2002

ANNUAL REPORT

FOCUS FOR THE FUTURE

FARM CREDIT BANK OF TEXAS

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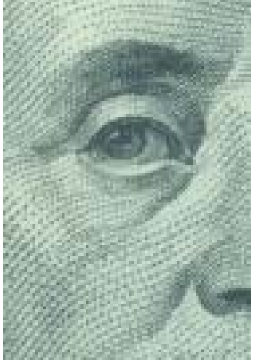

"I have always thought that ... man ... may work great changes, and accomplish great affairs among mankind, if he first forms a good plan, and ... makes the execution of that same plan his sole study and business."

— Benjamin Franklin

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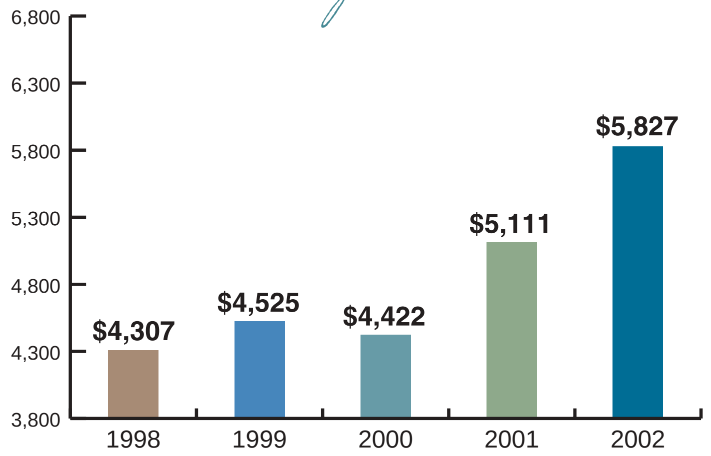
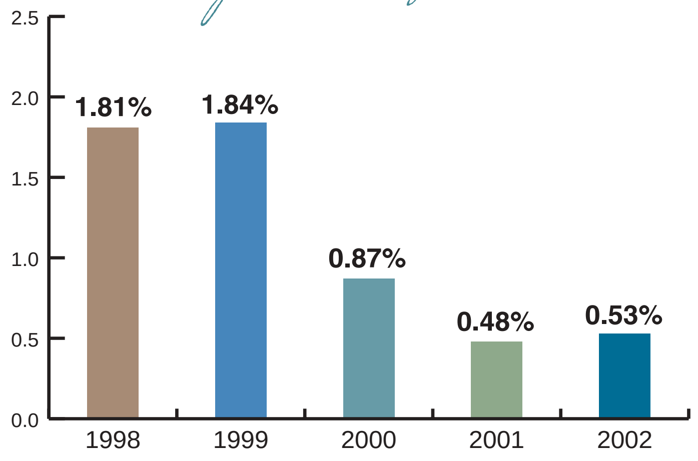
FINANCIAL

Total Loans Outstanding at Year End

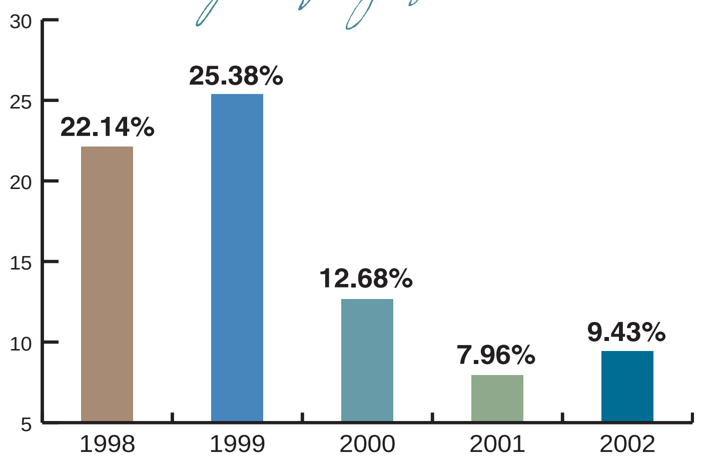
(in millions)



Return on Average Assets for the Year



Return on Average Equity for the Year



HIGHLIGHTS

		Year Ended December 31,		
		2002		2001
For the Year				
Net interest income	**$**	**45,091**	$	36,427
(Negative provision) provision for loan losses		**(2,902)**		1,439
Noninterest expense, net		**15,526**		10,110
Net income	**$**	**32,467**	$	24,878
Rate of return on:				
Average assets		**0.53%**		0.48%
Average shareholders' equity		**9.43**		7.96
Cash patronage paid	**$**	**3,615**	$	3,102
At Year End				
Total loans	**$**	**5,827**	$	5,111
Total assets		**6,706**		5,699
Total liabilities		**6,337**		5,373
Total shareholders' equity		**369**		326
Permanent capital ratio		**18.06%**		18.10%
Total surplus ratio		**14.01**		14.01
Core surplus ratio		**12.56**		12.82
Net collateral ratio		**105.32**		105.33

Focus

Foundation

Strength

Opportunity

FOCUS *for the Future*

Benjamin Franklin claimed that the key to great accomplishment is to develop a sound plan and focus on its execution. In the case of the 86-year-old Farm Credit Bank of Texas, Franklin's sage advice rings as true today as it did more than two centuries ago.

As one of the oldest and strongest sources of credit and financial services for rural America, we know what it takes to succeed, and we are pleased to report that 2002 was one of our most successful years ever.

In spite of a weakened economy and tight agricultural export markets, the Farm Credit Bank of Texas posted record year-end financial results while delivering excellent value to customers. Net income was $32.5 million last year, a 30.5 percent increase from 2001. Year-end loan volume totaled $5.8 billion, a 14 percent increase from a year earlier. Total bank assets grew to $6.7 billion, up 17.6 percent from the previous year.

Such outstanding results were achieved by focusing on the highway ahead, not the road behind. They are the product of strategic planning and solid business practices. They are also a testament to our strong cooperative structure, the partnerships we share within the Farm Credit System, and the dedication of staff and directors to meeting customer needs.

In 2002, two of our focal points were the capital markets and our own financial services. We pursued numerous growth opportunities through participation and syndication loans with our Farm Credit partners and other financial institutions as a way to increase and diversify our income stream. We introduced several cutting-edge financial services and resources to our retail customers.

Continuing a long history of prudent fiscal management, the Farm Credit Bank of Texas also undertook two initiatives in 2002 to contain costs and enhance bank liquidity. The sale of the Farm Credit Bank of Texas headquarters building in Austin was completed in November, setting the stage for increased operating efficiencies. In addition, we adopted a new Farm Credit System guideline to maintain 90 days of liquidity in the form of cash and liquid investments. We expect by June 30, 2003, to achieve this target, which serves as a backstop to our primary source of liquidity, the issuance of debt in the agency debt market.

Ralph W. "Buddy" Cortese
CHAIRMAN OF THE BOARD

Larry R. Doyle
CHIEF EXECUTIVE OFFICER

Since 1916, our cooperative structure has served the Farm Credit Bank of Texas well, providing us with a number of business advantages. As part of the cooperatively owned Farm Credit System — an AAA-rated government-sponsored enterprise — we have access to the nation's and world's money markets. This dependable source of competitively priced capital is critical to our mission — to be rural America's choice provider of business and financial services.

As we look to 2003 and beyond, we are focused on growing our asset base and pursuing new financing opportunities in the nation's rural communities and agriculture sector. We will pursue these goals through our sound business strategy and our ongoing efforts to improve our products and services. Building on a foundation of experienced personnel and strategic partnerships, we are confident of our future success and look forward to an even better year ahead.

As part of the cooperatively owned Farm Credit System ... we have access to the nation's and world's money markets.

FOUNDATION *from the*

Like a mighty tree supported by roots as deep as it is tall, the Farm Credit Bank of Texas is anchored by 86 years of experience providing credit and financial services to rural America.

We trace our beginnings to 1916, when Congress passed legislation establishing the nationwide Farm Credit System, a network of cooperatively owned lending institutions. Today, the $111 billion Farm Credit System is the largest rural lending organization in the United States.

We obtain our funding through the Federal Farm Credit Banks Funding Corporation, which sells the System's bonds and notes in the nation's capital markets. The Farm Credit Bank of Texas provides funding and services to 22 retail-lending cooperatives that are our owners. In turn, they offer loans and financial services to their stockholders-borrowers — more than 61,000 farmers, ranchers, agribusinesses, country homeowners and other rural landowners primarily in Alabama, Louisiana, Mississippi, New Mexico and Texas.

As a federated cooperative — a cooperative that is owned by a group of co-ops — our structure gives our customers a vested interest and a voice in our business and is the solid foundation on which we have *grown and flourished.*

FARM CREDIT

Past

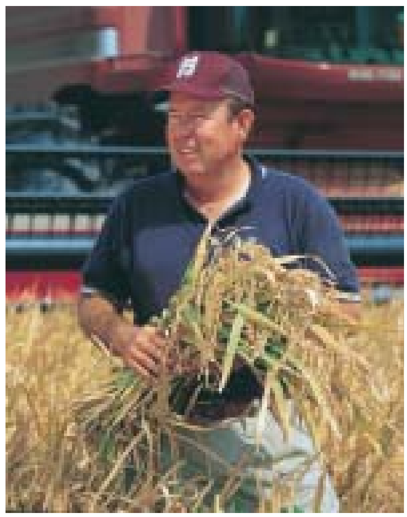
BANK OF TEXAS

1916 - 2002

STRENGTH *from our*

An inherent strength of our federated cooperative structure is our partnerships with our co-op owners — 10 Federal Land Credit Associations, which make long-term rural real estate and agribusiness loans, and 12 Agricultural Credit Associations, which offer short-, intermediate- and long-term credit. Together, these 22 retail associations form the largest rural lending network in a five-state region across the South with a total of $6.4 billion in loan volume at year-end 2002.

When we do well, we share a portion of our earnings with these lending associations in the form of patronage distributions. When they do well, they pay



TRUSTED PARTNERS

Partnerships

patronage refunds to their stockholders. The patronage we pay to our associations reduces their cost of borrowing, which ultimately reduces their customers' cost of borrowing. Together, the bank and associations declared $26.1 million in patronage and dividend distributions to stockholders in 2002, compared with $25.2 million in distributions in 2001.

As a wholesale lender and vendor, the Farm Credit Bank of Texas provides the latest technology, innovative financial tools and resources that our associations need to be successful. Our financial services range from loan processing to information technology, and marketing to human resource management. In 2002, for instance, we launched an automated loan origination system that allows loan officers to book loans in the field. We also implemented a stress-modeling program that will estimate the impact of various economic factors on association loan portfolios.

The partnership between the Farm Credit Bank of Texas and its 22 retail customers is a strategic one. Our goal is to help our affiliated associations maximize their potential, whether it means syndicating a loan on their behalf or brokering financial services they require. *Together,* we are trusted partners serving rural America.

OPPORTUNITY *for Growth*

Agriculture is big business,

and big business requires large volumes of capital. Throughout the United States, agribusiness opportunities abound as industry develops innovative ways to add value to raw agricultural products and science unleashes new solutions to pest and disease problems.

The Farm Credit Bank of Texas facilitates financing for all types of agribusiness operations, from sawmills to feed mills. We have the expertise to facilitate the origination and servicing of the most complex agribusiness and rural utility loans, and the ability to offer financing solutions for major operations like food-processing plants and commercial feed lots.

No loan is too big or too small for the Farm Credit Bank of Texas. Our partnerships and alliances with other lenders enable us to meet the capital needs of our largest customers through loan syndications and participations.

High-quality loan participations and syndications will continue to play an important role in our growth as we expand our efforts to provide capital and liquidity for agribusiness and rural infrastructure projects.

REPORT *of Management*

The financial statements of the Farm Credit Bank of Texas are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, except as noted. Other financial information included in this annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the bank'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 of controls must be related to the benefits derived. To monitor compliance, the internal audit staff of the Farm Credit Bank of Texas audits the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal accounting controls to establish a basis for reliance thereon in determining the nature, extent and timing of the audit tests applied in the examination of the financial statements. In addition, the bank is examined by the Farm Credit Administration.

The board of directors has overall responsibility for the bank's system of internal controls and financial reporting. The board consults regularly with management and reviews the results of the examinations. In the opinion of management, the financial statements are true and correct and fairly state the financial position of the Farm Credit Bank of Texas at December 31, 2002.

Ralph W Cortese

Ralph W. Cortese
Chairman of the Board

L R Doyle

Larry R. Doyle
Chief Executive Officer

Thomas W. Hill

Thomas W. Hill
Chief Financial Officer

April 11, 2003

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	**2002**	2001	2000	1999	1998
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 61,859**	$ 48,804	$ 13,630	$ 87,814	$ 47,059
Investment securities	**785,071**	503,978	551,124	486,840	525,770
Loans	**5,826,951**	5,111,193	4,421,612	4,524,794	4,306,582
Less allowance for loan losses	**9,695**	13,643	12,189	57,626	54,559
Net loans	**5,817,256**	5,097,550	4,409,423	4,467,168	4,252,023
Other property owned, net	**2,615**	373	373	1,318	2,140
Other assets	**39,225**	48,679	57,288	107,627	135,802
Total assets	**$ 6,706,026**	$ 5,699,384	$ 5,031,838	$ 5,150,767	$ 4,962,794
Obligations with maturities of one year or less	**$ 3,751,585**	$ 3,911,788	$ 3,468,011	$ 3,474,176	$ 3,704,087
Obligations with maturities greater than one year	**2,585,463**	1,461,130	1,262,924	1,315,633	900,607
Total liabilities	**6,337,048**	5,372,918	4,730,935	4,789,809	4,604,694
Capital stock and participation certificates	**109,896**	93,938	77,918	99,638	96,996
Retained earnings	**257,884**	231,659	222,412	262,188	261,194
Accumulated other comprehensive income (loss)	**1,198**	869	573	(868)	(90)
Total shareholders' equity	**368,978**	326,466	300,903	360,958	358,100
Total liabilities and shareholders' equity	**$ 6,706,026**	$ 5,699,384	$ 5,031,838	$ 5,150,767	$ 4,962,794
Statement of Income Data					
Net interest income	**$ 45,091**	$ 36,427	$ 53,816	$ 115,003	$ 115,304
Provision for loan losses	**2,902**	(1,439)	(19,191)	(9,188)	(4,331)
Noninterest (expense) income, net	**(15,526)**	(10,110)	7,189	(14,391)	(24,502)
Extraordinary loss on early extinguishment of debt	**—**	—	—	—	(5,379)
Net income	**$ 32,467**	$ 24,878	$ 41,814	$ 91,424	$ 81,092
Key Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**0.53%**	0.48%	0.87%	1.84%	1.81%
Average shareholders' equity	**9.43%**	7.96%	12.68%	25.38%	22.14%
Net interest income to average earning assets	**0.74%**	0.70%	1.14%	2.35%	2.63%
Net charge-offs (recoveries) to average loans	**0.02%**	—	0.49%	—	0.01%
Total shareholders' equity to total assets	**5.50%**	5.73%	5.98%	7.01%	7.22%
Debt to shareholders' equity (:1)	**17.17**	16.46	15.72	13.27	12.86
Allowance for loan losses to total loans	**0.17%**	0.27%	0.28%	1.27%	1.27%
Permanent capital ratio	**18.06%**	18.10%	19.18%	14.61%	15.18%
Total surplus ratio	**14.01%**	14.01%	14.40%	11.59%	12.20%
Core surplus ratio	**12.56%**	12.82%	13.63%	11.03%	11.68%
Net collateral ratio	**105.32%**	105.33%	105.21%	106.29%	106.18%
Net income distributions					
Patronage distributions declared					
Cash	**$ 3,615**	$ 3,102	$ 25,322	$ 80,184	$ 86,846
Retained earnings	**928**	253	—	678	250

MANAGEMENT'S *Discussion & Analysis*

(dollars in thousands, except as otherwise noted)

The following commentary provides a discussion and analysis of the financial position and the results of operations of the Farm Credit Bank of Texas (the Bank or FCBT) for the years ended December 31, 2002, 2001 and 2000. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (Notes) and additional sections of this annual report.

The Bank is part of the Tenth Farm Credit District (District), which is part of the federally chartered Farm Credit System (System). The Bank provides funding to District Associations, which, in turn, provide credit to their borrowers/shareholders. As of December 31, 2002, the Bank served 10 Federal Land Credit Associations (FLCAs), 12 Agricultural Associations (ACAs) and certain Other Financing Institutions (OFIs). FLCAs and ACAs are collectively referred to as Associations. See Note 1, "Organization and Operations," for an expanded description of the structure and operations of the Bank.

Prior to 1999, FLCAs were known as Federal Land Bank Associations (FLBAs). The FLBAs served as agents for the Bank, making loans on the Bank's behalf and servicing those loans in return for fee income. During 1999 and 2000, all of the District's FLBAs converted to direct lenders, or FLCAs. Upon conversion to FLCAs, these Associations purchased from the Bank, at book value, all of the long-term real estate loans that they previously serviced. The loans were financed in part by direct loan obligations to the Bank in the form of revolving lines of credit referred to as "direct notes." The total purchase price of the loan portfolios was approximately $3.076 billion in 2000 and $621 million in 1999. These conversions and sales are more fully described in Note 1, "Organization and Operations," and Note 11, "Related Party Transactions."

Financial Highlights

- The aggregate amount of loans outstanding at December 31, 2002, was $5.8 billion, an increase of 14.0 percent compared to December 31, 2001.
- Net income totaled $32.5 million for the year ended December 31, 2002, an increase of 30.5 percent compared to 2001.
- Net interest income for the year ended December 31, 2002, was $45.1 million, a 23.8 percent increase over the year ended December 31, 2001.

- Return on average assets and return on average equity for the year ended December 31, 2002, were 0.53 and 9.43 percent, respectively, compared to 0.48 and 7.96 percent for 2001, respectively.
- Patronage distributions declared and retained earnings allocated totaled $4.5 million in 2002, compared to $3.4 million in 2001.
- The Bank sold its headquarters building in November 2002 for $16.3 million, net, with a $176 net gain to be amortized over a two-year leaseback period.

Projects Completed in 2002

- The Bank continued the implementation of the District's loan origination system, ADS II, completing loan components and nearing completion of credit analysis components.
- The Bank upgraded the District financial accounting system, which involved a Districtwide change in the software used for general ledger, accounts payable and fixed assets applications.
- Enhancements made during 2002 to the participation loan accounting system have facilitated the servicing and accounting for participation loans. Participations continue to be an important tool for District portfolio diversification and capital management.
- The Bank completed and implemented a portfolio stress modeling program, which allows District entities to estimate the impact that certain economic changes might have on their loan portfolios. Factors that can be tested in the modeling include general economic changes as well as changes affecting specific commodities and real estate values.
- HR/Perspective Self Service is a feature of a new human resources/payroll system implemented by the Bank in 2002. The new system provides Bank and District Association employees secure online access to payroll and benefits information.

Strategic Initiatives for 2003

- **Liquidity strategy** - The Bank has implemented a new liquidity strategy by which it will maintain 90 days of debt principal coverage in the form of liquid assets composed of cash and eligible investment securities, as defined by Farm Credit Administration (FCA) regulations. The Bank's full implementation of the strategy is expected to occur by the end of the second quarter of 2003 and will involve a major restructuring of the Bank's debt portfolio and an increase in its investment securities portfolio.
- **Cash management** – The Bank will implement tools to automate intra-District financial transactions as well as transactions between District entities and their customers and vendors. When appropriate, overnight ACH transfers will replace checks and wire transfers for many of these transactions.
- **ADS II enhancements** – The Bank will add or enhance components of ADS II that will aid in the determination of credit class, provide better tools for customer relationship management and allow for modeling the effects of different economic conditions on the District's loan portfolio.
- **Economic capital modeling** – The Bank will begin to collect and analyze loan performance data elements that will support the proposed economic capital model based on the *New Basel Capital Accord*.

Risk Management

The major risks to which the Bank is exposed are:

- **Credit risk** – Credit risk is the risk of loss due to borrower or counterparty default. Credit risk related to borrowers is discussed in the "Financial Condition" section of this Management's Discussion and Analysis (MD&A), in Note 4, "Loans and Allowance for Loan Losses" and in Note 13, "Financial Instruments With Off-Balance-Sheet Risk." Credit risk related to counterparties is the possibility of default on the part of a counterparty on a derivative financial instrument that has a positive fair value, and is discussed in the "Asset/Liability Management" section of the MD&A and in Note 15, "Derivative Instruments and Hedging Activity."
- **Interest rate risk and liquidity risk** – Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates. Liquidity risk is the risk that the Bank would be unable to fund increases in assets and meet obligations as they become due. These risks are discussed in the "Asset/Liability Management" section of the MD&A and in Note 15, "Derivative Instruments and Hedging Activity."
- **Operational and business risks** – Operational and business risks relate to the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. The Bank maintains and monitors a disaster recovery plan which includes safeguards and alternatives in the event of failures or damage that might affect its critical functions or systems infrastructure.

RESULTS OF OPERATIONS

Net Income

The Bank's net income of $32,467 for the year ended December 31, 2002, reflects an increase of 30.5 percent over 2001, while 2001 income of $24,878 decreased by 40.5 percent from 2000. The return on average assets increased to 0.53 percent for the year ended December 31, 2002, from 0.48 percent reported for the year ended December 31, 2001. The return on average assets was 0.87 percent for the year ended December 31, 2000. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion.

	2002 vs. 2001	2001 vs. 2000
Net income (prior period)	$ 24,878	$ 41,814
Increase (decrease) due to:		
Interest income	(64,289)	(51,840)
Interest expense	72,953	34,451
Net interest income	8,664	(17,389)
Provision for loan losses	4,341	17,752
Noninterest income	(866)	(17,670)
Noninterest expense	(4,550)	371
Total change in net income	7,589	(16,936)
Net income	$ 32,467	$ 24,878

Interest Income

Total interest income for the year ended December 31, 2002, was $208,675, a decrease of $64,289, or 23.6 percent, compared to 2001. This decrease is primarily attributable to the effect of the decreasing rate environment that has prevailed during 2002 and 2001, partially offset by an increase in average earning assets.

Total interest income for 2001 was $272,964, a decrease of $51,840, or 16.0 percent, from 2000. This decrease was largely due to the effects of the decreasing rate environment during that time. Also, during 2000 the Bank owned a share of the loans earning retail agricultural consumer rates serviced by FLBAs, which were sold to those Associations when they converted to FLCAs during 2000. The sale of these loan portfolios to the FLCAs was substantially funded through new direct notes to the FLCAs at wholesale interest rates. The impact of these interest rate decreases from 2000 to 2001 was mitigated somewhat by an increase in average earning assets.

The following table illustrates the impact that volume and yield changes had on interest income over these periods.

	Year Ended December 31,	
	2002 vs. 2001	2001 vs. 2000
Increase in average earning assets	$ 917,851	$ 451,496
Average yield (prior year)	5.26%	6.85%
Interest income variance attributed to change in volume	47,776	30,983
Average earning assets (current year)	6,109,309	5,191,458
Decrease in average yield	(1.84%)	(1.59%)
Interest income variance attributed to change in yield	(112,065)	(82,823)
Net change in interest income	$ (64,289)	$ (51,840)

Interest Expense

Total interest expense for the year ended December 31, 2002, was $163,584, a decrease of $72,953, or 30.8 percent, compared to the same period of 2001. The decrease in interest expense is primarily attributable to declining interest rates, partially offset by an increase in average interest-bearing liabilities.

Total interest expense for 2001 was $236,537, a decrease of $34,451, or 12.7 percent from 2000. This decrease was due to the decreases in interest rates and to a decrease of $9,764 in interest paid to FLBAs on excess funds invested with the Bank prior to their conversion to FLCAs, more fully described in Note 11,"Related Party Transactions." These decreases were partially offset by an increase in average interest-bearing liabilities. Average interest-bearing liabilities increased to a greater extent than average earning assets due in part to the effects of equity distributions totaling $79,342 from the Bank to the FLBAs upon their conversion to FLCAs during 2000.

The following table illustrates the impact that volume and yield changes had on interest expense over these periods.

	Year Ended December 31,	
	2002 vs. 2001	2001 vs. 2000
Increase in average interest-bearing liabilities	$ 893,926	$ 627,919
Average rate (prior year)	4.86%	6.40%
Interest expense variance attributed to change in volume	43,445	40,187
Average interest-bearing liabilities (current year)	5,757,000	4,863,074
Decrease in average rate	(2.02%)	(1.54%)
Interest expense variance attributed to change in rate	(116,398)	(74,638)
Net change in interest expense	$ (72,953)	$ (34,451)

Net Interest Income

Net interest income increased by $8,664 from 2001 to 2002, and decreased by $17,389 from 2000 to 2001. Factors responsible for these changes are illustrated in the following table:

ANALYSIS OF NET INTEREST INCOME

	2002		2001		2000	
	Avg. Balance	Interest	Avg. Balance	Interest	Avg. Balance	Interest
Loans	$ 5,488,761	$ 194,135	$ 4,730,554	$ 251,477	$ 4,306,450	$ 296,217
Investments	620,548	14,540	460,904	21,487	433,512	28,587
Total earning assets	6,109,309	208,675	5,191,458	272,964	4,739,962	324,804
Interest-bearing liabilities	5,757,000	163,584	4,863,074	236,537	4,235,155	270,988
Impact of capital	$ 352,309		$ 328,384		$ 504,807	
NET INTEREST INCOME		$ 45,091		$ 36,427		$ 53,816

	2002 Average Yield	2001 Average Yield	2000 Average Yield
Yield on loans	3.54%	5.32%	6.88%
Yield on investments	2.34%	4.66%	6.59%
Yield on earning assets	3.42%	5.26%	6.85%
Cost of interest-bearing liabilities	2.84%	4.86%	6.40%
Spread	0.58%	0.40%	0.45%
Impact of capital	0.16%	0.30%	0.69%
Net interest income/average earning assets	0.74%	0.70%	1.14%

Net interest income for 2002 was $8,664 greater than 2001. The increase was due to a $917,851 increase in interest earning assets and to an improvement of 18 basis points in the spread. The improvement primarily was due to the Bank's ability to exercise call options on debt during the decline in interest rates, effectively lowering its cost of funds relative to the assets, which did not reprice as quickly. The spread is expected to adjust to more normal levels as asset prepayments "catch up" to called debt levels or as the assets and underlying funding mature or reprice in the normal course of business.

Net interest income in 2001 was $17,389 lower than 2000. This decrease was primarily due to the reduction in the spread due to the conversion of the Bank's FLBA agent lenders to direct lender status, which was completed during 2000. The loan rates earned on loans to consumers are greater than the rates earned on direct notes to the District's direct lender associations.

The impact of capital on net interest income decreased by 39 basis points from 2000 to 2001, primarily due to the effects of equity distributions totaling $79,342 made to FLBAs as they transitioned to FLCAs. The 14 basis point decrease in the impact of capital from 2001 to 2002 was due to the effects of the decreasing interest rate environment during that period.

Provision for Loan Losses

On an ongoing basis, the Bank establishes an appropriate allowance for loan losses based on the risks inherent in its loan portfolio. The $2,902 negative provision for loan losses for 2002 reflected a decrease of $4,341 from 2001. The $1,439 provision for loan losses for 2001 reflected a decrease of $17,752 from 2000. These decreases are largely due to the fact that during 2000, the Bank recorded $18,681 in provisions for loan losses and $19,238 in charge-offs on a loan participated with another System bank. In December of 2002, the Bank sold its remaining portion of that loan, totaling $10,137, which had been in nonaccrual status, to the other System bank, and recorded a negative provision of $3,332 to reverse the specific allowance on that loan.

Noninterest Income

Noninterest income for the year ended December 31, 2002, was $17,783, a decrease of $866 compared to 2001, primarily due to a decrease of $543 in fees for services to Associations which include banking and support services, such as accounting, information systems, loan processing and marketing. Noninterest income totaled $18,649 for 2001, a decrease of $17,670 from 2000, primarily due to a gain of $18,581 on the sale of retail loans to certain newly-created District FLCAs in 2000. This portfolio of long-term real estate and agribusiness loans had originally been purchased by the Bank from the Federal Land Bank in Jackson, in receivership, in 1989 and 1992. The loans were purchased at a discount, which was being amortized over the expected weighted average life of the portfolio. Upon sale of the loan assets to the converting FLCAs, the remaining unamortized discount was recorded as noninterest income by the Bank.

Noninterest Expenses

Noninterest expenses for the year ended December 31, 2002, totaled $33,309, an increase of $4,550 over the same period of 2001. The increase was primarily due to a $2,919 loss on the Bank's sale of asset-backed securities during 2002 and an increase of $1,783 in salaries and employee benefits. The asset-backed securities were backed by securitized credit cards and were sold when they failed to meet the Bank's and FCA's investment eligibility criteria due to a downgrade in the investment's credit rating. Increases in salaries and employee benefits were primarily due to increases in postretirement benefits recognized in 2002.

Noninterest expenses for 2001 were $28,759, a decrease of $371 from 2000. The decrease was primarily attributable to a reduction of $790 in retirement expenses included in salaries and employee benefits.

FINANCIAL CONDITION

Loans

The Bank's portfolio consists of direct notes receivable from District Associations, loan participations purchased, loans to qualifying financial institutions serving agriculture and other loans. See Note 1, "Organization and Operations," and Note 4, "Loans and Allowance for Loan Losses," for further discussions.

Gross loan volume of $5.827 billion at December 31, 2002, reflected an increase of $716 million, or 14.0 percent, from December 31, 2001. The balance of $5.111 billion at December 31, 2001, reflected an increase of $689 million, or 15.6 percent, from the $4.422 billion recorded at December 31, 2000. The upward trend in volume is primarily attributable to growth in direct notes to District Associations.

The following table presents each loan category as a percentage of the total loan portfolio:

	December 31,		
	2002	2001	2000
Direct notes receivable from District Associations	**92.9%**	91.2%	89.9%
Participations purchased	**5.1**	5.9	6.2
Other loans	**2.0**	2.9	3.9
Total	**100.0%**	100.0%	100.0%

Bank credit quality has remained strong during the past three years, with all Association and OFI direct notes rated acceptable during this period. Credit quality for all loans other than direct notes to Associations and OFIs was 93.2, 94.4 and 95.1 acceptable percent at December 31, 2002, 2001 and 2000, respectively.

Association Direct Notes

As the table illustrates, 92.9 percent of the Bank's portfolio consists of direct notes from Associations at December 31, 2002. Terms of loans to Associations are specified in a separate General Financing Agreement between each Association and the Bank, and all assets of each Association secure the direct notes to the Bank. Each Association is a federally chartered instrumentality of the United States and is regulated by the FCA. See Note 1, "Organization and Operations," for further discussion of the Farm Credit System.

The credit exposure of the Bank's loans to Associations, which is evidenced by direct notes with full recourse, is dependent on the Associations' creditworthiness and the ability of their borrowers to repay loans made to them. The credit risk to the Bank is mitigated by diversity in the Associations' loan portfolios in terms of underlying income sources, geography and range of individual loan amounts. In addition, the risk-bearing capacities of the Associations are assessed annually by the Bank and are currently deemed to be adequate to absorb most interest-related shocks. Each Association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area. Associations are subject to FCA regulations concerning minimum capital, loan underwriting and portfolio management, and are audited annually by independent accountants.

Despite a weak general economy and low prices for many commodities, District Associations experienced significant loan growth over the last three years. The District's loan growth is consistent with trends in other Farm Credit System institutions and is attributed to the competitive pricing inherent in the Farm Credit System's cooperative structure, continued solid demand for real estate in most areas of the District, increased marketing and customer service efforts undertaken by the Associations, and by increased activity in loan participations. Loan growth in the Associations is funded substantially by, and therefore results in, Association direct note growth at the Bank.

Government support of agriculture, which was continued with the enactment of the Farm Security and Rural Investment Act of 2002, has helped to mitigate the effects of low commodity prices on producers in the District. The availability of off-farm income sources and utilization of Farm Service Agency guarantees have further diminished the effect of adverse agricultural economic conditions for the District's Associations. At December 31, 2002, Associations had $127 million in loans guaranteed under various government guarantee programs.

The diversity of commodities underlying the District's credit portfolio is reflected in the following table:

	Percentage of Portfolio		
Commodity Group	**2002**	2001	2000
Livestock	**42%**	42%	42%
Crops	**19**	20	22
Timber	**11**	9	8
Cotton	**10**	11	12
Poultry	**5**	6	6
Dairy	**2**	2	2
Rural home	**2**	2	2
Other	**9**	8	6
Total	**100%**	100%	100%

District Associations serve all or part of five states. The following table illustrates the geographic dispersion of direct notes receivable from District Associations, by state:

	December 31,		
	2002	2001	2000
Texas	**71%**	70%	69%
Alabama	**10**	10	10
Mississippi	**9**	9	10
Louisiana	**9**	9	9
New Mexico	**1**	2	2
Total	**100%**	100%	100%

Direct notes from the Associations in Texas represent the majority of the Bank's direct notes from all District Associations. However, these notes are collateralized by a diverse loan portfolio, both in terms of geography and underlying commodities, that helps to mitigate the concentration risk often associated with one state or locale. Associations in each state have commodity diversification that is being augmented by increased purchases of loan participations.

Loans $5,000 or greater in size (which generally represent corporate agribusiness) make up approximately 9 percent of the District's loan volume outstanding. Approximately 61 percent of District loans outstanding are made up of loans of $500 or less, and loans less than $250 make up approximately 46 percent of outstanding loan volume.

Credit quality at the District's Associations at December 31, 2002, 2001 and 2000 remained strong, with greater than 97 percent acceptable for each of the three year ends. Association nonearning assets as a percentage of total loans at December 31, 2002, was 1.5 percent, compared to 1.7 percent and 2.4 percent at December 31, 2001 and 2000, respectively.

High-Risk Assets

The following table discloses the components of the Bank's high-risk assets at December 31,

	2002	2001	2000
Nonaccrual loans	**$ 4,789**	$ 24,638	$ 19,545
Formally restructured loans	**937**	1,017	1,996
Loans past due 90 days or more and still accruing interest	**—**	831	340
Other property owned, net	**2,615**	373	373
Total	**$ 8,341**	$ 26,859	$ 22,254

High-risk assets decreased by $18,518, or 68.9 percent, from December 31, 2001, to $8,341 at December 31, 2002. This decrease is primarily attributable to a $19,849 decrease in nonaccrual loans, due in part to the Bank's sale of a $10,137 nonaccrual loan to another System bank during the fourth quarter of 2002. At December 31, 2002, $2,555, or 53.4 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $17,787 (72.2 percent) and $2,950 (15.1 percent) at December 31, 2001 and 2000, respectively.

Allowance for Loan Losses

The allowance for loan losses at December 31, 2002 was $9,695 compared to $13,643 and $12,189 at December 31, 2001 and 2000, respectively. The allowance is maintained at a level considered adequate by Bank management to provide for estimated losses inherent in the loan portfolio. Because analysis indicates that an allowance on the Association direct notes is not warranted, the entire balance of the allowance for loan losses reflects reserves for risks identified in the Bank's participations portfolio. The following table provides an analysis of key statistics related to the allowance for loan losses at December 31,

	2002	2001	2000
Allowance for loan losses as a percentage of:			
Average loans	**0.18%**	0.29%	0.28%
Loans at year-end			
Total loans	**0.17**	0.27	0.28
Participations	**2.64**	3.38	3.01
Nonaccrual loans	**202.4**	55.4	62.4
Total high-risk loans	**169.3**	51.5	55.7
Net charge-offs (recoveries) to average loans	**0.02**	—	0.49
(Neg. provision) provision expense to average loans	**(0.05)**	0.03	0.45

The activity in the allowance for loan losses is discussed further in Note 4, "Loans and Allowances for Loan Losses."

Liquidity and Funding Sources

FCBT's liquidity management objectives are to provide a reliable source of funding for borrowers, meet maturing debt obligations and fund operations in a cost-effective manner. The Bank maintains an investment portfolio comprising primarily short-duration high-quality liquid securities. The short maturity structure of the securities provides a stable source of operating funds, and the high-quality nature of the portfolio ensures that the portfolio can quickly be converted to cash without significant risk of loss. As of December 31, 2002, the Bank's investment portfolio consisted of the following:

	Amount	Percent of Total
Agency collateralized mortgage obligations	$ 308,692	37%
Money market instruments	292,873	35
Corporate debt	114,917	14
Asset-backed securities	68,589	8
Total investment securities	785,071	94
Overnight investments	53,969	6
Total	$ 839,040	100%

In the fourth quarter of 2002, the Bank realized a loss of $2,919 on the sale of an asset-backed security, collateralized by credit card receivables, that had been downgraded from an "Aaa" to an "Aa" credit rating. FCA regulations require divestiture of securities when their credit rating falls below anything less than "the highest rating from a Nationally Recognized Statistical Rating Organization."

During 2002, the Bank implemented a new liquidity policy to enhance its liquidity position. Under the new policy, the Bank will maintain liquidity, in the form of cash and marketable investment securities, to equal a minimum of 90 days of maturing debt obligations. Implementation of this strategy requires restructuring of the Bank's debt portfolio, along with an approximately 40 percent increase in the investment portfolio. A significant portion of short-term debt will be replaced by a combination of long-term, floating-rate notes and term debt hedged with interest rate swaps to support the repricing characteristics of the Bank's variable rate loan portfolio. The policy's goals are expected to be fully implemented by the end of the second quarter of 2003.

The Bank's primary source of funds is Systemwide debt securities issued through the Federal Farm Credit Banks Funding Corporation. This funding is readily available to the Bank due to the System's high credit quality and standing in the capital markets. The types and characteristics of securities are described in Note 7, "Bonds and Notes." As a condition of the Bank's participation in the issuance of Systemwide debt securities, the Bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the Bank is liable. At December 31, 2002, the Bank had excess collateral of $369.7 million. Management expects the Bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

The following tables provide a summary of the debt obligations of the Bank (dollars in millions):

	December 31,		
	2002	2001	2000
Bonds and term notes outstanding	**$ 5,512**	$ 4,050	$ 3,314
Average effective interest rate	**2.58%**	3.85%	6.26%
Average remaining life (years)	**1.6**	1.6	1.5
Discount notes outstanding	**$ 773**	$ 1,266	$ 1,345
Average effective interest rates	**1.44%**	2.06%	6.44%
Average remaining life (days)	**68**	50	44

	For the years ended December 31,		
	2002	2001	2000
Average interest-bearing liabilities outstanding	**$ 5,757**	$ 4,863	$ 4,235
Average interest rates on interest-bearing liabilities	**2.84%**	4.86%	6.40%

The Bank had no commercial bank lines of credit in use at December 31, 2002.

ASSET/LIABILITY MANAGEMENT

The Bank's asset/liability management process establishes controls for determining the composition of interest-rate-sensitive assets and liabilities. The Bank is able to direct the balance sheet structure by using various product offerings, debt issuance strategies and hedging transactions. Management's objective is to maintain adequate and stable net interest income in any interest rate environment.

FCBT maintains a loan pricing perspective that offering rates should be based on competitive market rates of interest. The District Associations offer a wide variety of products, including a one-month variable, a six-month variable and loans with fixed rate terms ranging from three to fifteen years. The interest rates on these loans are directly related to the Bank's cost to issue debt in the capital markets. In addition, the Associations offer loan products in which the interest rates are tied to the Prime or LIBOR indices. Amortization terms for all loans are primarily in the range of one to 30 years.

The Bank offers an array of loan programs to Associations that are designed to meet the needs of Associations' borrowers. These loan programs have flexible repayment terms, including fixed and level principal payments, and a wide choice of payment frequencies, such as monthly, quarterly, semi-annual and annual payments. Additionally, the Bank offers a wide choice of early prepayment options to meet customer needs.

FCBT uses high-level complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities including gap and simulation analysis. The following interest rate gap analysis sets forth the Bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2002, which are expected to mature or reprice in each of the future time periods shown. The amount of assets or liabilities shown, which reprice or mature during the time period, were determined based on the earlier of repricing date, contractual maturity or anticipated loan prepayments. Additionally, adjustments have been made to reflect the characteristics of callable debt instruments and the impact of derivative transactions. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a twelve-month cumulative basis, the Bank has a positive gap position, indicating that the Bank has an exposure to declining interest rates. This occurs when maturing or repricing interest-rate-sensitive assets are replaced by loans and investments earning lower market interest rates, while corresponding funding costs decrease more slowly due to the lag in their maturity or repricing cycle.

To more appropriately reflect the cash flow and repricing characteristics of the Bank's balance sheet, an estimate of expected prepayments on loans is reflected in the maturities of the loans in the earning assets section of the gap analysis. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the Bank's balance sheet.

Interest rate risk exposure is measured by simulation modeling, which calculates the Bank's expected net interest income based upon projections of interest-rate-sensitive assets and liabilities, derivative financial instruments and interest rate scenarios. The Bank monitors its financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. Per FCA regulations, when the current 3-month Treasury bill interest rate is less than 4 percent, both the minus 400 and minus 200 basis point scenarios should be replaced with a downward shock equal to one-half of the 3-month Treasury bill rate. The Bank's policy guideline for the maximum negative impact to the Bank's net interest income is 15 percent. The Bank manages its interest rate risk exposure well within this guideline. As of December 31, 2002, projected annual district net interest income of the existing interest-earning assets and interest-bearing liabilities would increase by $10,695, or 21.8 percent, if interest rates were to increase by 200 basis points, and would decrease by $3,150, or 6.4 percent, if interest rates were to decrease by 61 basis points.

INTEREST RATE GAP ANALYSIS

as of December 31, 2002

	Interest Sensitive Period						
	One Month or Less	Over One Through Six Months	Over Six Through Twelve Months	**Total Twelve Months or Less**	Over One Year but Less Than Five Years	Over Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 2,268,016	$ 2,265,673	$ 294,707	**$ 4,828,396**	$ 844,319	$ 154,236	**$ 5,826,951**
Total investments	581,651	82,143	23,409	**687,203**	98,342	53,495	**839,040**
Total interest-earning assets	2,849,667	2,347,816	318,116	**5,515,599**	942,661	207,731	**6,665,991**
Interest-Bearing Liabilities							
Total interest-bearing funds*	2,213,612	2,604,955	166,000	**4,984,567**	935,000	365,000	**6,284,567**
Loanable funds	—	—	—	**—**	—	381,424	**381,424**
Total interest-bearing liabilities	2,213,612	2,604,955	166,000	**4,984,567**	935,000	746,424	**$ 6,665,991**
Interest rate sensitivity gap	$ 636,055	$ (257,139)	$ 152,116	**$ 531,032**	$ 7,661	$ (538,693)	
Cumulative interest rate sensitivity gap	$ 636,055	$ 378,916	$ 531,032	**$ 531,032**	$ 538,693		

* The impact of interest rate swaps is included with interest-bearing funds.

Utilizing simulation analysis, the Bank projects net interest income and market value of equity under multiple interest rate scenarios. The following tables set forth FCBT's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2002, based on the Bank's interest-earning assets and interest-bearing liabilities at December 31, 2002.

Net Interest Income

Scenario	Net Interest Income	% Change
400 BP Shock	$ 65,197	32.9%
200 BP Shock	59,753	21.8
0 BP	49,058	—
- 61 BP Shock	45,908	(6.4)

Market Value of Equity

Scenario	Assets	Liabilities	Equity	% Change
Book Value	$ 6,707,441	$ 6,336,348	$ 371,093	—
+ 400 BP Shock	6,525,139	6,230,120	295,019	(3.4)%
+ 200 BP Shock	6,641,028	6,330,900	310,128	1.6
0 BP Shock	6,748,251	6,442,904	305,347	—
- 61 BP Shock	6,775,933	6,479,529	296,404	(2.9)

The Bank uses derivative financial instruments, consisting of interest rate swaps, to manage the Bank's interest rate risk and liquidity position. Interest rate swaps for asset/liability management purposes are used to change the repricing characteristics of liabilities to match the repricing characteristics of the assets they support, thereby creating synthetic floating-rate debt. The Bank does not hold, and is restricted by policy from holding, derivative financial instruments for trading purposes and is not a party to leveraged derivative transactions.

At December 31, 2002, the Bank had interest rate swaps outstanding that had a notional amount of $1.144 billion and a positive fair value of $10,988. To the extent that its derivatives have a positive fair value, the Bank is exposed to credit risk. To manage this credit risk, the Bank monitors the credit ratings of all counterparties with whom it transacts. In 2001, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires derivatives to be recorded on the balance sheet as assets and liabilities, measured at fair value. As the Bank utilizes derivatives only for hedging purposes, the addition of these derivatives to the balance sheet did not yield a material impact on net income. The Bank's activity in derivative financial instruments for 2002 is summarized in the table below.

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	Receive Fixed; Pay Floating
Balance, December 31, 2001	$ 110
Additions	1,209
Maturities/calls	(175)
Balance, December 31, 2002	**$ 1,144**

Capital

Total shareholders' equity at December 31, 2002, was $368,978 compared to $326,466 and $300,903 at December 31, 2001 and 2000, respectively. The increases are due primarily to increases in retained earnings, and, to a lesser extent, increases in outstanding capital stock. Capital adequacy is evaluated using various ratios for which the FCA has established regulatory minimums. The following table reflects the Bank's capital ratios at December 31,

	2002	2001	2000	Regulatory Minimum
Permanent Capital Ratio	**18.06%**	18.10%	19.18%	7.00%
Total Surplus Ratio	**14.01%**	14.01%	14.40%	7.00%
Core Surplus Ratio	**12.56%**	12.82%	13.63%	3.50%
Collateral Ratio	**105.32%**	105.33%	105.21%	103.00%

For additional information about the Bank's capital, see Note 8, "Shareholders' Equity."

OTHER

Retirement of Chief Executive Officer

Arnold R. Henson, CEO of the Bank since 1992, retired on January 31, 2003, after 30 years of service with the Bank and Tenth District. Steven H. Fowlkes, Senior Vice President, Business Administration, served as interim CEO until March 15, 2003, when Larry R. Doyle began his official duties as the Bank's new CEO. Mr. Doyle most recently served as Executive Vice President and Chief Operating Officer for the AgFirst Farm Credit Bank in Columbia, South Carolina.

Contractual Interbank Performance Agreement

All banks in the System, the Federal Farm Credit Banks Funding Corporation and the Financial Assistance Corporation (FAC) participate in the Contractual Interbank Performance Agreement (CIPA). The objective of CIPA is to encourage Districts to achieve and/or maintain higher levels of financial condition and performance by subjecting them to a scoring process based on District profitability, asset quality and capital adequacy, with penalties for weak liquidity and excessive interest rate risk. The District's composite CIPA score is in compliance with agreed-upon CIPA standards and is expected to remain so during 2003.

Sale of the Bank Headquarters Property

In November 2002, the Bank sold its headquarters building and related land for net proceeds of $16.3 million. The $176 gain on the sale of this property is being amortized over the two-year leaseback period. It is the Bank's intention to relocate in the Austin area after the expiration of the two-year leaseback period.

Regulatory and Other Matters

On June 30, 2000, the Bank and five District Associations in Alabama, Louisiana and Mississippi filed litigation against the FCA in the United States District Court for the District of Columbia (District Court). The lawsuit seeks a judgment that the FCA's new regulation removing territorial restrictions on participation loans violates the five associations' and the Bank's exclusive charter to make or participate in long-term real estate loans in Alabama, Louisiana and Mississippi. Violations of the Farm Credit Act of 1971, as amended, and the Administrative Procedures Act are also alleged in the lawsuit. A Production Credit Association affiliated with another System bank intervened on its own behalf, as a defendant in the lawsuit. The District Court upheld the FCA's regulation authorizing participations with non-System lenders without the consent from these associations. The five affected District Associations and the Bank appealed this decision to the Circuit Court of Appeals for the District of Columbia. Final briefs were filed and oral arguments were held on November 8, 2002, and a decision is expected in 2003.

Any statements contained in this Management's Discussion and Analysis that are not historical facts are forward-looking statements that involve risks and uncertainties. Such forward-looking statements include, but are not limited to, the impact of economic conditions (both generally and more specifically in the markets in which the District operates), the impact of competition for the District's customers from other providers of financial services, the impact of government legislation or regulation and other risks detailed in this annual report.

REPORT *of Independent Accountants*

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Report of Independent Accountants

To the Board of Directors and Stockholders
of the Farm Credit Bank of Texas

In our opinion, the accompanying balance sheets and the related statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of the Farm Credit Bank of Texas (Bank) at December 31, 2002, 2001 and 2000, and the results of its operations, changes in shareholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 11, 2003

BALANCE SHEETS

Farm Credit Bank of Texas

(*in thousands*)	**2002**	December 31, 2001	2000
Assets			
Cash	**$ 7,890**	$ 9,804	$ 3,130
Federal funds sold and overnight investments	**53,969**	39,000	10,500
Investment securities	**785,071**	503,978	551,124
Loans	**5,826,951**	5,111,193	4,421,612
Less allowance for loan losses	**9,695**	13,643	12,189
Net loans	**5,817,256**	5,097,550	4,409,423
Accrued interest receivable	**19,066**	22,744	30,533
Other property owned, net	**2,615**	373	373
Premises and equipment, net	**929**	17,639	19,146
Other assets	**19,230**	8,296	7,609
Total assets	**$ 6,706,026**	$ 5,699,384	$ 5,031,838
Liabilities and shareholders' equity			
Liabilities			
Bonds and notes, net	**$ 6,284,567**	$ 5,316,214	$ 4,658,692
Accrued interest payable	**38,329**	43,393	57,787
Intra-system financial assistance payable	**4,334**	4,739	5,214
Other liabilities	**9,818**	8,572	9,242
Total liabilities	**6,337,048**	5,372,918	4,730,935
Commitments and contingencies (Note 12)			
Shareholders' equity			
Capital stock	**109,896**	93,938	77,918
Allocated retained earnings	**11,711**	13,410	26,192
Unallocated retained earnings	**246,173**	218,249	196,220
Accumulated other comprehensive income	**1,198**	869	573
Total shareholders' equity	**368,978**	326,466	300,903
Total liabilities and shareholders' equity	**$ 6,706,026**	$ 5,699,384	$ 5,031,838

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

STATEMENTS OF INCOME

Farm Credit Bank of Texas

(*in thousands*)	**2002**	Year Ended December 31, 2001	2000
Interest Income			
Investment securities and other	**$ 14,540**	$ 21,487	$ 28,587
Loans	**194,135**	251,477	296,217
Total interest income	**208,675**	272,964	324,804
Interest Expense			
Bonds and notes	**163,555**	236,499	261,170
Notes payable and other	**29**	38	9,818
Total interest expense	**163,584**	236,537	270,988
Net interest income	**45,091**	36,427	53,816
Provision for loan losses	**(2,902)**	1,439	19,191
Net interest income after provision for loan losses	**47,993**	34,988	34,625
Noninterest Income			
Fees for services to Associations	**11,065**	11,608	11,309
Fees for financially related services	**2,446**	2,551	2,256
Gain on sale of loans	**—**	—	18,581
Miscellaneous income, net	**4,272**	4,490	4,173
Total noninterest income	**17,783**	18,649	36,319
Noninterest Expenses			
Salaries and employee benefits	**16,401**	14,618	15,177
Occupancy and equipment	**3,246**	3,188	3,558
Intra-System financial assistance expenses	**3,206**	3,106	3,269
Loss from sale of investment securities	**2,919**	—	—
Other operating expenses	**7,537**	7,847	7,126
Total noninterest expenses	**33,309**	28,759	29,130
Net income	**$ 32,467**	$ 24,878	$ 41,814

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Farm Credit Bank of Texas

(in thousands)	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 1999	$ 99,603	$ 35	$ 253	$ 261,935	$ (868)	$ 360,958
Comprehensive income						
Net income	—	—	—	41,814	—	41,814
Unrealized net gains on investment securities	—	—	—	—	1,441	1,441
Total comprehensive income	—	—	—	41,814	1,441	43,255
Capital stock/participation certificates issued	—	4,254	—	—	—	4,254
Capital stock/participation certificates and allocated retained earnings retired	—	(35)	—	(82,207)	—	(82,242)
Coversion of preferred stock to capital stock and allocated retained earnings	(99,603)	73,664	25,939	—	—	—
Cash patronage	—	—	—	(25,322)	—	(25,322)
Balance at December 31, 2000	—	77,918	26,192	196,220	573	300,903
Comprehensive income						
Net income	—	—	—	24,878	—	24,878
Unrealized net gains on investment securities	—	—	—	—	296	296
Total comprehensive income	—	—	—	24,878	296	25,174
Capital stock/participation certificates issued	—	20,300	—	—	—	20,300
Capital stock/participation certificates and allocated retained earnings retired	—	(4,280)	(12,529)	—	—	(16,809)
Patronage						
Cash	—	—	—	(3,102)	—	(3,102)
Shareholders' equity	—	—	(253)	253	—	—
Balance at December 31, 2001	—	93,938	13,410	218,249	869	326,466
Comprehensive income						
Net income	—	—	—	32,467	—	32,467
Unrealized net gains on investment securities	—	—	—	—	329	329
Total comprehensive income	—	—	—	32,467	329	32,796
Capital stock/participation certificates issued	—	17,726	—	—	—	17,726
Capital stock/participation certificates and allocated retained earnings retired	—	(1,768)	(2,627)	—	—	(4,395)
Patronage						
Cash	—	—	—	(3,615)	—	(3,615)
Shareholders' equity	—	—	928	(928)	—	—
Balance at December 31, 2002	**$ —**	**$ 109,896**	**$ 11,711**	**$ 246,173**	**$ 1,198**	**$ 368,978**

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

STATEMENTS OF CASH FLOWS

Farm Credit Bank of Texas

(*in thousands*)	Year Ended December 31, 2002	2001	2000
Cash Flows From Operating Activities			
Net income	**$ 32,467**	$ 24,878	$ 41,814
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**(2,902)**	1,439	19,191
Provision for losses on other property owned	**171**	—	(4)
Depreciation on premises and equipment	**1,168**	1,897	1,972
Accretion of net discount on notes	**16,910**	43,837	74,479
Losses on sales of investment securities	**2,919**	—	—
Gain on sales of loans	**—**	—	(18,581)
Gains on sales of other property owned, net	**(36)**	(87)	(389)
Loss on sales of premises and equipment	**220**	24	12
Decrease in accrued interest receivable	**3,678**	7,789	42,277
(Increase) decrease in other assets, net	**(605)**	(28)	6,508
(Decrease) increase in accrued interest payable	**(5,064)**	(14,394)	12,573
Decrease in intra-system financial assistance payable	**(405)**	(475)	(557)
Increase (decrease) in other liabilities, net	**2,593**	(2,017)	(1,854)
Net cash provided by operating activities	**51,114**	62,863	177,441
Cash Flows From Investing Activities			
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	**(14,969)**	(28,500)	14,500
Investment securities			
Purchases	**(4,738,052)**	(1,845,746)	(2,090,545)
Proceeds from maturities, calls and prepayments	**4,432,260**	1,893,188	2,027,733
Proceeds from sales	**22,109**	—	—
(Increase) decrease in loans, net	**(719,212)**	(689,812)	58,368
Proceeds from sales of other property owned, net	**31**	333	105
Proceeds from sales of premises and equipment	**15,962**	47	31
Expenditures for premises and equipment	**(640)**	(461)	(461)
Net cash (used in) provided by investing activities	**(1,002,511)**	(670,951)	9,731
Cash Flows From Financing Activities			
Bonds and notes issued	**23,012,741**	25,300,047	19,777,048
Bonds and notes retired	**(22,072,974)**	(24,685,674)	(19,920,594)
Capital stock and participation certificates issued	**17,726**	20,300	103,857
Capital stock and participation certificates retired and allocated retained earnings distributed	**(4,395)**	(16,809)	(181,845)
Cash patronage distributions paid	**(3,615)**	(3,102)	(25,322)
Net cash provided by (used in) financing activities	**949,483**	614,762	(246,856)
Net (decrease) increase in cash	**(1,914)**	6,674	(59,684)
Cash at beginning of year	**9,804**	3,130	62,814
Cash at end of year	**$ 7,890**	$ 9,804	$ 3,130
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 40**	$ 91	$ 1,233
Loans transferred to other property owned	**2,448**	155	—
Unrealized net gains on investment securities	**329**	296	1,441
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 156,801**	$ 257,001	$ 255,054

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

NOTES *to Financial Statements*

Farm Credit Bank of Texas
(dollars in thousands, except per share amounts
and as otherwise noted)

Note 1 — Organization and Operations

A. Organization:

The Farm Credit Bank of Texas (FCBT or Bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is currently subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act).

The United States is served by five Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB), which has nationwide lending authority for lending to cooperatives. The ACB also has lending authorities of an FCB within its chartered territories. The Bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The district's 10 FLCAs, 12 ACA parent Associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), and certain Other Financing Institutions (OFIs) jointly owned the Bank at December 31, 2002. FLCAs and ACAs collectively are referred to as Associations. The Bank and its related Associations collectively are referred to as the Tenth Farm Credit District (District).

Prior to 1999, FLCAs in the District were known as Federal Land Banks (FLBAs). The FLBAs served as agents for the Bank, making loans on the Bank's behalf and servicing those loans in return for fee income. During 1999 and 2000, all of the District's FLBAs converted to direct lenders, or FLCAs. The FLCAs, upon conversion, acquired direct lending authority for long-term real estate loans, which were previously under the authority of the Bank. The Associations purchased from the Bank, at book value, all of the long-term real estate and agribusiness loans previously serviced on the Bank's behalf by the respective FLBAs. The purchase of the loan portfolios was financed in part by direct loan obligations to the Bank. The total purchase price of the loan portfolios was approximately $3.076 billion in 2000 and $620.8 million in 1999. FLCAs borrow money from the Bank and, in turn, originate and service long-term real estate and agribusiness loans to their members. A direct lender Association's indebtedness to the Bank, under a general financing agreement between the Bank and the Association, represents demand borrowings by the Association to fund the majority, but not all, of its loan advances to Association members/borrowers. As these changes occurred, the Bank changed its operating environment to become a wholesale lender to the Associations and provide those services that the Associations agree to support and purchase from the Bank.

Each FCB and the ACB are responsible for supervising the activities of the Associations within their districts. The FCBs and/or Associations make loans to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. Funds for the FCBs and the ACB are principally raised through the sale of consolidated Systemwide bonds and notes to the public, through the Federal Farm Credit Banks Funding Corporation (Funding Corp.).

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the Bank and Associations. The activities of the Bank and Associations are examined by the FCA, and certain actions by these entities are subject to the FCA's prior approval.

B. Operations:

The Farm Credit Act sets forth the types of authorized lending activities and financial services which can be offered by the Bank and defines the eligible borrowers which it may serve.

The Bank lends primarily to the District Associations in the form of a revolving line of credit (direct note) to fund the Associations' loan portfolios. These direct notes are collateralized by a pledge of substantially all of each Association's assets. The terms of the revolving direct notes are governed by a general financing agreement between the Bank and each Association. Each advance is structured so that the principal cash flow, repricing characteristics and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the interest rate risk is effectively transferred to the Bank. Advances are also made to fund general operating expenses of the Associations. The Associations borrow from the Bank and in turn may originate and service either long-term real estate or short- and intermediate-term loans, or both, to their members.

In addition to providing loan funds to District Associations, the Bank also provides banking and support services to them, such as accounting, information systems, loan processing and marketing. The fees charged by the Bank for these services are included in the Bank's noninterest income.

The Bank is also authorized to provide, in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Bank may also lend to qualifying financial institutions engaged in lending to eligible borrowers.

The Bank, in conjunction with other banks in the System, jointly owns several service organizations which were created to provide a variety of services for the System. The Bank has ownership interests in the following service organizations:

- Funding Corp. — provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- Farm Credit System Building Association — leases premises and equipment to the FCA, as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company — as a reciprocal insurer, provides insurance services to its member organizations.

These investments are accounted for using the cost method. In addition, the Farm Credit Council acts as a full-service, federated trade association which represents the System before Congress, the Executive branch and others, and provides support services to System institutions on a fee basis.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund also is available for the permissible uses of providing assistance to certain troubled and insured System institutions and for covering the operating expenses of the FCSIC.

Each System bank is insured and is required to pay premiums to the Insurance Fund until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the System's aggregate insured obligations (Systemwide debt obligations). When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC 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. Premiums are based on the average principal outstanding of accrual and nonaccrual loans of the District for the year. At December 31, 2002, the assets in the Insurance Fund were approximately $1.8 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that any available amount in the Insurance Fund will be sufficient to ensure the timely payment of principal or interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon. Assets of the Insurance Fund will be used to repay, upon maturity, the Financial Assistance Corporation (FAC) debt issued to fund the purchase of $374 million of preferred stock issued by the former Federal Land Bank of Jackson (FLB of Jackson), to the extent that funds of the FAC Trust Fund (Trust Fund) are not sufficient for such purposes. As of December 31, 2002, available funds in the Trust Fund amounted to $131.0 million.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the management of the Bank to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable.

The accompanying financial statements include the accounts of the Bank and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests. The multi-employer structure of certain retirement and benefit plans of the District results in the recording of these plans only in the combined financial statements of the District.

A. Cash:

Cash, as included in the financial statements, represents cash on hand and on deposit at banks.

B. Investment Securities:

The Bank, as permitted under FCA regulations, holds eligible investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk.

The Bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2002, 2001 and 2000. These investments are reported at fair value, and unrealized holding gains and losses are netted and reported as a separate component of shareholders' equity in the balance sheet. Purchased premiums and discounts are amortized or accreted using the straight-line method (which is not materially different from the effective interest method) over the term of the respective issues. Realized gains and losses are determined using the specific identification method and are recognized in current operations.

C. Loans and Allowance for Loan Losses:

Loans are carried at their principal amount outstanding less any unearned income or unamortized discount. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding. Funds which are held by the Bank on behalf of the borrowers, where legal right of setoff exists, and which can be used to reduce outstanding loan balances at the Bank's discretion, are netted against loans in the balance sheet.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that full collection of principal and interest is in doubt. In accordance with FCA regulations, all loans 180 days or more past due are considered nonaccrual. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest).

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as interest income. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, prior charge-offs 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." If previously unrecognized interest income exists upon reinstatement of a nonaccrual loan to accrual status, interest income will only be recognized upon receipt of cash payments applied to the loan.

In cases where a borrower experiences financial difficulties and the Bank makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated With Originating and Acquiring Loans and Initial Direct Costs of Leases," requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. SFAS No. 91 has not been implemented because the effects were not material to the financial position or results of operations for any year presented.

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. Loan principal and uncollected interest are charged against the allowance for loan losses when management believes collection is unlikely.

D. Other Property Owned:

Other property owned, consisting of real and personal property acquired through foreclosure or other collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in miscellaneous income.

E. Premises and Equipment:

Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of 40 years for buildings and improvements, three to ten years for furniture, equipment and certain leasehold improvements, and three to four years for automobiles. Computer software and hardware are amortized over three years. Gains and losses on dispositions are reflected currently. Maintenance and repairs are charged to operating expense, and improvements are capitalized and amortized over the remaining useful life of the asset.

F. Other Assets and Other Liabilities:

Direct expenses incurred in issuing debt are deferred and amortized using the straight-line method (which is not materially different from the effective interest method) over the term of related indebtedness.

In connection with past foreclosure and sale proceedings, the Bank has retained certain mineral interests and equity positions in land from which it receives revenues from lease bonuses, rentals and royalties. These intangible assets are recorded at nominal or no value in the balance sheet. Income received from mineral and royalty holdings, net of related property taxes, in 2002, 2001 and 2000 was $3,775, $4,184 and $3,267, respectively, and is included in miscellaneous income in the statement of income. The Farm Credit Act requires that mineral rights acquired through foreclosure after 1985 be sold to the buyer of the surface rights of the land.

The Bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs are not insured, and interest is generally paid by the Bank on such balances. There were no significant balances of ACPs at December 31, 2002, 2001 and 2000.

Beginning January 1, 2001, with the adoption of SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities," derivative financial instruments are included on the balance sheet at fair value, as either other assets or other liabilities.

G. Employee Benefit Plans:

The employees of the Bank participate in one of two districtwide retirement plans and are eligible to participate in the Thrift Plus Plan of the District. Additionally, certain qualified individuals in the Bank may participate in a separate, supplemental pension plan. Within the Thrift Plus Plan, a certain percentage of employee contributions is matched by the Bank and Associations. Thrift Plus Plan costs are expensed as incurred.

The structure of most of the District's benefit plans is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and Associations). No portion of any surplus assets is available to any participating employer, nor is any participating employer required to pay for plan liabilities upon withdrawal from the plans. As a result, participating employers of the plans only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. The majority of plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only.

The Bank and Associations provide certain health care and life insurance benefits to eligible retired employees and directors. Substantially all District employees may become eligible for these benefits if they retire from the Bank or an Association.

H. Income Taxes:

The Bank is exempt from federal and certain other income taxes as provided in the Farm Credit Act.

I. Derivative Instruments and Hedging Activity:

The Bank is party to derivative financial instruments, consisting of interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. On January 1, 2001, the Bank adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), which requires derivatives to be recorded on the balance sheet as assets and liabilities, measured at fair value. Prior to the adoption of SFAS No. 133, derivatives used for hedging purposes generally were not recorded on the balance sheet and the unrealized gains and losses were deferred on those contracts.

In accordance with SFAS No. 133, for fair-value hedge transactions which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as fair value hedges to specific liabilities on the balance sheet. The Bank uses interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of SFAS No. 133, and are presumed to be highly effective in offsetting changes in the fair value. The Bank would discontinue hedge accounting prospectively if it was determined that a hedge has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the Bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

Note 3 — Investment Securities

A summary of the amortized cost and estimated fair value of investment securities at December 31, 2002, 2001 and 2000, follows.

	December 31, 2002				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
Commercial paper and other	**$ 407,839**	**$ —**	**$ (49)**	**$ 407,790**	**1.63%**
Collateralized mortgage obligations	**307,459**	**1,233**	**—**	**308,692**	**3.20**
Asset-backed securities	**68,575**	**14**	**—**	**68,589**	**1.68**
Total	**$ 783,873**	**$ 1,247**	**$ (49)**	**$ 785,071**	**2.25%**

	December 31, 2001				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Commercial paper and other	$ 373,022	$ —	$ (9)	$ 373,013	2.17%
Collateralized mortgage obligations	68,336	1,038	—	69,374	5.90
Asset-backed securities	61,751	—	(160)	61,591	2.20
Total	$ 503,109	$ 1,038	$ (169)	$ 503,978	2.69%

	December 31, 2000				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Commercial paper and other	$ 370,354	$ 164	$ —	$ 370,518	7.25%
Collateralized mortgage obligations	104,156	413	—	104,569	6.38
Asset-backed securities	76,041	—	(4)	76,037	7.02
Total	$ 550,551	$ 577	$ (4)	$ 551,124	7.05%

A summary of expected maturity, amortized cost, estimated fair value and weighted average yield of investment securities at December 31, 2002, follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 378,878	$ 378,716	1.63%
After one year through five years	97,536	97,663	1.63
Collateralized mortgage obligations	307,459	308,692	3.20
Total	$ 783,873	$ 785,071	2.25%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of fifteen years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2002, the CMO portfolio had a weighted average remaining life of approximately two years.

Proceeds and related gains and losses on sales of investment securities follow:

	Year Ended December 31,		
	2002	2001	2000
Proceeds on sales	**$ 22,109**	$ —	$ —
Realized losses	**(2,919)**	—	—

The net realized loss is included in the statements of income as part of total noninterest expense.

Note 4 — Loans and Allowance for Loan Losses

Loans comprised the following categories at December 31:

	2002	2001	2000
Direct notes receivable from District Associations	**$ 5,411,885**	$ 4,663,544	$ 3,976,820
Participations purchased	**296,989**	299,606	274,464
Other loans	**118,077**	148,043	170,328
Total loans	**$ 5,826,951**	$ 5,111,193	$ 4,421,612

A substantial portion of the Bank's loan portfolio consists of direct notes receivable from District Associations. As described in Note 1, "Organization and Operations," these notes are used by the Associations to fund their loan portfolios and therefore the Bank's implicit concentration of credit risk in various agricultural commodities approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to borrowers engaged in similar activities, which could cause them to be similarly impacted by economic or other conditions. While the amounts below represent the Associations' maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Associations' lending activities is collateralized and the Associations' exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Bank's credit risk exposure is considered in the Bank's allowance for loan losses.

The District's concentration of credit risk in various agricultural commodities is shown in the following table at December 31:

	2002	2001	2000
Commodity	**%**	%	%
Livestock	**42**	42	42
Crops	**19**	20	22
Timber	**11**	9	8
Cotton	**10**	11	12
Poultry	**5**	6	6
Dairy	**2**	2	2
Rural home	**2**	2	2
Other	**9**	8	6
Total	**100%**	100%	100%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loans. Interest income recognized and cash payments received on nonaccrual impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 2, "Summary of Significant Accounting Policies."

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties.

	December 31,		
	2002	2001	2000
Nonaccrual loans			
Current as to principal and interest	**$ 2,555**	$ 17,787	$ 2,950
Past due	**2,234**	6,851	16,595
Total nonaccrual loans	**4,789**	24,638	19,545
Accrual loans			
Restructured	**937**	1,017	1,996
90 days or more past due	**—**	831	340
Total impaired loans	**$ 5,726**	$ 26,486	$ 21,881

The following table sets forth interest income recognized on nonaccrual loans for the years ended December 31:

	2002	2001	2000
Cash payments on nonaccrual loans qualifying for income recognition	**$ 2,914**	$ 775	$ 1,539
Interest income reversed upon transfer to nonaccrual status	**$ 29**	$ —	$ —

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

	December 31,		
	2002	2001	2000
Balance at beginning of year	**$ 13,643**	$ 12,189	$ 57,626
Provision for loan losses	**(2,902)**	1,439	19,191
Loans charged off	**(1,046)**	(5)	(21,166)
Recoveries	**—**	20	16
Transfers to FLCAs	**—**	—	(43,478)
Balance at end of year	**$ 9,695**	$ 13,643	$ 12,189

During 2000, the Bank recorded $18,681 in provisions for loan losses and $19,238 in charge-offs on a loan participated with another System bank. In December of 2002, the Bank sold its remaining portion of that loan, totaling $10.1 million, which had been in nonaccrual status, to the other System bank, and recorded a negative provision of $3,332 to reverse the specific allowance on that loan. Also in 2000, the Bank transferred $43,478 of its allowance for loan losses to the FLBAs upon their conversion to FLCA direct lenders, in conjunction with the purchase of their retail loans from the Bank.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2002	2001	2000
Land	**$ —**	$ 1,749	$ 1,749
Buildings and improvements	**—**	24,269	24,269
Furniture and equipment	**10,665**	10,420	10,339
	10,665	36,438	36,357
Accumulated depreciation	**(9,736)**	(18,799)	(17,211)
Total	**$ 929**	$ 17,639	$ 19,146

In November 2002, the Bank sold its headquarters building and related land, with a net book value of $16,145, for net proceeds of $16,321. The $176 gain on the sale of this property is being amortized over a two-year leaseback period.

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2002	2001	2000
Fair value of derivatives	**$ 10,988**	$ 659	$ —
Accounts receivable	**3,182**	2,881	2,636
Unamortized debt issue costs	**1,874**	1,561	1,507
Land investment	**793**	793	793
Other, net	**2,393**	2,402	2,673
Total	**$ 19,230**	$ 8,296	$ 7,609

Other liabilities comprised the following at December 31:

	2002	2001	2000
Accounts payable	**$ 2,730**	$ 2,450	$ 3,117
Notes payable	**2,432**	834	528
Mortgage life additional reserve	**1,887**	1,722	2,109
Supplemental pension	**1,649**	1,438	1,273
FCSIC premium payable	**170**	—	101
Fair value of derivatives	**—**	1,347	—
Payroll taxes payable	**4**	5	1,512
Other, net	**946**	776	602
Total	**$ 9,818**	$ 8,572	$ 9,242

Note 7 — Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Certain conditions must be met before the Bank can participate in the issuance of Systemwide debt securities. The Bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2002, the Bank had such specified eligible assets totaling $6.7 billion and obligations and accrued interest payable totaling $6.3 billion, resulting in excess eligible assets of $369.7 million.

In 1994, the System banks and the Funding Corporation entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2002, the Bank was, and currently remains, in compliance with the conditions and requirements of the System banks' and the Funding Corporation's MAA.

Each issuance of Systemwide debt securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide debt securities. Systemwide debt securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide debt securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The Bank's participation in Systemwide debt securities at December 31, 2002, follows *(dollars in millions)*:

	Systemwide									
	Bonds		Medium-Term Notes		Discount Notes		Master Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2003	$ 2,213.2	1.87%	$ 241.3	5.23%	$ 773.0	1.44%	$ 471.6	1.23%	$ 3,699.1	1.92%
2004	973.2	2.08	119.2	5.50	—	—	—	—	1,092.4	2.45
2005	760.8	2.44	104.2	3.62	—	—	—	—	865.0	2.58
2006	85.1	5.18	62.5	5.11	—	—	—	—	147.6	5.15
2007	110.4	3.82	—	—	—	—	—	—	110.4	3.82
Subsequent years	350.1	5.88	20.0	5.57	—	—	—	—	370.1	5.86
Total	$ 4,492.8	2.43%	$ 547.2	4.98%	$ 773.0	1.44%	$ 471.6	1.23%	$ 6,284.6	2.44%

In the preceding table, the weighted average effective rate reflects the effects of interest rate swaps used to manage the interest rate risk on the bonds and notes issued by the Bank. The Bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies" and Note 15, "Derivative Instruments and Hedging Activity."

Systemwide bonds, medium-term notes, master notes, discount notes (Systemwide debt securities) and bank bonds are the joint and several obligations of all System banks. Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2002, was 68 days.

The Bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2002:

Year of Maturity	Amount	Range of First Call Dates
2004	$ 70,000	04/15/03-04/30/03
2005	40,000	01/08/03-01/24/03
2006	30,000	09/05/03-09/28/04
2008	5,000	09/05/03
	$ 145,000	

Callable debt may be called on the first call date and, generally, on each interest payment date thereafter.

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and Systemwide debt securities (insured debt) of insured System banks to the extent net assets are available in the Insurance Fund. All other liabilities in the combined financial statements are uninsured.

The Bank had no outstanding commercial bank lines of credit at December 31, 2002.

Note 8 — Shareholders' Equity

Descriptions of the Bank's equities, capitalization requirements and regulatory capitalization requirements and restrictions are provided below.

A. Description of Bank Equities:

According to the Bank's bylaws, the minimum and maximum stock investments required of the ACAs and FLCAs are 2 percent and 5 percent, respectively, of each Association's average borrowings from the Bank. The investments in the Bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the Associations is 2 percent of their average borrowings from the Bank. There were 21,877,600 shares, 18,716,600 shares and 15,595,800 shares of Class A voting common stock issued and outstanding at December 31, 2002, 2001 and 2000, respectively.

The Bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the Bank, at the inception of each OFI loan. The Bank has a first lien on these equities for the repayment of any indebtedness to the Bank. There were 101,600 shares, 71,000 shares and 17,800 shares of Class A nonvoting common stock issued and outstanding at December 31, 2002, 2001 and 2000, respectively.

Allocated retained earnings of $11,711 at December 31, 2002, consisted of $928 allocated to certain participating Associations from earnings generated by the Bank's participation loans and $10,782 of patronage refunds allocated to certain PCAs prior to January 1, 1993. The $928 is to be used to absorb any net losses in future years from operations of the participations pool and is to be revolved out to participating Associations in no less than seven years, so long as the Bank is in compliance with regulatory capital requirements for redemption of capital and standards established under a capital plan approved by the Bank's board of directors. The $10,782 in patronage refunds is used to satisfy all or part of the 2 percent Bank stock requirement by certain of the PCAs, all of which are now subsidiaries of ACA parent companies. Bank management's intent is to permanently invest these undistributed earnings in the Bank and to indefinitely postpone their conversion to cash.

Allocated retained earnings of $13,410 at December 31, 2001, was comprised solely of patronage refunds allocated to certain PCAs, as previously described. Allocated retained earnings of $26,192 at December 31, 2000, consisted of $253 of earnings allocated to participating Associations from net income generated by the Bank's participation loans and $25,939 of patronage refunds allocated to certain PCAs.

At December 31, the Associations' investment in the Bank included the following investment in common stock and allocated retained earnings:

	2002	2001	2000
Class A voting common stock	**$ 109,388**	$ 93,583	$ 77,829
Class A nonvoting common stock	**508**	355	89
Total capital stock	**109,896**	93,938	77,918
Allocated retained earnings	**11,711**	13,410	26,192
Total capital stock and allocated retained earnings	**$ 121,607**	$ 107,348	$104,110

Patronage may be paid to the holders of Class A voting common stock and allocated retained earnings of the Bank, as the board of directors may determine by resolution, subject to the capitalization requirements defined by the FCA. During 2002, $3,615 in patronage was paid to certain District Associations representing income from the Bank's mineral interests, compared to $3,102 in 2001 and $1,757 in 2000. During 2000, margin patronage totaling $23,565 was paid to FLBAs in the District up until the date they became direct lenders.

B. Regulatory Capitalization Requirements and Restrictions:

FCA's capital adequacy regulations require the Bank and Associations to achieve and maintain, at minimum, permanent capital of 7 percent of risk-adjusted assets and off-balance-sheet commitments. The Farm Credit Act has defined permanent capital to include all capital except stock and other equities that may be retired upon the repayment of the holder's loan or otherwise at the option of the holder, or is otherwise not at risk. Risk-adjusted assets have been defined by regulations as the balance sheet assets and off-balance-sheet commitments adjusted by various percentages ranging from 0 to 100 percent, depending on the level of risk inherent in the various types of assets. The Bank is prohibited from reducing permanent capital by retiring stock or by making certain other distributions to stockholders unless the minimum permanent capital standard is met.

The Bank is required by FCA regulations to achieve and maintain net collateral of at least 103 percent of total liabilities. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, cash and cash equivalents.

The following table reflects the Bank's capital ratios at December 31,

	2002	2001	2000	Regulatory Minimum
Permanent capital ratio	**18.06%**	18.10%	19.18%	7.00%
Total surplus ratio	**14.01%**	14.01%	14.40%	7.00%
Core surplus ratio	**12.56%**	12.82%	13.63%	3.50%
Collateral ratio	**105.32%**	105.33%	105.21%	103.00%

Note 9 — Employee Benefit Plans

Employees of the Bank participate in either the District's defined benefit retirement plan (DB plan) or a District defined contribution plan (DC plan) and are eligible to participate in the District's Thrift Plus Plan of the District.

The structure of most of the District's benefit plans is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and Associations). No portion of any surplus assets is available to any participating employer, nor is any participating employer required to pay for plan liabilities upon withdrawal from the plans. As a result, participating employers of the plans only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. The majority of plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only.

The DB plan is noncontributory and benefits are based on salary and years of service. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan in 1998 and beyond, to facilitate reorganization and/or restructuring. Additionally, certain qualified individuals in the Bank may participate in a separate, defined benefit supplemental pension plan. The Bank accrues the cost and liability of the supplemental pension plan as incurred, and not as contributions are required. Actuarial information regarding the DB and supplemental pension plan accumulated benefit obligations and plan assets are calculated for the District as a whole and is presented in the District's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligations exceeded the net assets of both plans as a whole as of December 31, 2002.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. DC plan participants direct the placement of their employers' contributions (3.3 percent of eligible compensation during 2002) made on their behalf into various investment alternatives. Beginning January 1, 2003, employers will contribute 4 percent of eligible compensation to DC plan participants' accounts.

The District also participates in a districtwide Thrift Plus Plan, which offers a 401(k) pre-tax and after-tax compensation deferral feature (401(k) plan). During 2002, the 401(k) plan required the Bank and Associations to match 50 percent of employee contributions up to a maximum employee contribution of 6 percent of eligible compensation. In 2003, the employers will be making contribution enhancements to the Thrift Plus Plan employer contributions. Beginning January 1, 2003, employers will match 100 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation.

Th Bank provides certain health care and life insurance benefits to eligible retired employees and directors. Substantially all Bank employees may become eligible for these benefits if they retire from the Bank.

The following table presents the Bank's retirement and postretirement benefit expenses for the years ended:

	2002	2001	2000
Pension	**$ 1,052**	$ 838	$ 1,589
Thrift plan	**277**	248	287
Other postretirement benefits	**1,662**	248	158
Total	**$ 2,991**	$ 1,334	$ 2,034

Note 10 — Intra-System Financial Assistance

The FAC was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the FAC's issuance of $1.26 billion of 15-year U.S. Treasury–guaranteed debt. The interest rates on these issuances range from 8.80 percent to 9.45 percent. The proceeds from the debt offerings were used to fund existing intra-System financial assistance payables ($417 million), to purchase preferred stock from certain troubled System banks ($808 million) and for other purposes ($36 million).

Pursuant to the Farm Credit Act, the U.S. Treasury paid the interest on $844 million of the FAC bonds for the first five years of the respective terms of such bonds. The payment of interest on this debt is allocated between the U.S. Treasury and System banks during the second five years. As the result of growth of the System's surplus, the allocation provisions of the Farm Credit Act required that the banks pay 100 percent of the interest beginning in 1999. The Farm Credit Act and supplemental agreements dictate how the banks will repay the principal and fund the interest of each type of issuance. With the exception of the assistance provided through the purchase of preferred stock, repayment of the FAC debt obligations will be allocated to all System banks, and annual expense accruals and funding assessments are generally allocated based on each bank's proportion of System loan volume over various time periods.

Financial assistance was provided by the FAC to five System banks through its purchase of preferred stock of those institutions. Through 1994, four System banks redeemed their preferred stock in the amount of $419 million through the transfer of assets to the FAC. The FLB of Jackson, whose charter was canceled in January 1995, received $374 million of financial assistance for which the related preferred stock has not been redeemed.

All interest advanced by the U.S. Treasury must be repaid by System banks in 2005. System banks record their share of the liability based upon each bank's proportionate share of average accruing retail loan volume. To fund the repayment obligation, annual annuity-type payments are made by each bank to the FAC in an amount designed to accumulate, in total, including earnings thereon, the total amount of each bank's ultimate obligation.

The FAC assumed certain payables previously accrued by the Bank under the System's Capital Preservation Agreements and funded payment of such accruals by the issuance of 15-year U.S. Treasury–guaranteed debt. Under the Farm Credit Act, the System banks are required to fund the bonds upon maturity. Although GAAP requires recognition in the financial statements of the Bank's liability to the FAC, the Farm Credit Act states that for all financial reporting purposes, this obligation shall not be considered a liability of any System bank until the maturity of such debt. The Bank's unrecorded liability and related unrecorded reduction in retained earnings at December 31, 2002, 2001 and 2000 is estimated to be $1.2 million, $1.6 million and $2.1 million, respectively. There is a statutorily mandated repayment plan, which effectively spreads the financial assistance payments and expenses over a number of years and, accordingly, gradually reduces the effect of the unrecorded liability. Management considers the current and future effect of not recording the liability to be immaterial to the Bank's financial condition and results of operations.

In 1998, the Bank entered into an agreement with the other System banks and the FAC to call the FAC callable debt issuance used to provide financial assistance to certain System entities (the $89 million of 9.20 percent, September 2005 issuance). The System banks were required to pre-fund the amounts representing the difference between the amounts previously funded and the amounts needed to call the debt. The Bank expensed $1.1 million in 2000, related to the call of the $89 million issuance, representing its pro rata share of the additional funding required.

The Bank's financial assistance expense totaled $3.2 million, $3.1 million and $3.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 11 — Related Party Transactions

As discussed in Note 1, "Organization and Operations" the Bank lends funds to the District Associations to fund their loan portfolios. Interest income recognized on direct notes receivable from District Associations was $167,820, $220,670 and $175,834 for 2002, 2001 and 2000, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Allowances for Loan Losses" and Note 8, "Shareholders' Equity."

In addition to providing loan funds to District Associations, the Bank also provides banking and support services to them, such as accounting, information systems, loan processing, marketing and other services. Income derived by the Bank from these activities was $11,065, $11,608 and $11,309 for 2002, 2001 and 2000, respectively, and was included in the Bank's noninterest income.

During 2000, the Bank sold $3.076 billion of retail loans, net of $43,478 of allowances for loan losses, to thirteen FLBAs that converted to FLCAs during the year. The Bank had purchased some of these loans at a discount from the Federal Land Bank of Jackson, in receivership, in 1989 and 1992, and the unamortized discount on these loans, which totaled $18,581, was recognized as a gain on the sale of the loans and is reflected in noninterest income.

Prior to their conversion to direct lender status, FLBAs invested their surplus funds with the Bank in unsecured demand notes known as Certificates of Indebtedness. During 2000, $9,764 in interest was paid by the Bank to the FLBAs on these instruments, which is included in interest expense on notes payable and other. There was no indebtedness on these instruments at December 31, 2000 or subsequently, and, accordingly, there is no interest expense for these instruments in 2002 and 2001.

Note 12 — Commitments and Contingencies

In the normal course of business, the Bank has various outstanding commitments and contingent liabilities as discussed elsewhere in these notes.

The Bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the Bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks.

The total Bank and consolidated Systemwide debt obligations of the System at December 31, 2002, were approximately $89.4 billion.

Other actions are pending against the Bank in which claims for monetary damages are asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any resulting therefrom, will not be material in relation to the financial position or results of operations of the Bank.

Note 13 — Financial Instruments With Off-Balance-Sheet Risk

The Bank may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. In the normal course of business, various commitments are made to customers, including commitments to extend credit and standby letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

At any time, the Bank has outstanding a significant number of commitments to extend credit. The Bank also provides standby letters of credit to guarantee the performance of customers to third parties, although none were outstanding at December 31, 2002. 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 contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the balance sheet (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Bank's commitments to extend credit totaled $45.4 million, $98.4 million and $99.6 million at December 31, 2002, 2001 and 2000, respectively.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. In the event of funding, the credit risk amounts are equal to the contract amounts, assuming that counterparties fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty.

Note 14 — Disclosure About the Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2002, 2001 and 2000. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for System financial instruments. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, 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.

The estimated fair values of the Bank's financial instruments follow:

	December 31, 2002		December 31, 2001		December 31, 2000	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash, federal funds sold, securities purchased under resale agreements and investment securities	**$ 846,930**	**$ 846,930**	$ 552,782	$ 552,782	$ 564,754	$ 564,754
Loans	**5,826,951**	**5,866,556**	5,111,193	5,106,690	4,421,612	4,508,827
Allowance for loan losses	**(9,695)**	**—**	(13,643)	—	(12,189)	—
Loans, net	**5,817,256**	**5,866,556**	5,097,550	5,106,690	4,409,423	4,508,827
Derivative assets*	**10,988**	**10,988**	659	659	—	—
Financial liabilities						
Bonds and notes	**6,273,579**	**6,385,910**	5,316,902	5,367,300	4,658,692	4,675,674
Fair value adjustment of derivatives*	**10,988**	**10,988**	(688)	(688)	—	—
Total bonds and notes	**6,284,567**	**6,396,898**	5,316,214	5,366,612	4,658,692	4,675,674
Financial assistance related liabilities**	**4,334**	**2,673**	4,739	3,423	5,214	4,093
Derivative liabilities*	**—**	**—**	1,347	1,347	—	—

* Due to the adoption of SFAS No. 133, derivative financial instruments are recorded on the balance sheet at fair value, beginning January 1, 2001. Prior to January 1, 2001, derivative financial instruments were treated as off-balance-sheet transactions, for which the Bank had a net payable position of $13 at December 31, 2000.

**These amounts exclude the assumption of Third Quarter 1986 Capital Preservation Agreement obligations with carrying amounts of $1.2 million, $1.6 million and $2.1 million and estimated fair values of $2.7 million, $3.9 million and $4.2 million at December 31, 2002, 2001 and 2000, respectively.

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

A. Cash:

The carrying value is a reasonable estimate of fair value.

B. Federal Funds Sold, Securities Purchased Under Resale Agreements, and Investment Securities:

Fair value is based upon currently quoted market prices.

C. Loans:

Because no active market exists for the District's loans, fair value is estimated by discounting the expected future cash flows using the District's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the District's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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 discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in a nonaccrual status which are current as to principal and interest is estimated as described above, with appropriately higher discount rates to 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 of these loans 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.

D. Bonds and Notes:

Systemwide bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity Treasury notes, assuming a constant estimated yield spread relationship between Systemwide bonds and notes and comparable Treasury notes.

E. Obligation to FAC:

Fair value of these obligations is determined by discounting the cumulative expected future cash outflows of all of the obligations using a discount rate commensurate with bonds having a similar maturity.

F. Commitments to Extend Credit:

Fees on commitments to extend credit are not normally assessed; hence, there is no fair value to be assigned to these commitments until they are funded.

Note 15 — Derivative Instruments and Hedging Activity

The Bank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged liabilities. Another result of interest rate fluctuations is that the interest expense of hedged variable-rate liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Bank's gains and losses on the derivative instruments that are linked to these hedged liabilities. The Bank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The Bank enters into derivatives, particularly interest rate swaps, primarily to lower interest rate risk. Interest rate swaps allow the Bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the Bank if floating-rate borrowings were made directly. Under interest rate swap arrangements, the Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index.

The Bank's interest-earning assets (principally loans and investments) tend to be medium-term floating-rate instruments, while the related interest-bearing liabilities tend to be short- or medium-term fixed-rate obligations. Given this asset-liability mismatch, interest rate swaps in which the Bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the Bank's net interest income.

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain of the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. Transactions with three counterparties represent approximately 87 percent of the total notional amount of interest rate swaps. The Bank does not anticipate nonperformance by any of these counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

The credit exposure represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position.

The table below presents the credit ratings of counterparties to whom the Bank has credit exposure:

($ in millions)	Remaining Years to Maturity: Less than 1 year	Remaining Years to Maturity: 1 to 5 Years	Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
Standard & Poors Credit Rating							
A+	$ 1.1	$ 9.5	$ 10.6	$ —	$ 10.6	$ —	$ 10.6
A	—	0.4	0.4	—	0.4	—	0.4
Total	$ 1.1	$ 9.9	$ 11.0	$ —	$ 11.0	$ —	$ 11.0

The Bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the Bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies. The Bank enters into interest rate swaps classified as fair value hedges primarily to convert a portion of its non-prepayable fixed-rate long-term debt to floating-rate debt.

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below presents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2002 ($ in millions)	Maturities of 2002 Derivative Products and Other Financial Instruments: 2003	2004	2005	2006	2007	Subsequent Years	Total	Fair Value
Total debt obligations:								
Fixed rate	$ 3,092.5	$ 642.4	$ 865.0	$ 147.6	$ 110.4	$ 370.1	$ 5,228.0	$ 5,340.8
Weighted average interest rate	2.05%	3.24%	2.58%	5.15%	3.82%	5.86%	2.68%	
Variable rate	$ 606.6	$ 450.0	$ —	$ —	$ —	$ —	$ 1,056.6	$ 1,056.1
Weighted average interest rate	1.24%	1.32%	—	—	—	—	1.27%	
Total debt obligations	$ 3,699.1	$ 1,092.4	$ 865.0	$ 147.6	$ 110.4	$ 370.1	$ 6,284.6	$ 6,396.9
Weighted average interest rate	1.92%	2.45%	2.58%	5.15%	3.82%	5.86%	2.44%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ 249.2	$ 295.0	$ 600.0	$ —	$ —	$ —	$ 1,144.2	$ 11.0
Weighted average receive rate	2.28%	2.68%	2.67%	—	—	—	2.59%	
Weighted average pay rate	1.27%	1.36%	1.37%	—	—	—	1.35%	

Note 16 — Selected Quarterly Financial Information (Unaudited)

Quarterly results of operations are shown below for the years ended December 31:

2002	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 9,546**	**$ 10,774**	**$ 11,588**	**$ 13,130**	**$ 45,038**
Provision for loan losses	**190**	**203**	**1,216**	**(4,511)**	**(2,902)**
Noninterest expense, net	**3,559**	**1,349**	**1,505**	**5,854**	**12,267**
FAC expense	**580**	**844**	**848**	**934**	**3,206**
Net income	**$ 5,217**	**$ 8,378**	**$ 8,019**	**$ 10,853**	**$ 32,467**

2001	First	Second	Third	Fourth	Total
Net interest income	$ 8,552	$ 8,625	$ 9,843	$ 9,407	$ 36,427
Provision for loan losses	381	408	145	505	1,439
Noninterest expense, net	1,905	636	1,765	2,698	7,004
FAC expense	626	764	852	864	3,106
Net income	$ 5,640	$ 6,817	$ 7,081	$ 5,340	$ 24,878

2000	First	Second	Third	Fourth	Total
Net interest income	$ 21,863	$ 14,076	$ 10,917	$ 6,960	$ 53,816
Provision for loan losses	1,769	5,558	694	11,170	19,191
Noninterest (income) expense, net	(11,933)	2,443	2,880	(3,848)	(10,458)
FAC expense	805	926	806	732	3,269
Net income	$ 31,222	$ 5,149	$ 6,537	$ (1,094)	$ 41,814

Note 17 — Combined Association Financial Data (Unaudited)

Condensed financial information for the combined District Associations follows. All significant transactions and balances between the Associations are eliminated in combination. The multi-employer structure of certain of the District's retirement and benefit plans results in the recording of these plans only in the District's combined financial statements.

	December 31,		
Balance Sheet Data	**2002**	2001	2000
Cash	**$ 43,476**	$ 42,250	$ 36,214
Loans	**6,393,934**	5,577,587	4,812,964
Less allowance for loan losses	**159,045**	146,577	138,521
Net loans	**6,234,889**	5,431,010	4,674,443
Accrued interest receivable	**93,503**	98,678	114,738
Other property owned, net	**3,577**	2,946	2,379
Other assets	**159,773**	142,052	136,895
Total assets	**$ 6,535,218**	$5,716,936	$ 4,964,669
Bonds and notes	**$ 5,411,885**	$ 4,663,544	$ 3,976,820
Other liabilities	**79,528**	99,666	93,965
Total liabilities	**5,491,413**	4,763,210	4,070,785
Capital stock and participation certificates	**106,237**	95,770	102,014
Retained earnings	**937,568**	857,956	791,870
Total shareholders' equity	**1,043,805**	953,726	893,884
Total liabilities and shareholders' equity	**$ 6,535,218**	$ 5,716,936	$ 4,964,669

	Year Ended December 31,		
Statement of Income Data	**2002**	2001	2000
Interest income	**$ 356,059**	$ 385,928	$ 311,440
Interest expense	**167,120**	220,770	179,414
Net interest income	**188,939**	165,158	132,026
Provision for loan losses	**13,836**	7,507	2,512
Net interest income after provision for loan losses	**175,103**	157,651	129,514
Noninterest income	**24,124**	20,116	37,467
Intra-System financial assistance expense	**4,148**	3,788	5,114
Other expense	**95,939**	86,857	77,861
(Negative provision) provision for income taxes	**(724)**	(1,596)	2,296
Net income	**$ 99,864**	$ 88,718	$ 81,710

DISCLOSURE *Information and Index*

Disclosures Required by Farm Credit Administration Regulations

Description of Business

The Farm Credit Bank of Texas (FCBT or Bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The Bank provides credit and credit-related services to or for the benefit of the Agricultural Credit Associations (ACAs) and the Federal Land Credit Associations (FLCAs) of the Tenth Farm Credit District (District) in the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. The District's FLCAs and ACA parent associations, which contain two wholly-owned FLCA and Production Credit Association (PCA) subsidiaries, are collectively referred to as Associations. A further description of territory served, entities eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference to Note 1, "Organization and Operations," to the accompanying financial statements.

The description of significant developments that had or could have a material impact on results of operations or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis" of the Bank included in this annual report to stockholders.

Directors and Senior Officers

The following represents certain information regarding the directors and senior officers of the Bank as of April 1, 2003:

DIRECTORS

Ralph W. Cortese joined the board in 1995, and his current term expires December 31, 2004. Cortese has served as chairman since 2000. Prior to joining the Bank board, Cortese was chairman of the PCA of Eastern New Mexico Board of Directors. Early in his career, he was vice president of Roswell PCA. He is a farmer and rancher from Fort Sumner, New Mexico. In 2001, he joined the American Land Foundation Board.

Jon M. Garnett began his first term on the board in 1999 and his current term expires December 31, 2004. He has served as board vice chairman since 2000. Prior to joining the Bank board, he was chairman of Panhandle-Plains Federal Land Bank Association (FLBA) Board of Directors. He is a former member of the Farm Credit Bank of Texas Retirement Committee. In January 2003, he joined the national Farm Credit Council Board of Directors as a Tenth District representative. Garnett farms, feeds stocker cattle, and operates a custom haying and baling business near Spearman, Texas.

C. Kenneth Andrews began service on the board in 1994, and is currently elected to a three-year term that expires December 31, 2005. He was manager of the former FLBA of Madisonville for 17 years and later served on the board of directors of the FLBA of Bryan. The Madisonville, Texas, rancher is chairman of the Tenth District Farm Credit Council and has represented the District on the national Farm Credit Council Board of Directors since 1996.

Joe R. Crawford began his first term on the board in 1998 and is currently elected to a three-year term that expires December 31, 2003. Previously, he was a member of the FLBA of North Alabama Board of Directors. He also served on the Tenth District FLBA Legislative Advisory Committee. Currently, he is the Tenth District's representative on the board of directors of the Federal Farm Credit Banks Funding Corporation. Crawford, who lives near Baileyton, Alabama, has owned and operated a cattle business since 1968.

James F. Dodson joined the board of directors in January 2003, elected to a three-year term that will expire December 31, 2005. He is a past chairman of the Texas AgFinance, FCS Board of Directors and a former member of the Tenth Farm Credit District Stockholders' Advisory Committee. He currently serves on the Tenth District Farm Credit Council board. Dodson grows cotton and milo and operates a seed sales business with his family in Robstown, Texas. He is chairman of the Cotton Foundation and holds other national farm leadership positions.

William F. Staats joined the board in 1997, and his current term will expire December 31, 2005. Staats is Louisiana Bankers Association Chair Emeritus of Banking and Professor Emeritus, Department of Finance, at Louisiana State University, where he held the Hermann Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. Staats recently joined the board of the Money Management International Education Foundation and is chairman of SevenOaks Capital Corporation, a factoring company serving the U.S. trucking industry.

SENIOR OFFICERS

Name and Title	Time in Position	Experience — Past Five Years
Larry R. Doyle, *Chief Executive Officer*	Appointed March 2003	Executive Vice President and Chief Operating Officer, AgFirst Farm Credit Bank
Steven H. Fowlkes, *Interim Chief Executive Officer*	2 months	Senior Vice President, Bank Administration, FCBT
Arnold R. Henson, *Chief Executive Officer*	Retired January 2003	Chief Executive Officer, FCBT
Thomas W. Hill, *Senior Vice President, Chief Financial Officer*	8 years	Senior Vice President, Chief Financial Officer, FCBT
Steven H. Fowlkes, *Senior Vice President, Bank Administration*	5 years	Senior management and management positions, FCBT
David N. Clinton, *Senior Vice President, Chief Information Officer*	4 years	Senior management position, FCBT; prior to FCBT, senior management position in information technology at RTW, Inc., in Minneapolis, Minnesota
Dennis L. Raesener, *Senior Vice President, Credit Operations*	1 year	Vice President and Department Manager, Lending Operations, FCBT
William E. Zimmerman, *Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	15 years	Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary, FCBT

Compensation of Directors and Senior Officers

Directors of the Bank are compensated for service on the Bank's board. Compensation for 2002 was paid at the rate of $2,114 per month, the maximum allowed under the Farm Credit Administration's (FCA)"Annual Adjustment of Maximum Director Compensation for 2002." In addition to days served at board meetings, directors may serve additional days on other official assignments, and under exceptional circumstances the board may approve additional compensation, not to exceed thirty percent of the annual maximum. Information for each director for the year ended December 31, 2002, is provided below:

Board Member	Days Served at Board Meetings	Days Served on Other Official Assignments	Total Compensation Paid
Ralph W. Cortese	41.5	24.0	$ 30,168
Jon M. Garnett	38.0	27.0	30,168
C. Kenneth Andrews	37.5	30.0	30,168
Joe R. Crawford	33.0	39.0	30,168
James A. McCarthy	37.5	26.5	30,168
William F. Staats	39.0	23.0	30,168
			$ 181,008

The following table summarizes the compensation paid to all senior officers of the Bank during 2002, 2001 and 2000:

Summary Compensation Table

Name of Individual or Group	Year	Annual Salary (a)	Annual Bonus (b)	Other (c)	Total
Arnold Henson, Chief Executive Officer	2002	$ 310,000	$ 50,000	$ —	$ 360,000
	2001	295,000	40,500	—	335,500
	2000	270,000	37,500	22,319	329,819
Aggregate number of senior officers: (includes Chief Executive Officer)					
6	2002	1,116,775	168,451	—	1,285,226
6	2001	1,096,087	75,969	—	1,172,056
6	2000 (d)	1,008,874	167,744	59,515	1,236,133

(a) Gross salary
(b) Incentive pay
(c) Compensation for the prior year's unused annual leave in excess of 240 hours
(d) Amounts for 2000 have been restated to conform with current year presentation.

Disclosure of the compensation paid during 2002 to any senior officer included in the table above is available and will be disclosed to stockholders of the institution and stockholders of the District's Associations upon written request.

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses while conducting Bank business. The aggregate amount of expenses reimbursed to directors in 2002, 2001 and 2000 totaled $47,407, $65,207 and $59,346, respectively. A copy of FCBT's travel policy is available to shareholders upon request.

Bank employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan, which the FCBT adopted during 2001. Prior to 2001, Bank employees could earn compensation above base salary through a semi-annual incentive plan that the Bank adopted effective January 1, 1998. These plans are based upon the achievement of predetermined Bank performance standards, which are approved by the board of directors annually.

During 1998, the Bank also adopted a long-term retention plan, under which five percent of each employee's base salary was retained in an Individual Account Balance on December 31, 1999 and 2000. During December 2000, subject to the employee's continued employment through the end of the retention plan's term and subject to the employee achieving a satisfactory performance level, the Account Balance was paid to the employee as a lump-sum payment.

In the first quarter of 2000, the Bank paid to employees any unused annual leave in excess of 240 hours that remained accrued but unused at December 31, 1999. The payments were based upon each employee's salary at December 31 of the applicable years.

Description of Property

In November of 2002, the Bank sold its headquarters building and 8.4 acres of land on which it was situated on the northeast side of Austin, Texas. As a part of the sale agreement, the Bank is leasing space in the building for a 24-month period. The Bank retained ownership of 3.6 acres of adjacent lots.

Legal Proceedings

There are no legal proceedings pending against the Bank or Associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the Bank. Note 12, "Commitments and Contingencies," to the accompanying financial statements outlines the Bank's position with regard to possible contingencies at December 31, 2002.

Description of Capital Structure

The Bank is authorized to issue and retire certain classes of capital stock and retained earnings in the management of its capital structure. Details of the capital structure are described in Note 8, "Shareholders' Equity," to the accompanying financial statements, and in the "Management's Discussion and Analysis" of the Bank included in this annual report to stockholders.

Description of Liabilities

The Bank's debt outstanding is described in Note 7, "Bonds and Notes," to the accompanying financial statements. The Bank's contingent liabilities and intra-system financial assistance rights and obligations are described in Note 12, "Commitments and Contingencies," and Note 10, "Intra-System Financial Assistance," to the accompanying financial statements.

Selected Financial Data

The selected financial data for the five years ended December 31, 2002, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

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

"Management's Discussion and Analysis," which precedes the financial statements in this annual report, is incorporated herein by reference.

Transactions With Senior Officers and Directors

The Bank had no loans to or transactions with its officers or directors which would be required to be disclosed in this section by the Bank's policies.

Relationship With Public Accountants

There were no changes in independent public accountants during the periods covered by this annual report to stockholders, and there were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated April 11, 2003, and the report of management in this annual report to stockholders, are incorporated herein by reference.

The Tenth Farm Credit District's annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 15919, Austin, Texas 78761 or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports can be requested by e-mailing *fcb@farmcreditbank.com*. The District's quarterly reports are available approximately 45 days after the end of each fiscal quarter. The District's quarterly and annual stockholder reports are available on its Web site at *www.farmcreditbank.com*.

Board & Management

Board of Directors

Ralph W. Cortese - Chairman

Jon M. Garnett - Vice Chairman

C. Kenneth Andrews

Joe R. Crawford

James F. Dodson

William F. Staats

Management

Larry R. Doyle - Chief Executive Officer

David N. Clinton - Senior Vice President, Chief Information Officer

Steven H. Fowlkes - Senior Vice President, Bank Administration

Thomas W. Hill - Senior Vice President, Chief Financial Officer

Dennis L. Raesener - Senior Vice President, Credit Operations

William E. Zimmerman - Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary

Additional copies of this publication are available through the Farm Credit Bank of Texas: The Ag Agency, P.O. Box 15919, Austin, TX 78761, (512) 483-9260 or farmcreditbank.com.