- | -- | -- | -- | -- |
| Unallocated surplus | 1,107,225 | 960,969 | 796,883 | 715,953 | 658,347 |
| Total members' equity | 1,162,869 | 1,013,193 | 861,954 | 777,908 | 722,091 |
| Total liabilities and members' equity | \$7,247,556 | \$6,681,493 | \$5,830,269 | \$5,042,390 | \$4,894,238 |
| Statement of Income Data | | | | | |
| Net interest income | \$149,265 | \$129,802 | \$118,575 | \$132,095 | \$135,341 |
| Provision for loan losses | 9,988 | 8,631 | 10,536 | 8,291 | 14,520 |
| Dividend income and patronage refund | 56,844 | 26,618 | 31,314 | 15,529 | 16,433 |
| Other expense, net | 43,443 | 31,274 | 51,608 | 50,643 | 44,759 |
| Provision for (income from) income taxes, net | 6,422 | (47,571) | 6,815 | 31,084 | 19,344 |
| Extraordinary item | -- | -- | -- | -- | -- |
| Net income | \$146,256 | \$164,086 | \$80,930 | \$57,606 | \$73,151 |
| Key Financial Ratios | | | | | |
| Return on average assets | 2.1% | 2.7% | 1.5% | 1.2% | 1.6% |
| Return on average members' equity | 13.7% | 18.4% | 9.9% | 7.7% | 10.6% |
| Net interest income as a percentage of average earning assets | 2.3% | 2.2% | 2.4% | 2.8% | 3.1% |
| Members' equity as a percentage of assets | 16.0% | 15.2% | 14.8% | 15.4% | 14.8% |
| Net charge-offs (recoveries) as a percentage of average loans | 0.2% | 0.2% | (0.1%) | 0.1% | 0.1% |
| Allowance for loan losses as a percentage of loans | 1.7% | 1.7% | 1.9% | 2.0% | 1.9% |
| Permanent capital ratio | 15.4% | 14.1% | 14.5% | 14.6% | 14.0% |
| Total surplus ratio | 14.6% | 13.3% | 13.4% | 13.4% | 12.7% |
| Core surplus ratio | 12.7% | 11.1% | 10.7% | 10.4% | 9.5% |

No income was distributed to members in the form of cash, dividends, stock or allocated surplus during the five years presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Services of Mid-America, ACA
(Dollars in thousands, except as noted)

The commentary which follows reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Mid-America, ACA and its subsidiaries (the Association) and provides additional information specific to the Association. This discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

On December 1, 1999, the Association restructured its operations to form an ACA parent company with two wholly owned subsidiaries, Farm Credit Services of Mid-America, FLCA and Farm Credit Services of Mid-America, PCA. The restructuring preserved certain advantages of the ACA structure while clarifying the tax exemption of the mortgage operations by conducting those operations in a separate subsidiary chartered as an FLCA.

Overview and Outlook

The District-wide agricultural economic conditions in 2002, exclusive of government payments, have not seen improvement and remain challenging. Generally, District crop producers have experienced relatively low to negative levels of net farm income, excluding direct government support payments. Over the last several years, stagnant export demand combined with generally strong production has resulted in high stocks across the nation for many commodities and led to low prices. These low commodity prices have been largely mitigated by continued government support of agriculture.

While 2002 was a difficult year for many District producers, there are a few bright spots for the longer term. The combination of reduced current production and increased export opportunity due to the weakening dollar may reduce excess grain stocks and begin to improve the longer term outlook for prices. Additionally, this summer's drought conditions, and a late planting season in the eastern corn belt this spring, have lowered national yields significantly so that stocks will be declining over the next year. As a result, crop prices for the District's major commodities, other than cotton and rice, have improved substantially. In addition, the interest rate environment has allowed many producers to lower their borrowing costs. Finally, the passage of a new farm bill demonstrates the U.S. Government's commitment to agriculture and significantly reduces the uncertainty around U.S. Government support.

Direct government support payments have historically accounted for a significant portion of net farm income for producers in the District. 2002 was to be the last year under the Federal Agricultural Improvement and Reform Act. The Act was replaced by The Farm Security and Rural Investment Act of 2002 [FSRI] which was signed into law on May 13, 2002 by President Bush. The FSRI continues significant Federal financial assistance to producers of wheat, feed grains, cotton, rice, and oilseeds, as well as expands assistance to certain specialty crops, and certain livestock operations (particularly smaller dairy farms). The FSRI provides a high degree of income support for major crops important to the Association's territory, which will help to support credit quality. Additionally, the FSRI removes some of the uncertainty around continued government support and decreases the volatility of that support.

For our Association, 2002 proved to be a very challenging year due to production problems because of a drought and low livestock and dairy prices.

Our agricultural portfolio, however, continues to perform very well and the majority of our customers remain financially sound. We expect to see only modest deterioration in credit quality in 2003 and a slight increase in loan losses due to the production/economic challenges of 2002.

The U.S. general economy is plodding along and will gather steam slowly. Growth is expected to increase in the second half of 2003 with an annualized growth of 3% for the year. Inflation is expected to remain low and unemployment is expected to peak at 6.2% in 2003 and then reduce to 5.3% in 2004.

A potential war with Iraq does pose uncertainty. A short war is expected to have little impact on the general economy. A more protracted conflict would, however, have a much larger impact on oil prices and the stock market and may throw the economy back into a recession.

The general economic conditions in Kentucky, Tennessee, Indiana and Ohio are somewhat better than the national economy and are either fairly stable or improving at this point.

Our consumer portfolio continues to exhibit strong repayment performance and very minimal loan losses. We expect this trend to continue.

Loan Portfolio

At December 31, 2002, the Association's loans totaled \$6,878,426. The changes in loan volume for the last two years were as follows:

| Change in loan volume | 2002 vs. 2001 | | 2001 vs. 2000 | |
|-----------------------|---------------|-------|---------------|-------|
| Accrual | | | | |
| Mortgage | \$542,239 | 11.3% | \$691,263 | 16.8% |
| Commercial | 91,858 | 6.7% | 88,358 | 6.9% |
| Nonaccrual | 2,811 | 4.0% | 17,407 | 32.5% |
| Total loans | \$636,908 | 10.2% | \$797,028 | 14.6% |

The Association's focus on customer satisfaction, marketing and competitive interest rates along with increased participation and refinancing activity resulted in growth in loan volume during 2002.

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information:

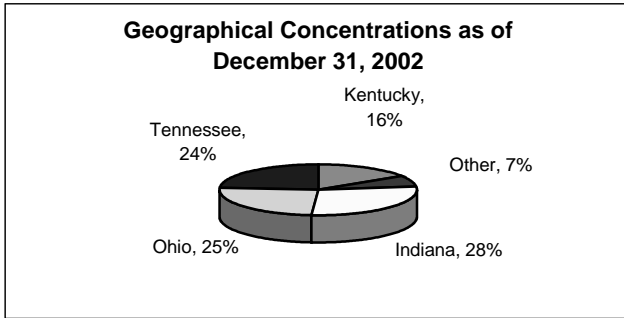
| As of December 31 | 2002 | 2001 | 2000 |
|---|----------|----------|----------|
| Loans: | | | |
| Accruing restructured | \$3,693 | \$5,632 | \$8,039 |
| Past due 90 days or more still accruing | 245 | 1,520 | 1,389 |
| Nonaccrual | 73,851 | 71,040 | 53,633 |
| Total risk loans | 77,789 | 78,192 | 63,061 |
| Other property owned | 663 | 2,454 | 691 |
| Total risk assets | \$78,452 | \$80,646 | \$63,752 |
| Risk loans as a % of total loans | 1.1% | 1.3% | 1.1% |
| Total delinquencies as a % of total loans | 0.7% | 0.8% | 0.9% |

The volume of nonaccrual loans remained at an acceptable level at December 31, 2002 and represented 1.1% of the Association's total portfolio. At December 31, 2002, 69.9% of the Association's nonaccrual loans were current as to principal and interest.

The credit quality of the Association's portfolio improved during 2002. The Association's adversely classified loans decreased from 3.2% of the portfolio at December 31, 2001 to 2.6% of the portfolio at December 31, 2002. Adversely classified loans represent loans which management has identified as exhibiting some credit weakness outside the Association's credit standards.

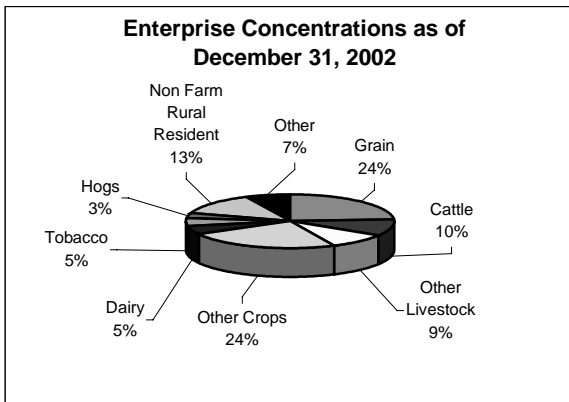
The Association's loan volume is distributed geographically as illustrated in the following chart:

Additional loan information is included in Notes 3, 14 and 15.



The Association's portfolio contains loans to cash crop producers, primarily corn and soybeans, which represent 24% of the Association's total portfolio. Accordingly, the commercial loan portfolio exhibits some seasonality. These loans are normally at lowest levels during the winter months because of operating repayments following harvest and then increase throughout the year as farmers borrow for operating and capital needs.

Below is a chart depicting the Association's loan volume by enterprise concentration:



The allowance for loan losses is maintained at levels consistent with the potential risk of loss as identified by management considering such factors as loan loss experience, portfolio quality, portfolio concentrations, and economic and environmental factors. In certain circumstances, risk is reduced through the use of various government guarantee programs. At December 31, 2002, \$42,468 of the Association's loans contained certain levels of guarantees under such programs.

Comparative allowance coverage of various loan categories follows:

| As of December 31 | 2002 | 2001 | 2000 |
|---|--------|--------|--------|
| Allowance as a percentage of: | | | |
| Loans | 1.7% | 1.7% | 1.9% |
| Nonaccrual loans | 153.9% | 150.0% | 188.1% |
| Total risk loans | 146.1% | 127.1% | 160.0% |
| Net charge-offs (recoveries) as a percentage of average loans | 0.2% | 0.2% | (0.1%) |

In the opinion of management, the Association's allowance for loan losses was reasonable in relation to the inherent risk in the loan portfolio at December 31, 2002.

Results of Operations

The following table illustrates profitability information:

| For the year ended December 31 | 2002 | 2001 | 2000 |
|-----------------------------------|-----------|-----------|----------|
| Net income | \$146,256 | \$164,086 | \$80,930 |
| Return on average assets | 2.1% | 2.7% | 1.5% |
| Return on average members' equity | 13.7% | 18.4% | 9.9% |

The changes in the components of net income are summarized in the following table:

| | 2002 vs. 2001 | 2001 vs. 2000 |
|--|-------------------|------------------|
| Increase (decrease) in net income | | |
| Net interest income | \$19,463 | \$11,227 |
| Provision for loan losses | (1,357) | 1,905 |
| Dividend income and patronage refund | 30,226 | (4,696) |
| Financially related services and miscellaneous income, net | (13,540) | 17,373 |
| Operating expenses | 1,371 | 2,961 |
| Provision for income taxes | (53,993) | 54,386 |
| Total change in net income | <u>(\$17,830)</u> | <u>\$83,156</u> |

Net interest income for the Association was \$149,265 for the year ended December 31, 2002. The following table quantifies changes in net interest income:

| | 2002 vs. 2001 | 2001 vs. 2000 |
|--|------------------|------------------|
| Changes in net interest income due to: | | |
| Changes in volume | \$22,388 | \$14,140 |
| Changes in rates | (2,925) | (2,913) |
| Net change | <u>\$19,463</u> | <u>\$11,227</u> |

Net interest margin (net interest income divided by average earning assets) was 2.3%, 2.2% and 2.4% for the Association for 2002, 2001 and 2000, respectively. Net interest margins were slightly widened in 2002 to offset the negative effects of a decreasing interest rate environment on Association loanable equity.

The Association's net interest income included income on nonaccrual loans totaling \$9 million, \$9 million and \$11.7 million in 2002, 2001 and 2000, respectively. Nonaccrual income is only recognized when received in cash, collection of the recorded investment is fully expected and the loan does not have any unrecovered prior chargeoffs.

The increase in the Association's provision for loan losses was related to an increase in loan volume.

The Association's dividend income represents earnings on its investment in AgriBank. The dividend rate is set by AgriBank's Board of Directors and is tied to the average district-wide cost of funds. Dividend income totaled \$7,316, \$10,056 and \$11,716 for the Association in 2002, 2001 and 2000, respectively. The decrease in dividend income for 2002 compared to 2001 and 2000 was primarily due to the declining interest rate environment of 2002 causing a decrease in the 2002 dividend rate.

During 2002, 2001 and 2000, the Association recorded patronage refunds from AgriBank of \$18,120, \$16,562 and \$19,598, respectively. This discretionary patronage distribution was based on the average balance of the Association's note payable to AgriBank and the average loans serviced for AgriBank. The change in the

patronage refund amount for 2002 relates to the increase in the Association's note payable to AgriBank. The change in the patronage refund amount for 2001 was related to the decline in the patronage rate and, to a lesser extent, an increase in the Association's note payable to AgriBank. The patronage rates paid by AgriBank as a percentage of the Association's note payable to AgriBank in 2002, 2001 and 2000 were 32 basis points, 32 basis points and 45 basis points, respectively.

In addition, in December of 2002 and prior to the AgriBank merger discussed below, the Association recorded a special stock patronage refund from AgriBank in the amount of \$31,408. This refund represented the Association's share of a one-time, \$100 million distribution to provide for greater equalization of surplus between shareholders of AgriBank and AgAmerica, FCB. The distribution was based on the average balance of the Association's note payable to AgriBank and the average loans serviced for AgriBank under the NIM compensation formula, measured over a three year period ending December 31, 2001.

The decline in the Association's financially related services and miscellaneous income, net is primarily due to the interest income received with the federal income tax refunds in 2001, as discussed below.

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets plus assets serviced) for the past three years:

| For the year ended December 31 | 2002 | 2001 | 2000 |
|---------------------------------|-----------------|-----------------|-----------------|
| Salaries and benefits | \$26,903 | \$27,167 | \$29,780 |
| Purchased and vendored services | 7,441 | 7,732 | 7,460 |
| Communications | 1,671 | 1,786 | 2,057 |
| Occupancy and equipment | 5,358 | 5,911 | 5,345 |
| Advertising and promotion | 5,152 | 3,770 | 3,316 |
| Examination | 1,843 | 1,869 | 1,684 |
| System insurance | 2,098 | 1 | 72 |
| Other | 2,386 | 5,987 | 7,470 |
| Total | <u>\$52,852</u> | <u>\$54,223</u> | <u>\$57,184</u> |
| Operating rate | 0.8% | 0.9% | 1.2% |

The operating expense decreases were primarily related to a decrease in salaries and benefits expense and a franchise tax refund received during the third quarter of 2002, partially offset by an increase in System Insurance expense and advertising and promotion expense.

The Association recorded tax expense of \$6,422 for the year ended December 31, 2002 compared to a net negative tax provision of (\$47,571) and tax expense of \$6,815 for 2001 and 2000, respectively. The net negative tax provision in 2001 was caused by a federal tax refund of \$59,000 more than offsetting the usual income tax expense for that year. See Note 9 for additional discussion.

The changes in the Association's return on average assets and return on average members' equity were directly related to the changes in income discussed above, changes in assets discussed in the Loan Portfolio section and changes in members' equity discussed in the Capital Adequacy section below.

Funding and Liquidity

The Association receives external funding by borrowing from AgriBank under a line of credit as described in Note 7. During 2002, the note payable to AgriBank in the form of a line of credit averaged \$5,662,226. The average interest rate on these funds for 2002 was 5.0%. The Association's other source of lendable funds is from unallocated surplus.

The Association's approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2002, the Association had \$565,265 available under its line of credit. The Association generally applies excess cash to its note payable.

The Association offers variable, fixed, capped, indexed and adjustable interest rate loan and lease programs to its borrowers. The Association determines the interest margins charged on each lending program. The rates charged to borrowers are based on the Association's cost of funds as well as on marginal pricing concepts designed to position the Association to be competitive with other lenders and generate sufficient earnings.

The repricing attributes of the Association's line of credit from AgriBank correspond to the repricing attributes of the Association's loan portfolio. This methodology significantly reduces the Association's market interest rate risk.

Capital Adequacy

The Association's total members' equity increased \$149,676 during 2002, reflecting an increase in capital stock and participation certificates outstanding and net income for the period.

Information regarding the Association's members' equity position follows:

| As of December 31 | 2002 | 2001 | 2000 |
|-----------------------------------|-------------|-------------|-----------|
| Members' equity | \$1,162,869 | \$1,013,193 | \$861,954 |
| Surplus as a % of members' equity | 95.2% | 94.8% | 92.5% |
| Permanent capital ratio | 15.4% | 14.1% | 14.5% |
| Total surplus ratio | 14.6% | 13.3% | 13.4% |
| Core surplus ratio | 12.7% | 11.1% | 10.7% |

The surplus and the allowance for loan losses represent the Association's reserve for adversity prior to impairment of stock and are key to the Association's capital plan. Prudent capital management will help to ensure that member needs can be met and interests can be protected into the future.

At December 31, 2002, the Association's permanent capital ratio, total surplus ratio and core surplus ratio exceeded the regulatory minimums of 7%, 7% and 3.5%, respectively. These ratios are further discussed in Note 8.

In addition to these regulatory requirements, the Association and its Board establish an optimum permanent capital target. This optimum target allows the Association to maintain a capital base adequate for future growth and investment in new products and services. This optimum target is subject to revision as circumstances change. As of December 31, 2002, the Association's optimum permanent capital target was 15%.

The changes in the capital ratios for the Association reflect the changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. The changes in members' equity are more fully explained above. Additional members' equity information is included in Note 8.

Initiatives

The Association is involved in initiatives designed to improve the delivery of credit and related services to its customers. These initiatives have been designed to increase the Association's marketplace presence. The following paragraphs are a brief discussion of these initiatives:

The Association continues to encourage customers to use automatic payment options available by phone or the internet. There was a significant increase (83% over 2001) in customers signing up for internet account access during 2002.

The Association offers Farm Cash Management to its members. Farm Cash Management links a member's revolving line of credit with an AgriBank Investment Bond to optimize a member's use of funds.

Relationship with AgriBank

In accordance with the Farm Credit Act, the Association borrows from AgriBank to fund its lending operations. This indebtedness is governed by a General Financing Agreement as discussed in Note 7. Approval from AgriBank would be required for the Association to borrow elsewhere. The Association's cost of funds on its note payable to AgriBank is composed of a marginal cost of debt (MCD) component, a cost of servicing component and a risk premium component, if applicable. The MCD approach simulates match-funding the cost of underlying debt with substantially the same terms as the anticipated terms of the loans being funded. This methodology substantially protects the Association from interest rate risk.

The Association is required as a condition of borrowing from AgriBank to invest in AgriBank capital stock. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2002, the Association is required to maintain a common stock investment equal to 1.75% of the average quarterly balance of its note payable to AgriBank. This is an increase from the previous required investment equal to 1% of the average quarterly balance of its note payable plus assets serviced. Current projections indicate that this required percentage will increase periodically, reaching 2.5% by December 31, 2006. AgriBank's current bylaws permit AgriBank to increase the required investment to 4%, if necessary. At December 31, 2002, the Association's entire investment in AgriBank consisted of stock representing distributed AgriBank surplus, including that distributed on December 31, 2002. Through 2002, the stock investment in AgriBank was dividend bearing.

The Association also purchases various services from AgriBank. These services include information systems, certain financial, accounting and reporting services, and selected retail product processing and support.

Due to the nature of the Association's financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect shareholders' investment in the Association. A copy of the combined AgriBank, FCB and Seventh District Associations' financial reports may be requested free of charge by contacting the Association at 1601 UPS Drive, P.O. Box 34390, Louisville, Kentucky, 40232, (800) 444-FARM, or through www.e-farmcredit.com or by contacting AgriBank at P.O. Box 64949, St. Paul, MN 55164-0949, (651) 282-8800, or via electronic mail to AGRIBANKMN@farmcredit.com. The District reports are also available through AgriBank's website at www.agribank.com.

Effective January 1, 2003, AgriBank and AgAmerica, FCB (AgAmerica) merged and retained the AgriBank name. As part of the merger transaction, one of AgAmerica's two Association shareholders, Northwest FCS, reaffiliated from AgAmerica to CoBank, ACB on the effective date of the merger. AgriBank and AgAmerica had been operating under a joint management agreement since January 1, 2002.

REPORT OF MANAGEMENT

Farm Credit Services of Mid-America, ACA



The consolidated financial statements of Farm Credit Services of Mid-America, ACA are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

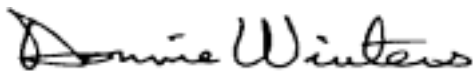
To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be reasonable in relation to the benefits derived. To monitor compliance, financial operations audits are performed. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Association's Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Board consults regularly with management and meets periodically with the independent accountants and other auditors to review the scope and results of their work. The independent accountants have direct access to the Board, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify that Farm Credit Services of Mid-America, ACA's annual report has been prepared in accordance with applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Gordon E. Carter
Chairperson of the Board
Farm Credit Services of Mid-America, ACA



Donald W. Winters
President and Chief Executive Officer
Farm Credit Services of Mid-America, ACA

February 14, 2003

REPORT OF INDEPENDENT ACCOUNTANTS



To the Board of Directors and Members of
Farm Credit Services of Mid-America, ACA

We have audited the accompanying consolidated statement of condition of Farm Credit Services of Mid-America, ACA and its subsidiaries as of December 31, 2002, 2001 and 2000, and the related consolidated statements of income, of changes in members' equity and of cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Services of Mid-America, ACA and its subsidiaries at December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

PriceWaterhouseCoopers LLP

February 14, 2003
Minneapolis, Minnesota

CONSOLIDATED STATEMENT OF CONDITION

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

| | December 31 | | |
|--|-------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| ASSETS | | | |
| Loans | \$6,878,426 | \$6,241,518 | \$5,444,490 |
| Allowance for loan losses | 113,683 | 106,570 | 100,897 |
| Net loans | 6,764,743 | 6,134,948 | 5,343,593 |
| Investment in AgriBank | 220,225 | 188,817 | 188,817 |
| Accrued interest receivable | 79,522 | 84,051 | 98,003 |
| Premises and equipment, net | 35,480 | 36,722 | 29,547 |
| Other property owned | 663 | 2,454 | 691 |
| Assets held for lease, net | 105,377 | 115,460 | 107,344 |
| Net deferred income tax asset | 6,406 | 13,769 | 18,994 |
| Other assets | 35,140 | 105,272 | 43,280 |
| Total assets | \$7,247,556 | \$6,681,493 | \$5,830,269 |
| LIABILITIES | | | |
| Note payable to AgriBank | \$5,980,033 | \$5,559,170 | \$4,876,147 |
| Accrued interest payable | 71,258 | 78,709 | 81,534 |
| Other liabilities | 33,396 | 30,421 | 10,634 |
| Total liabilities | 6,084,687 | 5,668,300 | 4,968,315 |
| Contingencies | | | |
| MEMBERS' EQUITY | | | |
| Protected members' equity | 59 | 86 | 491 |
| Capital stock and participation certificates | 55,585 | 52,138 | 64,580 |
| Unallocated surplus | 1,107,225 | 960,969 | 796,883 |
| Total members' equity | 1,162,869 | 1,013,193 | 861,954 |
| Total liabilities and members' equity | \$7,247,556 | \$6,681,493 | \$5,830,269 |

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

CONSOLIDATED STATEMENT OF INCOME

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

| Year ended December 31 | 2002 | 2001 | 2000 |
|--|------------------|------------------|------------------|
| Interest income | \$433,597 | \$438,929 | \$402,203 |
| Interest expense | 284,332 | 309,127 | 283,628 |
| Net interest income | 149,265 | 129,802 | 118,575 |
| Provision for loan losses | 9,988 | 8,631 | 10,536 |
| Net interest income after provision for loan losses | 139,277 | 121,171 | 108,039 |
| Other income | | | |
| Dividend income and patronage refund | 56,844 | 26,618 | 31,314 |
| Financially related services and miscellaneous income, net | 9,409 | 22,949 | 5,576 |
| Total other income | 66,253 | 49,567 | 36,890 |
| Operating expense | | | |
| Salaries and employee benefits | 26,903 | 27,167 | 29,780 |
| Other operating expense | 25,949 | 27,056 | 27,404 |
| Total operating expense | 52,852 | 54,223 | 57,184 |
| Income before income taxes | 152,678 | 116,515 | 87,745 |
| Provision for (income from) income taxes, net | 6,422 | (47,571) | 6,815 |
| Net income | \$146,256 | \$164,086 | \$80,930 |

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

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

| | Protected Members' Equity | Capital Stock and Participation Certificates | Unallocated Surplus | Total Members' Equity |
|--|---------------------------------|---|------------------------|-----------------------------|
| Balance at December 31, 1999 | \$620 | \$61,335 | \$715,953 | \$777,908 |
| Net income | -- | -- | 80,930 | 80,930 |
| Stock retirement associated with change in capitalization plan | -- | (138) | -- | (138) |
| Capital stock/participation certificates issued | -- | 14,216 | -- | 14,216 |
| Capital stock/participation certificates retired | (129) | (10,833) | -- | (10,962) |
| Balance at December 31, 2000 | 491 | 64,580 | 796,883 | 861,954 |
| Net income | -- | -- | 164,086 | 164,086 |
| Stock retirement associated with change in capitalization plan | -- | (19,300) | -- | (19,300) |
| Capital stock/participation certificates issued | -- | 10,780 | -- | 10,780 |
| Capital stock/participation certificates retired | (405) | (3,922) | -- | (4,327) |
| Balance at December 31, 2001 | 86 | 52,138 | 960,969 | 1,013,193 |
| Net income | -- | -- | 146,256 | 146,256 |
| Capital stock/participation certificates issued | -- | 8,442 | -- | 8,442 |
| Capital stock/participation certificates retired | (27) | (4,995) | -- | (5,022) |
| Balance at December 31, 2002 | \$59 | \$55,585 | \$1,107,225 | \$1,162,869 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Farm Credit Services of Mid-America, ACA

(Dollars in thousands)

| Year ended December 31 | 2002 | 2001 | 2000 |
|--|-----------|-----------|-----------|
| Cash flows from operating activities | | | |
| Net income | \$146,256 | \$164,086 | \$80,930 |
| Adjustments to reconcile net income to cash flows from operating activities: | | | |
| Depreciation on premises and equipment | 2,708 | 2,730 | 2,439 |
| Depreciation on assets held for lease | 13,901 | 12,902 | 5,821 |
| Provision for loan losses | 9,988 | 8,631 | 10,536 |
| Stock patronage received | (31,408) | -- | -- |
| Decrease (increase) in accrued interest receivable | 1,447 | 9,191 | (14,838) |
| Decrease (increase) in other assets | 77,495 | (56,767) | (11,399) |
| (Decrease) increase in accrued interest payable | (7,451) | (2,825) | 13,753 |
| Increase (decrease) in other liabilities | 2,975 | 19,787 | (7,076) |
| Gain on sale of premises and equipment | (7) | (237) | (550) |
| (Gain) loss on sale of other property owned | (522) | 1 | (7) |
| (Gain) loss on disposal of assets held for lease | (13) | (40) | 113 |
| Total adjustments | 69,113 | (6,627) | (1,208) |
| Net cash provided by operating activities | 215,369 | 157,459 | 79,722 |
| Cash flows from investing activities | | | |
| Increase in loans, net | (634,384) | (792,520) | (675,478) |
| Purchases of assets held for lease | (3,805) | (20,978) | (92,790) |
| Sales of other property owned, net | 3,378 | 387 | 341 |
| Purchases of premises and equipment, net | (1,459) | (9,668) | (8,530) |
| Net cash used in investing activities | (636,270) | (822,779) | (776,457) |
| Cash flows from financing activities | | | |
| Increase in note payable to AgriBank | 420,863 | 683,023 | 697,156 |
| Capital stock and participation certificates issued (retired), net | 38 | (17,703) | (421) |
| Net cash provided by financing activities | 420,901 | 665,320 | 696,735 |
| Net change in cash | -- | -- | -- |
| Cash at beginning of year | -- | -- | -- |
| Cash at end of year | \$ -- | \$ -- | \$ -- |
| Supplemental schedule of non-cash activities | | | |
| Stock financed by loan activities | \$7,615 | \$10,022 | \$13,737 |
| Stock applied against loan principal | 4,233 | 5,166 | 10,119 |
| Stock applied against loan interest | -- | -- | 81 |
| Interest transferred to loans | 3,082 | 4,761 | 4,703 |
| Loans transferred to other property owned | 1,065 | 2,151 | 716 |
| Supplemental information | | | |
| Interest paid | \$291,783 | \$311,952 | \$269,875 |
| Taxes paid | 698 | 2,188 | 5,070 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Services of Mid-America, ACA
(Dollars in thousands, except as noted)

NOTE 1

ORGANIZATION AND OPERATIONS

Farm Credit Services of Mid-America, ACA (the ACA) and its subsidiaries, Farm Credit Services of Mid-America, FLCA (the FLCA) and Farm Credit Services of Mid-America, PCA (the PCA), (the Association) are lending institutions of the Farm Credit System which was established by Congress to meet the credit needs of American agriculture. AgriBank and its related associations are collectively referred to as the District. At December 31, 2002, the District consisted of one FLCA, one PCA, and 17 ACA parent associations which each have wholly owned FLCA and PCA subsidiaries. FLCAs are authorized to originate long-term real estate mortgage loans, PCAs are authorized to originate short- and intermediate-term loans and ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their FLCA and PCA subsidiaries, respectively. District associations are also authorized to provide lease financing options for agricultural purposes. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses.

FCA is delegated authority by Congress to regulate the System banks and associations. The activities of the Association are examined by FCA and certain actions by the Association are subject to the prior approval of FCA and AgriBank.

The Farm Credit Act established the Insurance Corporation to administer the Insurance Fund. The Insurance Fund is used to insure the timely payment of principal and interest on Systemwide debt obligations, to insure the retirement of protected borrower capital at par or stated value, and for other specified purposes. At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund, based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of Systemwide debt obligations. AgriBank, in turn, assesses the associations premiums based on the average principal outstanding of accrual and nonaccrual loans of the associations for each year. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

The Association is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible shareholders for qualified agricultural purposes in the following territory: it includes all counties in the state of Indiana; all counties in Ohio, with the exception of Marion, Crawford, Wyandot, Hancock, Seneca, Wood, Ottawa, Lucas and Sandusky; all counties in Kentucky, with the exception of Graves, Hickman, Carlisle, Fulton, Ballard, McCracken, Callaway and Marshall; and all counties in Tennessee.

The ACA parent borrows from AgriBank and, in turn, provides financing and related services through its FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options. The PCA makes short- and intermediate-term loans and

provides lease financing options for agricultural production or operating purposes.

The Association offers various risk management services, including credit life, term life, credit disability, crop hail, multi-peril crop insurances for borrowers and those eligible to borrow.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of Mid-America, ACA (the parent) and Farm Credit Services of Mid-America, FLCA and Farm Credit Services of Mid-America, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

The following are significant accounting policies of the Association:

Loans: Long-term ag mortgage loan amortization terms range up to 25 years, while home mortgage loans range up to 30 years. Substantially all commercial loans are made for agricultural production or operating purposes and typically have maturities 3 to 5 years and none more than 10 years.

Loans are carried at their principal amount outstanding. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan fees are recorded as an offset to the related origination costs as incurred. The net amount of these fees and expenses is not material to the financial statements taken as a whole.

Loans are placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless well secured and in the process of collection) or circumstances indicate that full collection is not expected. When a loan is placed in nonaccrual status, accrued interest is reversed to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year will be capitalized to the recorded investment of the loan. Cash received on nonaccrual loans is applied to reduce the recorded investment in the loan asset except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior chargeoffs. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior chargeoffs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified doubtful or loss.

Allowance for Loan Losses: The allowance for loan losses reflects an amount considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of numerous factors such as loan loss experience, portfolio quality, portfolio concentrations, and economic and environmental factors. Loan principal and prior year(s) accrued

interest are charged against the allowance for loan losses when management believes collection is unlikely.

A specific allowance is established under Statement of Financial Accounting Standards (SFAS) No. 114 for risk loans. Loans are considered risk loans if they are in nonaccrual status, formally restructured, or 90 days or more past due. SFAS No. 114 requires that risk loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. The Association records a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the fair market value of collateral.

Investment in AgriBank: Accounting for the Association's investment in AgriBank is on a cost plus allocated equities basis. The investment in AgriBank is held by the Association in the form of Class P common stock.

Premises and Equipment: Premises and equipment are generally carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of 40 years for buildings and improvements and 3 to 10 years for personal property. Gains or losses on disposition are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the lower of the carrying amount or the fair value less estimated selling costs. Income and expense from operations and carrying value adjustments are included in miscellaneous income, net.

Leases: The Association has finance and operating leases. Under finance leases, unearned finance lease income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. The Association amortizes net unearned finance income to earnings on the interest method. The carrying amount of finance leases is presented in the loan line of the Consolidated Statement of Condition and represents lease rent receivables net of the unearned income plus the estimated residual value. Under operating leases, revenue is recognized as earned ratably over the term of the lease and depreciation and other expenses are charged against such revenue as incurred. The carrying amount of operating leases is presented as "Assets held for lease, net" on the Consolidated Statement of Condition and represents the asset cost net of accumulated depreciation.

Employee Benefit Plans: The employees of the Association participate in the Retirement Plan of the District. The District utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

The Association also provides certain health and life insurance benefits to eligible retired employees. The anticipated costs of these benefits are accrued during the period of the employees' active service.

Income Taxes: Federal and state income taxes are accrued by the ACA and PCA. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. Refer to Note 9 for discussion of the taxability of certain income for the Association.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Statement of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

NOTE 3

LOANS

Loans consisted of the following:

| As of December 31, 2002 | Amount | Percentage |
|---------------------------------|-------------|------------|
| Long-term agricultural mortgage | \$2,607,463 | 37.8% |
| Residence loans to farmers | 1,559,120 | 22.6% |
| Agricultural operating | 707,960 | 10.3% |
| Agricultural intermediate term | 598,893 | 8.7% |
| Rural home | 900,760 | 13.1% |
| Participations purchased | 442,088 | 6.4% |
| Other | 77,017 | 1.1% |
| Subtotal | 6,893,301 | 100.0% |
| Participations sold | (14,875) | |
| Total loans | \$6,878,426 | |

| As of December 31, 2001 | Amount | Percentage |
|---------------------------------|-------------|------------|
| Long-term agricultural mortgage | \$2,595,875 | 41.4% |
| Residence loans to farmers | 1,193,223 | 19.1% |
| Agricultural operating | 642,511 | 10.3% |
| Agricultural intermediate term | 618,135 | 9.9% |
| Rural home | 839,790 | 13.4% |
| Participations purchased | 302,417 | 4.8% |
| Other | 71,477 | 1.1% |
| Subtotal | 6,263,428 | 100.0% |
| Participations sold | (21,910) | |
| Total loans | \$6,241,518 | |

| As of December 31, 2000 | Amount | Percentage |
|---------------------------------|-------------|------------|
| Long-term agricultural mortgage | \$2,499,571 | 45.7% |
| Residence loans to farmers | 827,174 | 15.1% |
| Agricultural operating | 599,398 | 11.0% |
| Agricultural intermediate term | 587,626 | 10.8% |
| Rural home | 572,894 | 10.5% |
| Participations purchased | 321,452 | 5.9% |
| Other | 51,909 | 1.0% |
| Subtotal | 5,460,024 | 100.0% |
| Participations sold | (15,534) | |
| Total loans | \$5,444,490 | |

An association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA Regulation or General Financing Agreement limitations. The following table presents information regarding participations purchased and/or sold:

| As of December 31, 2002 | Participations | |
|--|------------------|-----------------|
| | Purchased | Sold |
| Participations purchased from / sold to: | | |
| AgriBank | \$ -- | \$14,875 |
| Other Farm Credit institutions | 169,391 | -- |
| Non-Farm Credit institutions | 272,697 | -- |
| Total participations purchased/sold | <u>\$442,088</u> | <u>\$14,875</u> |

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following tables present risk loan information:

| As of December 31 | 2002 | 2001 | 2000 |
|---|-----------------|-----------------|-----------------|
| Nonaccrual loans: | | | |
| Current as to principal and interest | \$51,640 | \$46,360 | \$37,704 |
| Past due | 22,211 | 24,680 | 15,929 |
| Total nonaccrual loans | 73,851 | 71,040 | 53,633 |
| Accruing restructured loans | 3,693 | 5,632 | 8,039 |
| Loans past due 90 days or more still accruing | 245 | 1,520 | 1,389 |
| Total risk loans | <u>\$77,789</u> | <u>\$78,192</u> | <u>\$63,061</u> |
| Volume with specific reserves | \$9,193 | \$4,286 | \$2,253 |
| Volume without specific reserves | 68,596 | 73,906 | 60,808 |
| Total risk loans | <u>\$77,789</u> | <u>\$78,192</u> | <u>\$63,061</u> |
| Total specific reserves | \$3,491 | \$924 | \$696 |
| For the year ended December 31 | 2002 | 2001 | 2000 |
| Income on accrual risk loans | \$416 | \$774 | \$1,007 |
| Income on nonaccrual loans | 9,002 | 8,989 | 11,669 |
| Total income on risk loans | <u>\$9,418</u> | <u>\$9,763</u> | <u>\$12,676</u> |
| Average recorded investment | \$86,804 | \$71,814 | \$70,225 |

There were no material commitments to lend additional funds to borrowers whose loans were at risk at December 31, 2002.

Included in formally restructured loans are loans the Association purchased from the former Farm Credit Bank of Louisville during 1989. These loans totaled \$1,645, \$2,766 and \$3,330 at December 31, 2002, 2001 and 2000, respectively. These loans, as well as certain performing loans, were purchased at fair value by the Association. The difference between the purchase price and the contractual amount of all loans purchased was recorded as a discount, which is being amortized over the life of the loans. Discount income earned on these loans totaled \$4,774, \$4,882 and \$5,538 in 2002, 2001 and 2000, respectively.

NOTE 4

ALLOWANCE FOR LOAN LOSSES

A summary of the changes in the allowance for loan losses follows:

| For the year ended December 31 | 2002 | 2001 | 2000 |
|--------------------------------|------------------|------------------|------------------|
| Balance at beginning of year | \$106,570 | \$100,897 | \$94,344 |
| Provision for loan losses | 9,988 | 8,631 | 10,536 |
| Loan recoveries | 3,501 | 3,807 | 4,215 |
| Loan chargeoffs | (6,376) | (7,369) | (7,325) |
| Other | -- | 604 | (873) |
| Balance at end of year | <u>\$113,683</u> | <u>\$106,570</u> | <u>\$100,897</u> |

The change in allowance as reflected in other is related to the sale of trade credit loans from the Association to AgriBank.

NOTE 5

INVESTMENT IN AGRIBANK

Under AgriBank's capital plan, as of December 31, 2002, the Association is required to maintain an investment in Class P common stock equal to 1.75% of the average quarterly balance of their note payable. This is an increase over the previous requirement of 1% of the average quarterly balance of their note payable plus assets serviced. The excess investment over that required is also in the form of Class P common stock. All stock investments in AgriBank are dividend bearing. The Association recorded \$7,316, \$10,056, and \$11,716 in dividend income on this stock during 2002, 2001 and 2000, respectively.

The investment in AgriBank at December 31, 2002 includes a 2002 special stock patronage refund from AgriBank in the amount of \$31,408. This refund represented the Association's share of a one-time, \$100 million distribution to provide for greater equalization of surplus between shareholders of AgriBank and AgAmerica, FCB.

NOTE 6

PREMISES, EQUIPMENT AND ASSETS HELD FOR LEASE

Premises and equipment consisted of the following:

| As of December 31 | 2002 | 2001 | 2000 |
|--------------------------------|-----------------|-----------------|-----------------|
| Land | \$3,750 | \$3,733 | \$3,003 |
| Buildings and improvements | 35,151 | 35,014 | 29,696 |
| Furniture and equipment | 12,835 | 12,307 | 13,231 |
| Subtotal | 51,736 | 51,054 | 45,930 |
| Less: accumulated depreciation | (16,256) | (14,332) | (16,383) |
| Total | <u>\$35,480</u> | <u>\$36,722</u> | <u>\$29,547</u> |

The Association also holds property for the purpose of agricultural leasing. The Association leases primarily farm equipment and livestock facilities. The following table provides a summary of the Association's net operating lease income and property held for lease by major category:

| As of December 31 | 2002 |
|--|------------------|
| For the year ended December 31: | |
| Net operating lease income | \$5,837 |
| As of December 31: | |
| Farm equipment/Vehicles | \$128,820 |
| Facilities | 5,514 |
| Subtotal | 134,334 |
| Less: accumulated depreciation | (28,957) |
| Total | \$105,377 |

The following is a schedule of minimum future rentals to be received on noncancelable operating leases as of December 31, 2002:

| For the year ending December 31 | |
|---------------------------------|------------------|
| 2003 | \$18,738 |
| 2004 | 18,365 |
| 2005 | 17,754 |
| 2006 | 15,773 |
| 2007 | 13,391 |
| Subsequent years | 18,673 |
| Total minimum future rentals | \$102,694 |

NOTE 7

NOTE PAYABLE TO AGRIBANK

The Association's note payable to AgriBank represents borrowings, in the form of a line of credit, to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement. At December 31, 2002, the line of credit from AgriBank totaled \$6,600,000. Under this line of credit, principal outstanding at December 31, 2002, totaled \$5,980,033. The interest rate, 4.5% at December 31, 2002, is adjusted monthly. This note matured on December 31, 2002, and was renewed with a stated maturity date of December 31, 2003, at which time the note will be renegotiated. The Association's line of credit for 2003 was increased to \$7,000,000.

The General Financing Agreement provides for limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. The note payable to AgriBank cannot exceed such limitations without approval from AgriBank. At December 31, 2002, the Association was within the specified limitations and in compliance with all debt covenants.

NOTE 8

MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower, as a condition of obtaining a loan from the Association, is required to invest in the Association. As authorized by the Agricultural Credit Act of 1987 and shareholder-approved capitalization bylaws, the Board of Directors has adopted a capital plan which establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loans or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all borrowers to whom a lease is issued and of all non-stockholder customers who purchase financial services. The Association's Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws, if necessary, to meet the Association's capital needs. The borrower acquires ownership of the capital stock at the time the loan/lease is made, but usually does not make a cash investment for the capital stock. The aggregate par value of the stock is added to the principal amount of the related obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers.

During 2000, the Association adopted a capital plan which establishes a stock purchase requirement for obtaining a loan of 2% of the loan amount or one thousand dollars per customer, whichever is less. As a result, a stock retirement in the amount of \$19,300 occurred during the first quarter of 2001. The Association refunded the excess stock investment to existing borrowers via a cash payment or special principal payment. This special stock retirement was funded through borrowings from AgriBank.

Protection Mechanisms

Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates which were outstanding as of January 6, 1988, or were issued prior to October 6, 1988, as a requirement for obtaining a loan. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

Regulatory Capitalization Requirements

Under capital adequacy regulations, each association is required to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. These ratios are calculated in accordance with FCA Regulations and are discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2002, the Association's ratio was 15.4%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2002, the Association's ratio was 14.6%.
- The core surplus ratio is average unallocated surplus less the Association's investment in AgriBank divided by average risk-adjusted assets. At December 31, 2002, the Association's ratio was 12.7%.

FCA Regulations require the Association and AgriBank to agree upon a plan for allocating the Association's investment in AgriBank for calculation of regulatory capital ratios. The Association and AgriBank agreed that the Association would count in its ratios any excess investment over that required by AgriBank. The amount the Association counted at December 31, 2002 was 53.1%.

Description of Equities

The following table presents information regarding the Association's classes and number of shares of stock and participation certificates outstanding as of December 31, 2002. All shares and participation certificates were \$5.00 par value.

| As of December 31, 2002 | Shares Outstanding |
|--|-----------------------|
| Class A preferred stock (protected) | 106 |
| Class B common stock (protected) | 5,422 |
| Class D common stock (at-risk) | 8,447,678 |
| Class A participation certificates (protected) | 6,171 |
| Class B participation certificates (at-risk) | 2,669,259 |

Under its bylaws, the Association is also authorized to issue Class C preferred stock. This stock is at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of this class has been issued.

Only holders of Class B and Class D common stock have voting rights. The Association's bylaws do not prohibit dividends on any classes of stock; however, no dividends have been declared during the last three years.

The bylaws of the Association generally permit stock and participation certificates to be retired at the discretion of the Board of Directors in accordance with the Association's capitalization plans provided prescribed capital standards have been met. At December 31, 2002, the Association not exceeded these prescribed standards. Management does not anticipate any significant changes in capital that would impact the normal retirement of stock.

In accordance with the Association's bylaws, in the event of liquidation or dissolution of the Association, any assets remaining after payment or retirement of all liabilities shall be distributed to holders of stock in the following order of priority: first, to holders of Class B and Class D common stock, and second, to holders of Class A and Class C preferred stock.

All classes of stock are transferable to other customers who are eligible to hold such class of stock provided that the Association meets the regulatory minimum capital requirements.

Patronage Distributions

The Association is prohibited by FCA from distributing patronage refunds to the extent that such distributions would reduce its permanent capital ratio below minimum permanent capital adequacy standards. Management does not foresee any events that would result in this prohibition in 2003. However, the Association does not have a patronage program to make such distributions.

NOTE 9

INCOME TAXES

The Association's provision for income taxes follows:

| For the year ended December 31 | 2002 | 2001 | 2000 |
|--|----------------|-------------------|----------------|
| Current: | | | |
| Federal | (\$563) | \$7,104 | \$1,585 |
| State | (378) | (899) | 3,300 |
| Federal tax refund | -- | (59,000) | -- |
| Total current | (941) | (52,795) | 4,885 |
| Deferred: | | | |
| Federal | 6,755 | 4,695 | 1,930 |
| State | 608 | 529 | -- |
| Total deferred | 7,363 | 5,224 | 1,930 |
| Provision for (income from) income taxes, net | <u>\$6,422</u> | <u>(\$47,571)</u> | <u>\$6,815</u> |
| Effective Tax Rate | 4.2% | -40.8% | 7.8% |

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates:

| For the year ended December 31 | 2002 | 2001 | 2000 |
|--|----------------|-------------------|----------------|
| Federal tax at statutory rate | \$51,911 | \$39,615 | \$29,561 |
| State tax, net | 474 | 1,108 | 3,572 |
| Effect of non-taxable entity | (46,731) | (31,360) | (25,477) |
| Federal tax refund | 54 | (59,000) | -- |
| Other | 714 | 2,066 | (841) |
| Provision for (income from) income taxes, net | <u>\$6,422</u> | <u>(\$47,571)</u> | <u>\$6,815</u> |

Deferred tax assets and liabilities are composed of the following:

| As of December 31 | 2002 | 2001 | 2000 |
|----------------------------------|-------------------|-------------------|------------------|
| Allowance for loan losses | \$19,722 | \$19,370 | \$17,643 |
| Post-retirement benefits accrual | 721 | 729 | 694 |
| Interest expense accrued | 1,956 | 2,339 | 2,361 |
| Net operating loss carryforward | 3,511 | -- | -- |
| AMT credit carryforward | 311 | 3,155 | -- |
| Depreciation | (15,096) | (10,252) | (2,309) |
| AgriBank 2002 Allocated Stock | (2,959) | -- | -- |
| Accrued pension asset | (1,812) | (1,589) | (1,287) |
| Other, net | 52 | 17 | 1,892 |
| Net deferred tax assets | <u>\$6,406</u> | <u>\$13,769</u> | <u>\$18,994</u> |
| Gross deferred tax assets | <u>\$26,280</u> | <u>\$25,627</u> | <u>\$22,619</u> |
| Gross deferred tax liabilities | <u>(\$19,874)</u> | <u>(\$11,858)</u> | <u>(\$3,625)</u> |

No valuation reserves had been established for these net deferred tax assets at December 31, 2002, 2001 or 2000.

Deferred income taxes have not been provided by the Association on approximately \$188,817 of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently maintain this investment in AgriBank.

The Association has successfully asserted that its mortgage operations earnings are exempt from income taxes. In 2001, the Association completed a settlement agreement with the IRS resolving the taxability of the prior years' earnings from its long-term mortgage lending activities. The settlement agreement provides for a portion of the claimed refund to be returned, plus interest for the applicable periods. The agreement also confirms that all income generated by the ACA will be taxable in future periods. However, as discussed in Note 1, the Association has reorganized to operate its long-term mortgage lending activities through a newly created FLCA. Income earned by the FLCA subsidiary is exempt from taxation. Accordingly, the FLCA recognized \$59,000 of tax refunds and \$12,500 of interest on those refunds. These recoveries represent all outstanding IRS refund claims for the Association.

Deferred income taxes have not been provided on accumulated FLCA earnings of \$374,490 as it is management's intention to permanently maintain this investment in the FLCA or distribute the earnings to members in a manner that results in no additional tax liability to the Association.

On February 20, 2001, the United States Supreme Court ruled, in a case involving another Farm Credit System entity, that Congress did not intend amendments to the Farm Credit Act in 1985 to change the basic tax status of that entity. The entity had been subject to state taxation prior to that amendment and the Court ruled that Congress intended that status to continue. While the Association was not a party in that case, it partly shares a similar tax history to the entity involved. Based on this United States Supreme Court decision, the Association altered its argument to only support an exemption related to the income from its mortgage operations, comparable to the argument with the IRS, as discussed above. In June of 2001, the Ohio Supreme Court decided that the Association was fully taxable on all its income. The Association asked the United States Supreme Court to review the Ohio decision. The United States Supreme Court denied the Association's petition for review on November 13, 2001. Therefore, the Association has no further recourse for refund.

NOTE 10

EMPLOYEE BENEFIT PLANS

The Association participates in a district-wide defined benefit retirement plan. The plan is noncontributory and covers substantially all District employees. The assets, liabilities and costs of the plan are not segregated by participating entities but are allocated among the entities on the basis of proportionate payroll expense. The Association recorded \$1,392, \$1,392 and \$585 of pension income for 2002, 2001 and 2000, respectively.

The Association also participates in a district-wide retirement savings plan. Effective January 1, 2002, the Association matches dollar for dollar up to 2% of employees contribution and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. Prior to the change on January 1, 2002 the maximum employer match was 3%. Contributions and recorded expenses in 2002, 2001 and 2000 were \$1,264, \$936 and \$873.

The Association recorded expense of \$51, \$41 and \$79 in 2002, 2001 and 2000, respectively, representing the cost of postretirement benefits other than pensions.

While the funding status of the District plans are not available for the Association individually, the following represents the funding status of the postretirement benefit plans at a District level:

| | Pension | Other |
|--|-------------------|-------------------|
| As of December 31, 2002 | Benefits | Benefits |
| Benefit obligation | \$377,791 | \$41,571 |
| Fair value of plan assets | <u>309,471</u> | <u>7,691</u> |
| Funded status | <u>(\$68,320)</u> | <u>(\$33,880)</u> |
| Prepaid (accrued) benefit cost recognized in the District's Statement of Condition | <u>\$73,302</u> | <u>(\$42,306)</u> |
| Weighted-Average Assumptions: | | |
| Discount rate | 6.75% | 6.75% |
| Expected return on plan assets | 8.75% | 6.00% |
| Rate of compensation increase | 5.00% | n/a |

| | Pension | Other |
|--------------------------------------|----------|----------|
| For the year ended December 31, 2002 | Benefits | Benefits |
| Benefits Paid | \$14,650 | \$2,038 |
| Employer Contributions | 155 | 1,877 |
| Plan Participant Contributions | -- | -- |
| Net Periodic Benefit Income (Cost) | 5,562 | (2,398) |

For measurement purposes, a 10% rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease gradually to 6% by the year 2007 and remain at that level thereafter.

Effective January 1, 2002, AgriBank and the Seventh Farm Credit District consolidated benefit plan administration and human resource operations with the Western Farm Credit District and the AgAmerica Farm Credit District.

NOTE 11

FINANCIAL ASSISTANCE

The Financial Assistance Corporation was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the Financial Assistance Corporation's issuance of \$1.261 billion of 15-year U.S. Treasury-guaranteed debt. The interest rates on these issuances range from 8.80% to 9.45%. The repayment of this debt and related interest is the responsibility of System Banks. Although these obligations of AgriBank are not obligations of the Association, the Association has a significant investment in AgriBank. Accordingly, the financial condition of the Association can be affected by factors which affect AgriBank. Management believes these matters are not likely to have a material effect upon the financial condition of the Association.

NOTE 12

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association may enter into loan transactions with its officers, directors, their immediate family members and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in FCA Regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with other persons.

Total loans to such persons at December 31, 2002, amounted to \$10,946 with \$5,414 of new loans made and repayments of \$7,548 during the year. In the opinion of management, no such loans outstanding at December 31, 2002, involved more than a normal risk of collectibility.

NOTE 13

CONTINGENCIES

In the normal course of business, the Association has outstanding various commitments and contingent liabilities which are not reflected in the accompanying consolidated financial statements. No material losses are anticipated as a result of these commitments or contingencies.

The Association may, from time to time, be named as defendants in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, management was not aware of any such actions that would have a material impact upon the Association's financial condition. However, management cannot ensure that such actions will not arise in the future.

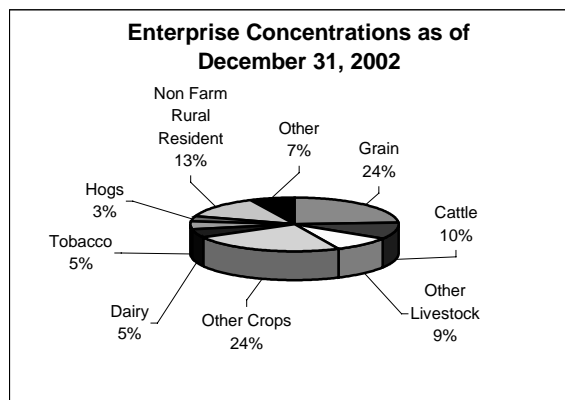
NOTE 14

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISKS

The Association participates in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and standby letters of credit. At December 31, 2002, the Association had commitments to extend credit of \$914,251. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. At December 31, 2002, the Association had standby letters of credit of \$69,447. Standby letters of credit are agreements to pay a beneficiary upon event of default on a contractual arrangement. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments and letters of credit have off-balance-sheet credit risk until they are fulfilled or expire. Since many of the commitments and letters of credit are expected to expire without being fully drawn upon, the total commitments and letters of credit do not necessarily represent future cash requirements. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and the same credit policies are applied by management.

In addition to the geographic concentrations discussed in Management's Discussion and Analysis, the Association also has concentrations with individual borrowers and within various agricultural commodities. At December 31, 2002, total volume plus commitments to the Association's ten largest borrowers represented 33.9% of total capital.

The Association's agricultural commodity concentrations at December 31, 2002, were as follows:



The Association's commodity concentrations have not changed materially from prior years.

While these concentrations represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of its lending activities is collateralized. Accordingly, exposure to credit loss associated with lending activities is reduced. An estimate of the Association's credit risk exposure is considered in the consolidated financial statements in the allowance for loan losses.

NOTE 15

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for the Association's financial instruments. Accordingly, fair values are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of the Association's investment in AgriBank is not practicable because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank and is carried at cost plus allocated equities.

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments, for which it is practicable to estimate that value, follows:

Loans: Because no active market exists for the loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render the Association's portfolio unmarketable outside the Farm Credit System.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates that reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

Note Payable to AgriBank: The fair value of the note payable to AgriBank was estimated by segregating the note into pricing pools according to the types and terms of the underlying loans which they fund. The estimated cash flows from these loans were discounted using the current rate that would be charged by AgriBank for additional borrowings with similar attributes.

Commitments to extend credit: The fair value of commitments is estimated as the inherent credit loss in such commitments.

The estimated fair value of the Association's financial instruments were as follows:

| | Carrying Amount | Estimated Fair Value |
|--|-----------------|----------------------|
| As of December 31, 2002 | | |
| Financial assets: | | |
| Loans, net | \$6,764,743 | \$6,929,509 |
| Financial liabilities: | | |
| Note payable to AgriBank | \$5,980,033 | \$6,067,753 |
| Unrecognized financial instruments: | | |
| Commitments to extend credit | | (\$1,230) |
| As of December 31, 2001 | | |
| Financial assets: | | |
| Loans, net | \$6,134,948 | \$6,257,259 |
| Financial liabilities: | | |
| Note payable to AgriBank | \$5,559,170 | \$5,595,221 |
| Unrecognized financial instruments: | | |
| Commitments to extend credit | | (\$1,211) |
| As of December 31, 2000 | | |
| Financial assets: | | |
| Loans, net | \$5,343,593 | \$5,398,309 |
| Financial liabilities: | | |
| Note payable to AgriBank | \$4,876,147 | \$4,895,652 |
| Unrecognized financial instruments: | | |
| Commitments to extend credit | | (\$1,015) |

NOTE 16

QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2002, 2001 and 2000 follow:

| 2002 | First | Second | Third | Fourth | Total |
|---|--------------|---------------|--------------|---------------|--------------|
| Net interest income | \$37,203 | \$37,393 | \$35,970 | \$38,699 | \$149,265 |
| Provision for loan losses | 445 | 3,699 | 2,627 | 3,217 | 9,988 |
| Dividend income and patronage refund | 2,007 | 1,835 | 1,819 | 51,183 | 56,844 |
| Other expense, net | 11,578 | 10,805 | 5,802 | 15,258 | 43,443 |
| Provision for (income from) income taxes, net | 1,881 | (765) | 591 | 4,715 | 6,422 |
| Net income | \$25,306 | \$25,489 | \$28,769 | \$66,692 | \$146,256 |
| 2001 | First | Second | Third | Fourth | Total |
| Net interest income | \$33,908 | \$32,354 | \$31,063 | \$32,477 | \$129,802 |
| Provision for loan losses | 1,933 | 1,935 | 2,383 | 2,380 | 8,631 |
| Dividend income and patronage refund | 2,915 | 2,600 | 2,408 | 18,695 | 26,618 |
| Other expense, net | 9,742 | 10,267 | 11,389 | (124) | 31,274 |
| Provision for (income from) income taxes, net | 1,663 | (667) | 191 | (48,758) | (47,571) |
| Net income | \$23,485 | \$23,419 | \$19,508 | \$97,674 | \$164,086 |
| 2000 | First | Second | Third | Fourth | Total |
| Net interest income | \$31,057 | \$30,400 | \$29,133 | \$27,985 | \$118,575 |
| Provision for loan losses | 2,682 | 2,490 | 2,703 | 2,661 | 10,536 |
| Dividend income and patronage refund | 2,785 | 2,882 | 3,019 | 22,628 | 31,314 |
| Other expense, net | 13,200 | 12,041 | 12,996 | 13,371 | 51,608 |
| Provision for income taxes | 473 | 478 | 1,046 | 4,818 | 6,815 |
| Net income | \$17,487 | \$18,273 | \$15,407 | \$29,763 | \$80,930 |

DISCLOSURE INFORMATION

Farm Credit Services of Mid-America, ACA
(In whole dollars, except as noted)

DESCRIPTION OF BUSINESS

General information regarding the business is incorporated herein by reference from Note 1 to the consolidated financial statements included in this annual report.

The description of significant business developments, if any, is incorporated herein by reference from "Management's Discussion and Analysis" included in this annual report.

DESCRIPTION OF PROPERTY

There are 94 offices located throughout the Association's territory making and servicing long and short-term loans. The Association owns 66 buildings and leases 17 buildings. There are 81 full-time offices, 8 special account units and 6 central processing units. A single building may house multiple offices. The Association owns 12 facilities that are leased to third parties. Currently, there are no buildings being held for resale. The owned facilities have book values ranging between \$162,600 and \$7,723,700.

LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated herein by reference from Note 9 and Note 13 to the consolidated financial statements included in this annual report. The Association was not subject to any enforcement actions at December 31, 2002.

DESCRIPTION OF CAPITAL STRUCTURE

Information regarding capital structure is incorporated herein by reference from Note 8 to the consolidated financial statements included in this annual report.

DESCRIPTION OF LIABILITIES

Information regarding liabilities is incorporated herein by reference from Note 7 and Note 13 to the consolidated financial statements included in this annual report.

SELECTED FINANCIAL DATA

"Consolidated Five-Year Summary of Selected Financial Data," included in this annual report, is incorporated herein by reference.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," included in this annual report, is incorporated herein by reference.

BOARD OF DIRECTORS

The following represents information regarding directors who served as of December 31, 2002, including business experience in the last five years:

| Name | Position | Term of Office | Business experience and employment during past five years |
|-------------------------|------------------|---------------------------------|---|
| Gordon E. Carter | Chairperson | Second year of a four year term | Self-employed farmer (beef, grain and sheep) |
| J. Edward Yanos | Vice Chairperson | Fourth year of a four year term | Self-employed farmer (corn and soybeans) |
| Sue Welch | Secretary | Third year of a four year term | Tax preparer, Secretary of Lemuel, Inc. and self-employed farmer (hay, livestock, timber, sheep, and antique equipment restoration) |
| Barney Barnett | Outside Director | First year of a four year term | Retired (formerly president/owner of management recruiting business) |
| Robert E. Barton | Director | First year of a four year term | Self-employed farmer (tobacco, corn, wheat, soybeans; background cattle operation; country grain elevator) |
| David A. Bates, III | Director | Second year of a four year term | Self-employed farmer (dairy, beef and tobacco) |
| Roger D. Earley | Director | First year of a four year term | Self-employed farmer (wheat, tobacco, corn, hay, soybeans, cattle) and seed dealer |
| Daryl R. Greenfield | Director | Fourth year of a four year term | Self-employed farmer (corn, soybeans, wheat and tobacco) |
| Bert E. Holsapple | Director | Third year of a four year term | Self-employed farmer (beef, wheat, corn, hay and soybeans) |
| Jimmy D. Mays | Director | Third year of a four year term | Self-employed farmer (cattle and tobacco) and meter reader – Tri County Electric |
| John A. Peterson | Director | Third year of a four year term | Self-employed farmer (beef, hogs, corn, soybeans, wheat and hay) |
| William Roger Robertson | Director | Fourth year of a four year term | Self-employed farmer (livestock and row crops) |
| Daryl B. Rowe | Director | Second year of a four year term | Self-employed farmer (corn, alfalfa, tobacco and dairy) |
| Wayne E. Specht | Director | Second year of a four year term | Self-employed farmer (corn, wheat, alfalfa, and dairy) |
| Arthur R. Timberlake | Director | First year of a four year term | Self-employed farmer (cattle, corn, soybeans, tobacco and hay) |
| James G. Tyson Jr. | Director | First year of a four year term | Self-employed farmer (cotton, corn, beef and soybeans) |
| David E. Wilson | Director | Fourth year of a four year term | Self-employed farmer (corn, soybeans, wheat and cattle) |

Gordon Carter is a Director of Eastern Indiana Livestock Breeders Association (breeding organization); and is also a director of the National Farm Credit Council (National trade association of the Farm Credit System).

Daryl Greenfield is a Director of Hopkinsville Elevator Company, Inc. which handles grain and supplies and is a Director of Todd County Farm Bureau (ag association).

Bert Holsapple is a Director of Orange County Indiana REMC which provides electricity to rural communities.

Daryl Rowe is a Director of Farmer's Mutual Fire Insurance, a provider of casualty insurance.

William Roger Robertson is a Director of the Southeastern United Dairy Association (dairy production), McMinn/Louden Farmers Coop (farm supplies), McMinn County Livestock Association (livestock organization) and Tennessee Milk Producers (milk production).

James Tyson is a Director of the Madison County, Tennessee Farmers Co-op (ag association).

Arthur Timberlake is a Director of the Indiana and Kentucky Polled Hereford Associations (Hereford breeders) and the Harrison County, Indiana Cattlemen's Association (beef cattle organization).

Sue Welch is a Director of Lemuel, Inc., a corporation whose business is livestock and a Director of the Lincoln County Tennessee Fair Board and Farm Bureau.

Directors received \$250 per diem per day for each board meeting in attendance in 2002 and a monthly retainer of \$500. Directors are also reimbursed for reasonable expenses incurred.

Information regarding each director is presented below:

| | Number of Days Served | | Total Compensation Paid in 2002 |
|----------------------|-----------------------|---------------------------|---------------------------------|
| | Board Meetings | Other Official Activities | |
| Bob Barton | 29.5 | 15.5 | \$16,937 |
| David A. Bates, III | 32.0 | 14.0 | 17,437 |
| Barney Barnett | 29.5 | 16.5 | 16,937 |
| Gordon E. Carter | 27.0 | 27.0 | 24,737 |
| Roger D. Earley | 29.5 | 9.5 | 14,438 |
| Daryl R. Greenfield | 31.5 | 19.0 | 18,562 |
| Bert E. Holsapple | 32.0 | 18.5 | 17,937 |
| Jimmy D. Mays | 29.0 | 10.5 | 15,438 |
| John A. Peterson | 29.5 | 16.0 | 16,188 |
| Roger Robertson | 29.5 | 6.0 | 14,563 |
| Daryl B. Rowe | 32.0 | 12.5 | 17,062 |
| Wayne E. Specht | 29.0 | 19.5 | 18,437 |
| Arthur R. Timberlake | 29.5 | 15.5 | 16,563 |
| James G. Tyson, Jr. | 26.5 | 4.5 | 13,813 |
| Sue Welch | 30.0 | 23.0 | 19,712 |
| David Wilson | 32.0 | 22.0 | 19,812 |
| Ed Yanos | 27.0 | 22.5 | 17,212 |
| Total | 505.0 | 272.0 | \$295,785 |

The number of board meeting days and per diem totals include travel time to and from meetings.

SENIOR OFFICERS

The following summarizes the positions held and the business experience in the last five years for all the senior officers of the Association.

| Name | Position | Business experience and employment during past five years |
|----------------------|--|---|
| Donald W. Winters | President and Chief Executive Officer | President and Chief Executive Officer from October 1989 to present |
| James D. Kenney, III | Senior Vice President | Senior Vice President – Corporate Services and General Counsel from July 1993 to October 1997; Senior Vice President - Corporate Services from November 1997 to present |
| David Lynn | Senior Vice President - Financial Services | Vice President - Financial Services from July 1996 through September 2002; Senior Vice President – Financial Services from October 2002 to present |
| Thomas S. Schlenker | Senior Vice President - Financial Services | Senior Vice President - Financial Services from July 1996 to present |
| James K. Garrison | Senior Vice President - Credit | Chief Credit Officer from October 1994 to October 1997; Senior Vice President - Credit from November 1997 to present |
| Philip W. Kimmel | Senior Vice President – Business Development | Senior Vice President – Business Development from April 2000 to present; President & CEO of Keystone Farm Credit, Lancaster, PA from September 1992 to February 2000 |
| Dianna R. Ragan | General Counsel & Corporate Secretary | Vice President & Assistant General Counsel from May 1994 to October 1997; General Counsel & Corporate Secretary from November 1997 to present |

A summary of compensation paid to the most highly compensated officers including the seven senior officers previously noted follows (in thousands):

| Name of Individual | Year | Deferred/ | | | | Total |
|--|------|-----------|-------|-------------|--------|---------|
| | | Salary | Bonus | Perquisites | Other | |
| Donald W. Winters | 2002 | \$273 | \$106 | \$2 | \$ -- | \$381 |
| | 2001 | 258 | 103 | 1 | -- | 362 |
| | 2000 | 232 | 90 | 1 | -- | 323 |
| Aggregate Number of Senior Officers (Including CEO): | | | | | | |
| Eight | 2002 | \$1,219 | \$371 | \$7 | \$10 * | \$1,607 |
| Eight | 2001 | 1,212 | 373 | 6 | -- | 1,591 |
| Eight | 2000 | 1,061 | 327 | 4 | 9 * | 1,401 |

* Represents relocation expenses paid

Disclosure of the compensation paid during 2002 to each of the individuals included in the table above whose compensation exceeds \$50,000 is available to shareholders upon request.

Senior officer's incentives, except the CEO, are in part, based on individual performance criteria established by the CEO. All CEO incentive and a portion of the other senior officer's incentives are based on corporate performance criteria established by the Board of Directors. The corporate criteria includes: return on assets, permanent capital, loan volume growth, credit quality, credit administration and net operating rate. The incentives are calculated after the end of the plan year (the plan year is the calendar year) and are paid out in a lump sum within 90 days of year-end.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

Information regarding related party transactions is incorporated herein by reference from Note 12 to the consolidated financial statements.

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with the Association's business functions. A copy of the Association's policy for reimbursing these costs is available by contacting the Association at the address listed on the Table of Contents and Glossary.

The total directors' travel, subsistence and other related expenses were \$156 thousand, \$116 thousand and \$100 thousand for the years ended December 31, 2002, 2001 and 2000, respectively.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

There were no events during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2003 or at any time during 2002.

SHAREHOLDER PRIVACY

Shareholders' nonpublic personal financial information is protected by FCA Regulation. The Association's directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its shareholders.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

There were no changes in independent public accountants since the last annual report to shareholders and the Association is in agreement with the opinion expressed by the independent public accountants.

FINANCIAL STATEMENTS

The "Report of Management," "Report of Independent Accountants," "Consolidated Financial Statements," and "Notes to Consolidated Financial Statements," included in this report, are incorporated herein by reference.

EQUAL EMPLOYMENT OPPORTUNITY

The Association is an equal opportunity employer. It is the Association's policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. The Association complies with all state and local equal employment opportunity regulations. All personnel decisions and processes relating to the Association's employees and job applicants are conducted in an environment free of discrimination and harassment. The Association will act affirmatively to recruit, train, and promote qualified minority members.



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