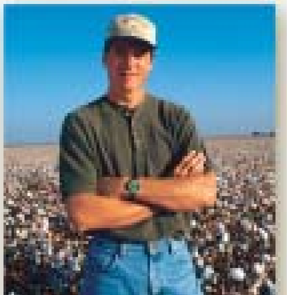
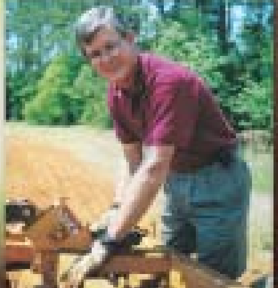
Celebrating Our Cooperative Spirit



2002
ANNUAL
REPORT

December 31, 2002

Tenth Farm Credit District

Message to Stockholders

For 85 years, the Tenth Farm Credit District has served the credit needs of rural America and the nation's agricultural industry. Owned and directed by our customers, we have remained an affordable and reliable source of financing for generations of farmers, ranchers and rural landowners. It is a testament to the enduring strength of the district's cooperative structure that last year was one of our most successful years ever.

In 2002, the Farm Credit Bank of Texas and district associations turned in an outstanding financial performance in spite of the weakened U.S. economy and tight agricultural export markets. The low interest-rate environment benefited most producers, drove demand for rural real estate and helped keep the district in a competitive position. As a result, district loan volume and net income hit record levels. The quality of the loan portfolio also remained exceptionally high. Such outstanding results could not have been achieved without the hard work of staff and directors dedicated to meeting customer needs.

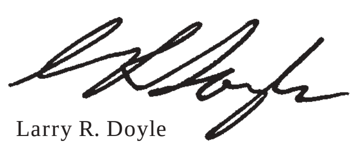
The true measure of a cooperative's success, however, is the value we provide to our customers. We are particularly pleased to report that district stockholders were rewarded with $26 million in patronage and dividend distributions in 2002, up slightly from each of the previous two years. At a time when the stockholders of many corporations experienced diminished returns, it is noteworthy that our customers continued to receive economic value for their co-op membership.

In an ongoing effort to develop new business and encourage the next generation of producers, district associations continued to reach out to young, beginning and small farmers and ranchers last year. They are to be commended for expanding their efforts to meet the special financing needs of these three groups of producers.

At the bank level, two important initiatives were undertaken 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, the bank is actively participating in a new Farm Credit System liquidity guideline, whereby each System bank agrees to maintain 90 days of liquidity in the form of cash and liquid investments. The liquidity serves as a backstop to the bank's primary source of liquidity, which is issuing debt in the agency debt market. It is anticipated that the bank will achieve its 90-day liquidity target by June 30, 2003.

As we begin 2003, amidst economic and political uncertainty, we welcome the measure of stability that the 2002 farm bill offers to the cyclical agricultural economy. While we cannot predict the future, we can plan for it. We are optimistic that our business strategy and our ongoing efforts to improve products and services will lay the foundation for another good year for the Tenth District and our customers.

We wish you a productive and profitable year, and we thank you for being part of this cooperative organization. Please join us in celebrating our cooperative spirit.



Larry R. Doyle
Chief Executive Officer

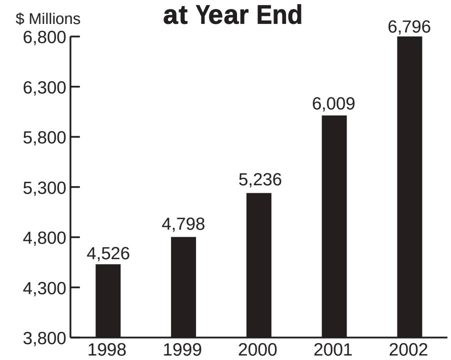
Key Result Areas

2002 Key Financial Highlights

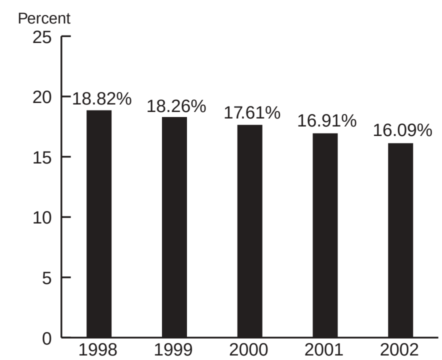
(Dollars in Thousands)

Total Loans	$6,796,092
Total Assets	$7,690,318
Net Income	$128,078
Return on Average Assets	1.80%
Return on Average Members' Equity	10.84%

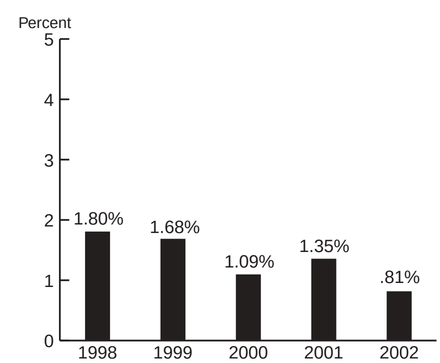
Total Loans Outstanding at Year End



Total Members' Equity to Total Assets at Year End



Nonaccrual Loans and Other Property Owned to Total Loans and Other Property Owned at Year End



Five-Year Summary of Selected Combined Financial Data

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	**2002**	2001	2000	1999	1998
Balance Sheet Data					
Cash, federal funds sold and securities purchased under resale agreements	**$ 105,335**	$ 91,054	$ 49,844	$ 97,005	$ 56,058
Investment securities	**785,071**	503,978	551,124	486,871	525,825
Loans	**6,796,092**	6,009,348	5,235,959	4,798,131	4,525,544
Less allowance for loan losses	**165,855**	156,952	147,136	142,582	129,126
Net loans	**6,630,237**	5,852,396	5,088,823	4,655,549	4,396,418
Other property owned, net	**6,192**	3,319	2,752	2,661	4,725
Other assets	**163,483**	168,499	184,112	159,596	176,692
Total assets	**$7,690,318**	$ 6,619,246	$ 5,876,655	$ 5,401,682	$ 5,159,718
Obligations with maturities of one year or less	**$3,867,769**	$ 4,039,044	$ 3,578,765	$ 3,099,617	$ 3,288,133
Obligations with maturities greater than one year	**2,585,463**	1,461,130	1,262,924	1,315,633	900,607
Total liabilities	**6,453,232**	5,500,174	4,841,689	4,415,250	4,188,740
Capital stock and participation certificates	**106,745**	96,125	102,103	115,622	147,824
Allocated retained earnings	**34,743**	29,915	27,044	21,401	18,724
Unallocated retained earnings	**1,095,380**	992,163	905,246	850,277	804,520
Accumulated other comprehensive income (loss)	**218**	869	573	(868)	(90)
Total members' equity	**1,237,086**	1,119,072	1,034,966	986,432	970,978
Total liabilities and members' equity	**$7,690,318**	$ 6,619,246	$ 5,876,655	$ 5,401,682	$ 5,159,718

Statement of Income Data					
Net interest income	**$ 237,010**	$ 207,494	$ 191,110	$ 186,307	$ 181,582
Provision for loan losses	**(11,317)**	(9,252)	(21,876)	(13,443)	(8,106)
Noninterest expense, net	**(98,339)**	(87,735)	(86,711)	(89,569)	(85,700)
Benefit from (provision for) income taxes	**724**	1,596	(2,296)	(1,515)	(2,220)
Extraordinary loss on early extinguishment of debt	**—**	—	—	—	(5,379)
Net income	**$ 128,078**	$ 112,103	$ 80,227	$ 81,780	$ 80,177

Key Financial Ratios (unaudited)					
Net income to:					
Average assets	**1.80%**	1.83%	1.48%	1.58%	1.72%
Average members' equity	**10.84**	10.37	7.82	8.28	8.30
Net interest income to average earning assets	**3.36**	3.45	3.56	3.63	3.95
Net charge-offs (recoveries) to average loans	**.04**	(.01)	.35	—	—
Total members' equity to total assets	**16.09**	16.91	17.61	18.26	18.82
Allowance for loan losses to total loans	**2.44**	2.61	2.81	2.97	2.85
Regulatory permanent capital ratio (bank only)	**18.06**	18.10	19.18	14.61	15.18
Total surplus ratio (bank only)	**14.01**	14.01	14.40	11.59	12.20
Core surplus ratio (bank only)	**12.56**	12.82	13.63	11.03	11.68
Net collateral ratio (bank only)	**105.32**	105.33	105.21	106.29	106.18

Other (unaudited)					
Net income distributions declared					
Cash dividends	**$ 2,905**	$ 3,617	$ 3,466	$ 4,723	$ 3,903
Patronage distributions					
Cash	**16,165**	16,680	17,121	27,046	24,040
Retained earnings	**6,983**	4,889	5,063	4,254	6,009

Combined Average Balances and Net Interest Earnings

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS
(unaudited)
December 31,

	2002			2001			2000		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities, federal funds sold and securities purchased under resale agreements	**$ 620,548**	**$ 14,540**	**2.34%**	$ 460,904	$ 21,487	4.66%	$ 433,512	$ 28,587	6.59%
Long-term real estate loans	**5,532,129**	**327,973**	**5.93**	4,667,122	351,085	7.52	4,064,109	344,272	8.47
Short- and intermediate-term loans	**902,661**	**58,315**	**6.46**	920,136	72,049	7.83	876,289	83,054	9.48
Total loans	**6,434,790**	**386,288**	**6.00**	5,587,258	423,134	7.57	4,940,398	427,326	8.65
Total interest-earning assets	**7,055,338**	**400,828**	**5.68**	6,048,162	444,621	7.35	5,373,910	455,913	8.48
Cash	**19,163**			15,875			7,964		
Accrued interest receivable	**108,060**			128,011			121,357		
Allowance for loan losses	**(160,496)**			(150,083)			(143,884)		
Other noninterest-earning assets	**78,191**			67,638			61,493		
Total average assets	**$ 7,100,256**			$ 6,109,603			$ 5,420,840		
Liabilities and members' equity									
Bonds and medium-term notes, net	**$ 4,450,373**	**$ 140,298**	**3.15%**	$ 3,653,613	$ 187,341	5.13%	$ 3,128,537	$ 195,425	6.25%
Discount notes, net	**1,306,627**	**23,520**	**1.80**	1,209,460	49,786	4.12	1,106,618	69,378	6.27
Total interest-bearing liabilities	**5,757,000**	**163,818**	**2.85**	4,863,073	237,127	4.88	4,235,155	264,803	6.25
Noninterest-bearing liabilities	**162,019**			165,712			159,765		
Total liabilities	**5,919,019**			5,028,785			4,394,920		
Members' equity and retained earnings	**1,181,237**			1,080,818			1,025,920		
Total average liabilities and members' equity	**$ 7,100,256**			$ 6,109,603			$ 5,420,840		
Net interest income / yield on interest-earning assets		**$ 237,010**	**3.36%**		$ 207,494	3.43%		$ 191,110	3.56%

Management's Discussion and Analysis

(dollars in thousands, except as noted)

The following commentary provides a discussion and analysis of the combined financial position and the results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Associations (FLCAs) and the Agricultural Credit Associations (ACAs) of the Tenth Farm Credit District (district). FLCAs and ACAs collectively are referred to as "associations." The commentary should be read in conjunction with the accompanying combined financial statements, notes to the combined financial statements (Notes) and additional sections of this report.

The district, which serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico, is part of the federally chartered Farm Credit System (System). The bank provides funding to the associations, which, in turn, provide credit to their borrower/shareholders. As of December 31, 2002, the district comprised 10 FLCAs, 12 ACAs and certain Other Financing Institutions (OFIs).

Arnold R. Henson, CEO of the bank since 1992, retired on January 31, 2003, after 30 years of service with the Tenth District. Steven H. Fowlkes, Sr. 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.

Financial Highlights

- The aggregate principal amount of loans outstanding at December 31, 2002, was $6.8 billion, reflecting increases of 13.1 and 29.8 percent compared to December 31, 2001 and 2000, respectively.
- Net income totaled $128.1 million for the year ended December 31, 2002, reflecting increases of 14.3 and 59.6 percent compared to 2001 and 2000, respectively.
- Net interest income for the year ended December 31, 2002, was $237.0 million, reflecting 14.2 and 24.0 percent increases over the years ended December 31, 2001 and 2000, respectively.
- Return on average assets and return on average equity for the year ended December 31, 2002, were 1.80 and 10.84 percent, respectively, compared to 1.83 and 10.37 percent for 2001, and 1.48 and 7.82 percent for 2000, respectively.
- Patronage distributions declared totaled $26.1 million in 2002, compared to $25.2 and $25.7 million in 2001 and 2000, respectively.

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 district upgraded its financial accounting system, which involved a district-wide 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 the district entities' portfolio diversification and capital management.
- The district completed and implemented a portfolio stress modeling program, which allows associations 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 district in 2002. The new system provides bank and association employees secure online access to payroll and benefits information.
- The district's internal cost billing system for financial and accounting services performed by bank departments was upgraded to afford greater definition of services provided and greater flexibility in the automation of accounting for those services.

Strategic Initiatives for 2003

- **Liquidity strategy** - The bank is implementing 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 FCA regulations. The bank's implementation of the strategy is expected to be completed 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 the investment securities portfolio.
- **Cash management** – The bank will implement tools to automate financial transactions between the district entities and transactions between the 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 district will begin collecting and analyzing 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 district is exposed are:

- **Credit risk** – Credit risk is the risk of loss due to borrower or counterparty default. Credit risk to borrowers is discussed in the "Financial Condition" section on page 7, in Note 4, "Loans and Allowance for Loan Losses" and in Note 14, "Financial Instruments with Off-Balance-Sheet Risk." Credit risk to counterparties is the possibility of default on the part of a counterparty of a derivative financial instrument that has a positive fair value, and is discussed in the "Asset / Liability Management" section on page 8 and more fully in Note 16, "Derivative Instruments and Hedging Activity."
- **Interest rate risk and liquidity risk** – Interest rate risk is the exposure of the district's financial condition to adverse movements in interest rates. Liquidity risk is the risk that the district 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 on page 8 and in Note 16, "Derivative Instruments and Hedging Activity."
- **Operational and business risks** – Operational risk is 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 the district's critical functions or systems infrastructure.

RESULTS OF OPERATIONS

Overview

Livestock operations, which represent approximately 42 percent of the district's loan portfolio at December 31, 2002, were generally profitable during the first nine months of 2002. For most of the year, fed cattle markets were weak, preventing most operators from breaking even during the first nine months. Contrary to historical trends, fed cattle prices improved during the fourth quarter of 2002, allowing for some profitability during that period. Little, if any, deterioration in this segment of the loan portfolio is anticipated as we begin 2003. Cow-calf operations remained profitable during 2002, and demand for replacements in cow herds has remained active. Projected prices for livestock and cattle for 2003 are expected to remain constant with 2002.

Grain, row crop and cotton operations, representing approximately 19 percent of the district's loan portfolio, continue to experience challenging economic conditions. Drought conditions, which developed in late April and May of 2002, affected the entire district and severely limited the production of most small grain and row crop commodities. Farming conditions along the Gulf Coast regions of Louisiana, Texas and Mississippi were also impacted by the effects of two hurricanes, both of which made landfall in September. Fuel prices, a major input cost for farmers, continued to rise through 2002, and are still a concern as producers begin planning for the 2003 production cycle. Crop production prices are expected to increase only marginally in 2003. Large supplies of crops, both domestically and overseas, continue to depress commodity prices. The world capacity to produce crops continues to outpace demand, and the inability to maximize exports of U.S. farm commodities continues to suppress prices farmers receive for their crops.

The district continued to realize loan volume growth, strong earnings and strong credit quality in 2002, despite the economic challenges previously mentioned. The availability of off-farm income sources and the increased utilization of Farm Service Agency guarantees have helped mitigate the impact of adverse agricultural economic conditions, allowing district entities to sustain the high credit quality of their loan portfolios during 2002. Overall district loan credit quality is expected to remain stable or decline modestly during 2003. The full impact of the Farm Security and Rural Investment Act of 2002 (Farm Bill) will not be recognized until the 2003 production cycle, but government payments are expected to continue to be an important source of farm income for agricultural producers. The Federal Reserve Board's Federal Open Market Committee, in an effort to boost a sluggish economy, reduced its interest rate target for federal funds by another 50 basis points in 2002, and lending rates remain at historical lows.

Figure 1

Analysis of Net Interest Income

(dollars in millions)

	Year Ended December 31, 2002	**Rate**	**Volume**	Year Ended December 31, 2001	Rate	Volume	Year Ended December 31, 2000
Interest income, loans	**$ 386.3**	**$ (101.0)**	**$ 64.2**	$ 423.1	$ (55.7)	$ 51.5	$ 427.3
Interest income, investments	**14.5**	**(14.4)**	**7.4**	21.5	(8.8)	1.7	28.6
Total interest income	**400.8**	**(115.4)**	**71.6**	444.6	(64.5)	53.2	455.9
Interest expense	**163.8**	**(116.9)**	**43.6**	237.1	(63.3)	35.6	264.8
Net interest income	**$ 237.0**	**$ 1.5**	**$ 28.0**	$ 207.5	$ (1.2)	$ 17.6	$ 191.1

The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

Economic forecasts do not indicate interest rate increases until the third quarter of 2003, and most of the operators in the district will continue to benefit from the lower interest rate environment in the near term. Despite the downturn in the general economy through the end of 2002, farmers and ranchers have benefited from stable land values and the continued demand for farm and ranch land around larger metropolitan areas.

The challenging conditions faced by the district require the managements of the bank and the associations to maintain caution in credit controls and monitoring and to continue to explore options for diversifying portfolio risk, increasing efficiency and streamlining operations where possible.

Net Income

The district's net income of $128.1 million for the year ended December 31, 2002, reflects an increase of 14.3 percent from net income of $112.1 million for the year ended December 31, 2001. The table below provides an analysis of the major components of changes in net income for the current and preceding years. The return on average assets decreased to 1.80 percent for the year ended December 31, 2002, from 1.83 percent reported for the year ended December 31, 2001. The return on average assets was 1.48 percent for the year ended December 31, 2000.

Changes in Components of Net Income

(dollars in thousands)	2002 versus 2001	2001 versus 2000	2000 versus 1999
Net income (prior period)	$ 112,103	$ 80,227	$ 81,780
Interest income	(43,793)	(11,292)	49,933
Interest expense	73,309	27,676	(45,863)
Net interest income	29,516	16,384	4,070
Provision for loan loss	(2,065)	12,624	(8,433)
Noninterest income	3,176	5,927	(445)
Noninterest expense	(13,780)	(6,951)	4,036
Provision for income taxes	(872)	3,892	(781)
Total increase in net income	15,975	31,876	(1,553)
Net income	$ 128,078	$ 112,103	$ 80,227

Net Interest Income

Net interest income of $237.0 million for the year ended December 31, 2002, reflected an increase of 14.2 percent from $207.5 million reported for 2001. This was due to the ability of district associations to increase their interest rate spreads during the declining interest rate environment of 2002. Interest income for 2002 decreased by $43.8 million, or 9.8 percent, from 2001, despite an increase in average earning assets. However, interest expense for 2002 decreased by $73.3 million, or 30.9 percent, from 2001, even though average interest-bearing liabilities increased by $893.9 million over 2001. Figure 1 provides an analysis of the changes in net interest income.

The district's net interest margin declined by 7 basis points to 3.36 percent in 2002 from 3.43 percent in 2001. This ratio's decline is mainly attributable to the growth in average earning assets. There was a $1.007 billion, or 16.7 percent, increase in average earning assets (primarily long-term real estate loans), while net interest income increased by $29.5 million, or 14.2 percent. The interest rate spread increased by 36 basis points to 2.83 percent in 2002 from 2.47 percent in 2001, primarily because the rates on average interest-bearing liabilities decreased to a greater extent than the decrease in yields on average interest-earning assets. Figure 2 presents the district's net interest margin in comparison to its operating expense for the years ended December 31, 2002, 2001 and 2000.

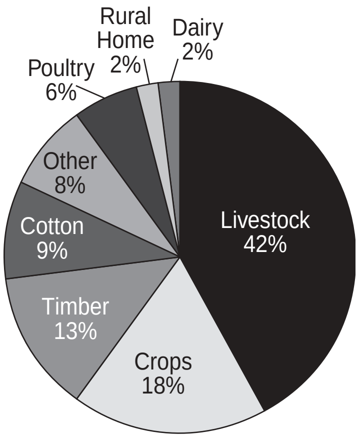
Noninterest Income

Noninterest income increased by $3.2 million from 2001 to 2002. This increase is primarily due to a $2.1 million increase in fees for financially related services attributable to growth in the loan portfolio and the recognition of a $1.8 million increase in surplus allocations from a captive insurance provider, partially offset by a $0.5 million decrease in income from mineral interests.

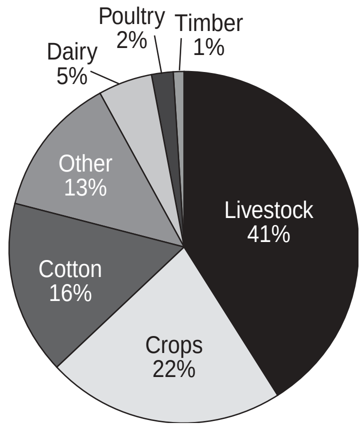
Figure 2

Analysis of Operating Margin to Average Earning Assets

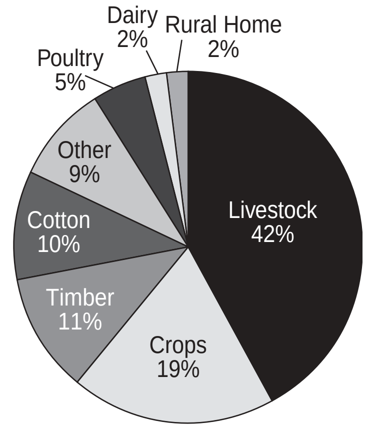
	For the Years Ended December 31, **2002**	2001	2000
Net interest margin	**3.36%**	3.43%	3.56%
Operating expense	**1.63**	1.74	1.80
Operating margin	**1.73%**	1.69%	1.76%



Real Estate Mortgage Loans
86 Percent of Total Loans
Figure 3



Production Loans
14 Percent of Total Loans
Figure 4



Total Loans
Figure 5

Noninterest Expenses

Operating Expenses

Operating expenses for 2002, comprising salaries and employee benefits, occupancy and equipment expense, Farm Credit Insurance Fund (Insurance Fund) premiums and other operating expenses, totaled $115.3 million, reflecting an increase of 9.8 percent from $105.1 million reported for the comparable period of 2001. This increase is primarily due to the net effect of a $6.7 million increase in salaries and employee benefits and a $2.0 million increase in Insurance Fund premiums. Salaries and benefits for 2002 increased over 2001 primarily due to increases in the number of employees at district associations, an increase of $1.4 million in the cost of postretirement benefits, a $1.1 million increase in retirement expense and a $0.8 million decrease in the amount of salaries and benefits capitalized as a part of the development of internal use software. Costs for postretirement benefits increased due to the effect of rising medical costs on the estimated present value of future benefits payable and a slight decrease in the discount rate used to calculate the present value. Postretirement expenses are more fully described in Note 10, "Employee Benefit Plans." Premiums to the Insurance Fund increased due to the reinstatement of rates during 2002; there were no rates effective for 2001.

Net Loss From Sale of Investment Securities

During the fourth quarter of 2002 the bank realized a loss of $2.9 million on the sale of asset-backed securities with a book value of $25.0 million. These securities, which were backed by securitized consumer credit cards, were sold when they failed to meet the bank's and the Farm Credit Administration's (FCA) investment eligibility criteria due to a downgrade in the investment's credit rating.

Intra-System Financial Assistance Expenses

In 1998, the bank entered into an agreement with the other System banks and the Financial Assistance Corporation (FAC) to call an $89 million issuance of 9.20 percent, September 2005 FAC callable debt used to provide financial assistance to certain System entities. The System banks were required to pre-fund the amount representing the difference between the amount previously funded and the amount needed to call the debt. The district expensed $1.1 million in 2000, related to the call of the $89 million issuance, representing its pro rata shares of the additional funding required. The FAC is explained more fully in Note 11, "Intra-System Financial Assistance," to the accompanying combined financial statements.

FINANCIAL CONDITION

Loan Portfolio

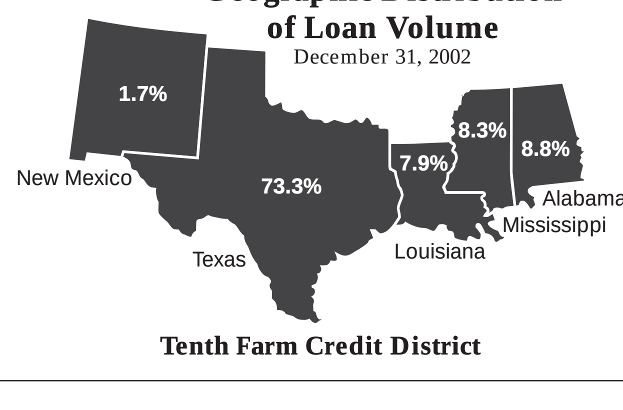
Gross loan volume of $6.796 billion at December 31, 2002, reflected an increase of $787 million, or 13.1 percent, from the $6.009 billion loan portfolio balance at December 31, 2001. Loans, net of the allowance for loan losses, represented 86.2 percent, 88.4 percent and 86.6 percent of total assets as of December 31, 2002, 2001 and 2000, respectively.

The short- and intermediate-term loan portfolio experienced a $21.8 million, or 2.3 percent, decrease from $968.2 million at December 31, 2001, to $946.4 million at December 31, 2002. The long-term mortgage portfolio experienced an $809 million, or 16.0 percent, increase from $5.041 billion at December 31, 2001, to $5.850 billion at December 31, 2002. The factors contributing to the growth in the long-term portfolio included: competitive prices offered by the bank and associations, continued solid demand for real estate in the district, continued marketing and customer service efforts, and increased activity in district loan participations.

The composition of the district's loan portfolio at December 31, 2002, broken down by commodity between the real estate mortgage and production loan portfolios, may be found in Figures 3, 4 and 5. The geographic distribution of loan volume at December 31, 2002, is presented in Figure 6.

Figure 6

Geographic Distribution of Loan Volume
December 31, 2002



Tenth Farm Credit District

Acceptable loan volume of 97.4 percent at December 31, 2002, reflects a slight decrease from the acceptable loan volume of 97.5 percent at December 31, 2001. The sustained high credit quality in the district's loan portfolio was previously discussed in the section titled "Overview."

High-Risk Assets

Total high-risk assets have decreased by $22.3 million, or 24.8 percent, from $90.1 million at December 31, 2001, to $67.8 million at December 31, 2002. The decrease is primarily attributable to a $29.2 million decrease in nonaccrual loans, largely due to the sale of a $10.1 million nonaccrual loan to another System bank during the fourth quarter of 2002. The following table discloses the components of the district's high-risk assets at December 31,

(in millions)	**2002**	2001	2000
Nonaccrual loans	**$ 48.8**	$ 78.0	$ 54.4
Formally restructured loans	**10.3**	5.4	5.3
Loans past due 90 days or more and still accruing interest	**2.5**	3.4	2.2
Other property owned, net	**6.2**	3.3	2.8
Total	**$ 67.8**	$ 90.1	$ 64.7

At December 31, 2002, $30.3 million, or 62.1 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $48.4 million, or 62.1 percent, of nonaccrual loans at December 31, 2001, and $18.0 million, or 33.1 percent, at December 31, 2000.

Figures 7, 8 and 9 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members' equity at December 31, 2002, 2001 and 2000. These analyses reflect the district's ability to absorb credit losses in the future.

Allowance and Provision for Loan Losses

At December 31, 2002, the allowance for loan losses was $165.9 million, or 2.44 percent of total loans outstanding, compared to $157.0 million (2.61 percent) and $147.1 million (2.81 percent) at December 31, 2001 and 2000, respectively. Net charge-offs of $2.4 million, net recoveries of $564 and net charge-offs of $17.3 million were recorded in 2002, 2001 and 2000, respectively. The district's net provision for loan losses of $11.3 million for 2002 reflected an increase of $2.1 million, or 22.3 percent, over the $9.2 million net provision recorded for 2001. Factors contributing to the current year provision for loan losses were growth in the loan portfolio, the effects of dry conditions in most of the district during the summer, depressed commodity prices and increased energy prices.

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 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	**2.6%**	2.8%	3.0%
Loans at year end			
Total loans	**2.44**	2.61	2.81
Nonaccrual loans	**340.2**	201.3	270.6
Total impaired loans	**269.2**	180.9	237.8
Net charge-offs (recoveries) to average loans	**0.04**	(0.01)	0.35
Provision expense to average loans	**0.2**	0.2	0.4

ASSET/LIABILITY MANAGEMENT

Asset / liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the district's interest rate sensitive assets and liabilities. Management's objective is to generate adequate and stable net interest income in a changing interest rate environment.

The bank uses a variety of techniques to manage the district's financial exposure to changes in market interest rates. These include monitoring the difference in the maturities or repricing cycles of interest rate sensitive assets and liabilities, monitoring the change in the market value of interest rate sensitive assets and liabilities under various interest rate scenarios and simulating changes in net interest income under various interest rate scenarios.

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset / liability management process. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing

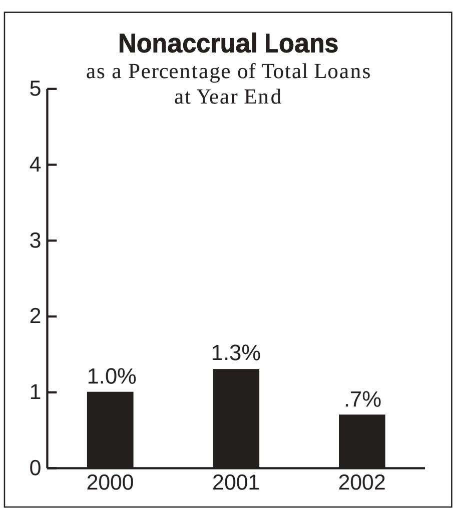


Figure 7

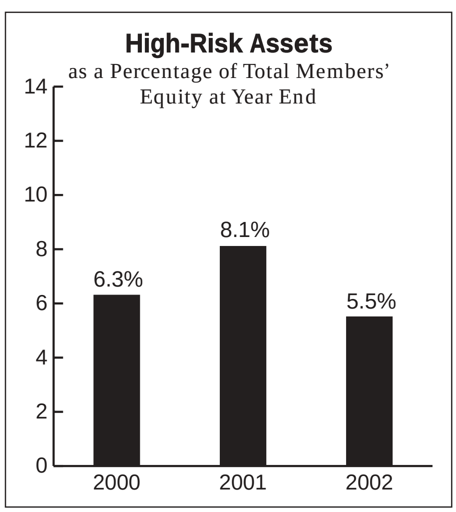


Figure 8

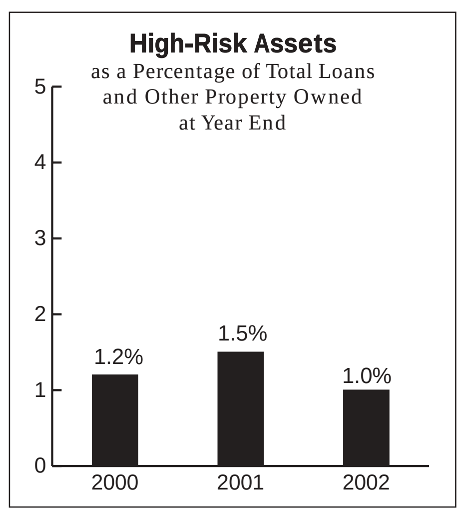


Figure 9

Figure 10

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**
Earning Assets							
Total loans	$ 2,930,136	$ 2,266,487	$ 294,707	**$ 5,491,330**	$ 969,239	$ 335,523	**$ 6,796,092**
Total investments	581,651	82,143	23,409	**687,203**	98,342	53,495	**839,040**
Total earning assets	3,511,787	2,348,630	318,116	**6,178,533**	1,067,581	389,018	**7,635,132**
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	–	–	–	–	–	1,350,565	**1,350,565**
Total interest-bearing liabilities	2,213,612	2,604,955	166,000	**4,984,567**	935,000	1,715,565	**$ 7,635,132**
Interest rate sensitivity gap	$ 1,298,175	$ (256,325)	$ 152,116	**$ 1,193,966**	$ 132,581	$ (1,326,547)	
Cumulative interest rate sensitivity gap	$ 1,298,175	$ 1,041,850	$ 1,193,966	**$ 1,193,966**	$ 1,326,547		

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

agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members.

The district's net interest income is determined by the difference between income earned on loans and investments and the interest expense paid on funding sources, typically systemwide bonds, medium-term notes and discount notes. The district's level of net interest income is affected by both changes in market interest rates and timing differences in the maturities or repricing cycles of interest rate sensitive assets and liabilities. Depending upon the direction and magnitude of changes in market interest rates, the district's net interest income may be affected either positively or negatively by the mismatch in the maturity or the repricing cycle of interest rate sensitive assets and liabilities.

The rate sensitivity gap analysis in Figure 10 sets forth the district's volume of interest rate sensitive assets and liabilities outstanding as of December 31, 2002, which are projected to mature or reprice in each of the future time periods shown. 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 district has a positive gap position, indicating that the district 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 district's balance sheet, an estimate of expected prepayments on loans is reflected in the maturities of the loans in the earning assets section of Figure 10. 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 district's balance sheet.

The bank uses derivative financial instruments, consisting of interest rate swaps, to manage the district'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. 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 $11.0 million. 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. Figure 11 summarizes the district's activity in derivative financial instruments for 2002. 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

Figure 11

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**

assets and liabilities, measured at fair value. As the district utilizes derivatives only for hedging purposes, the addition of these derivatives to the balance sheet did not yield a material impact on net income.

Interest rate risk exposure is measured by simulation modeling, which calculates the district'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 the district's financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. Due to the current low interest rate environment, the guidelines require the "200 basis points down" scenario to be replaced by a "down 61 basis points scenario." This represents one-half of the 3-month U.S. Treasury Bill rate as of year end. The bank's policy guideline for the maximum negative impact to the district's net interest income is 15 percent. The bank manages the district's interest rate risk exposure well within this guideline. As of December 31, 2002, projected district net interest income would increase by $28.4 million, or 11.50 percent, if interest rates were to increase by 200 basis points, and would decrease by $7.6 million, or 3.09 percent, if interest rates were to decrease by 61 basis points.

The primary source of funds for the district is the issuance of systemwide debt securities through the Federal Farm Credit Banks Funding Corporation. 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 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 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	**2.85%**	4.88%	6.25%

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

The bank is required by FCA regulations to maintain a liquidity reserve fund composed of cash and investment securities to provide the bank with a short-term source of funds to cover maturing debt and debt interest obligations in the event that temporary disruptions in normal funding sources would limit the bank's ability to borrow funds at cost-effective interest rates. The bank is in compliance with its liquidity reserve requirement as of December 31, 2002.

The bank is currently implementing a liquidity strategy to restructure both the debt and investment portfolio to increase funding to approximately 90 days of maturing obligations. This strategy is part of the bank's active participation in a new System liquidity guideline to reduce the System's reliance on the short-term debt markets. The bank's implementation is expected to be completed 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 the investment securities portfolio. A significant portion of the bank's short-term debt will be replaced at maturity by long-term debt, which will be hedged with interest rate swaps to support the repricing characteristics of the district's loans. Upon completion of this goal, it is anticipated that the bank's investment portfolio will have increased to approximately $1.2 billion and that the notional amount of interest rate swaps outstanding will average between $2.5 and $3.0 billion.

Fair Value of Financial Instruments

Disclosure of the fair value of the bank's and associations' financial instruments is presented in Note 15, "Disclosure About the Fair Value of Financial Instruments," to the accompanying combined financial statements.

MEMBERS' EQUITY

Borrower equity purchases required by association capitalization bylaws (see Note 8, "Members' Equity"), combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $1.237 billion capital position of the district at December 31, 2002, reflects an increase of 10.5 percent over the December 31, 2001, capital position of $1.119 billion. This increase is attributable to the $128.1 million of net income earned in 2002, net issuances of capital stock, participation certificates and allocated retained earnings issues of $9.7 million and a $0.3 million increase in unrealized net gain on investment securities, reduced by cash patronage and dividend distributions of $19.1 million, which have either been paid or declared for payment to district stockholders, and a $1.0 million minimum pension liability adjustment, discussed more fully in Note 10, "Employee Benefit Plans."

The return on average members' equity for the year ended December 31, 2002, was 10.84 percent, compared to 10.37 percent and 7.82 percent reported for the years ended December 31, 2001 and 2000, respectively.

In addition to the $19.1 million of cash patronage and dividend distributions that have either been paid or declared for payment, allocated equities of $7.0 million also have been declared for future distribution to stockholders, totaling $26.1 million in equity distributions. Subsequent to December 31, 2002, three associations declared, and will pay to their shareholders on or before March 31, 2003, approximately $1.8 million of distributions through dividends and patronage.

An analysis of the trend in the district's capital ratios is presented in Figures 12, 13 and 14.

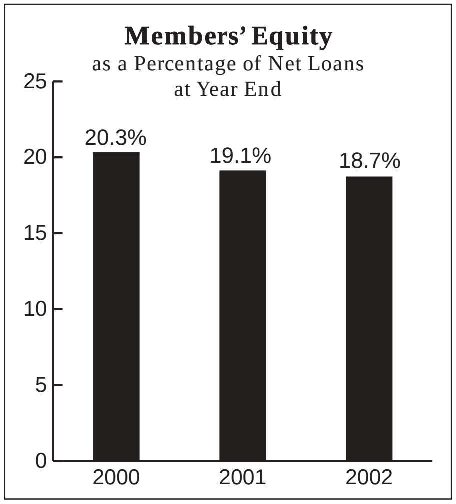


Figure 12

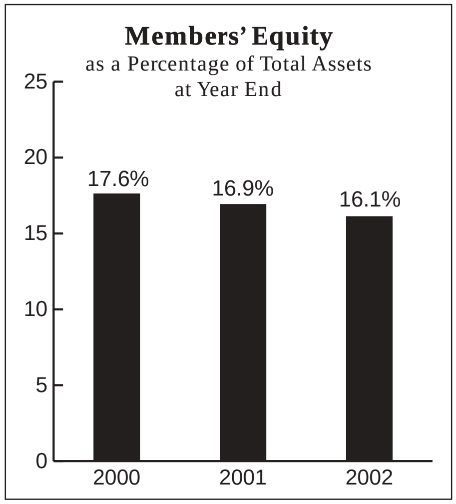


Figure 13

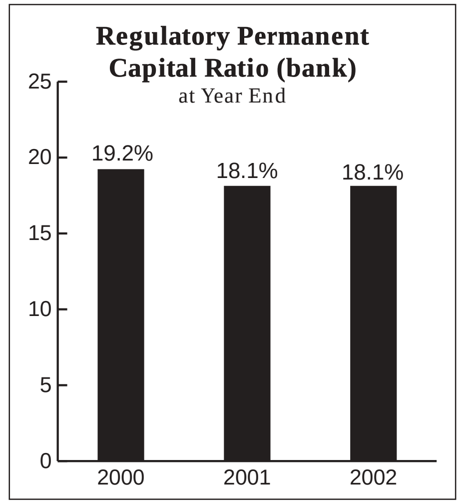


Figure 14

FCA regulations require System institutions to compute a total surplus ratio, a core surplus ratio and a net collateral ratio (bank only) and maintain at least the minimum standard for each ratio. In those instances where an entity may not be in compliance, the regulations require the entity to submit a corrective plan to the FCA designed to move the institution into compliance. As of December 31, 2002, the bank and all district associations were in compliance with the regulations. Note 8, "Members' Equity," outlines the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 18.06 percent at December 31, 2002, is considered adequate, in accordance with the capital plan adopted by the bank's board of directors.

OTHER

Contractual Interbank Performance Agreement

All banks in the System, the Federal Farm Credit Banks Funding Corporation and the 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.

Association Structural Changes

During 2002, one ACA parent company, with PCA and FLCA operating subsidiaries, was formed by the PCA in existence at December 31, 2001. ACAs use the parent-subsidiary structure to operate their long-term mortgage activities through an FLCA subsidiary and their short- and medium-term lending activities through a PCA subsidiary. This organizational change, along with the 11 ACAs that were formed in 2001, have positioned the associations and the bank to more effectively and efficiently meet the agricultural financing needs of the district for the present and beyond. As of December 31, 2002, there were 12 ACAs and 10 FLCAs, totaling 22 associations within the district, reflecting an increase of 1 ACA and a decrease of 1 PCA from December 31, 2001. These and other association structural changes are discussed in more detail in Note 1, "Organization and Operations."

Sale of the District Headquarters Property

In November 2002, the bank sold the district 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 purchase new facilities in the Austin area for occupation 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 mortgage 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 PCA 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 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 which 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 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

Steven H. Fowlkes
Interim Chief Executive Officer

Thomas W. Hill

Thomas W. Hill
Chief Financial Officer

February 21, 2003

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
300 West 6th Street
Suite 1800
Austin TX 78701
Telephone (512) 477 1300
Facsimile (512) 477 8681

Report of Independent Accountants

To the Boards of Directors and Stockholders
of the Farm Credit Bank of Texas and
the Tenth Farm Credit District Associations

In our opinion, the accompanying combined balance sheets and the related combined statements of income, changes in members' equity and cash flows present fairly, in all material respects, the financial position of the Farm Credit Bank of Texas and the Tenth Farm Credit District Associations (District) at December 31, 2002, 2001 and 2000, and the results of their operations, changes in members' equity and their 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 District'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

February 21, 2003

Combined Balance Sheets

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	December 31,		
(in thousands)	**2002**	2001	2000
Assets			
Cash	**$ 51,366**	$ 52,054	$ 39,344
Federal funds sold and securities purchased under resale agreements	**53,969**	39,000	10,500
Investment securities	**785,071**	503,978	551,124
Loans	**6,796,092**	6,009,348	5,235,959
Less allowance for loan losses	**165,855**	156,952	147,136
Net loans	**6,630,237**	5,852,396	5,088,823
Accrued interest receivable	**99,401**	106,316	124,306
Other property owned, net	**6,192**	3,319	2,752
Premises and equipment, net	**31,590**	44,567	41,319
Other assets	**32,492**	17,616	18,487
Total assets	**$ 7,690,318**	$ 6,619,246	$ 5,876,655
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	**$ 6,284,567**	$ 5,316,214	$ 4,658,692
Accrued interest payable	**38,329**	43,393	57,785
Intra-system financial assistance payable	**4,334**	4,739	5,214
Other liabilities	**126,002**	135,828	119,998
Total liabilities	**6,453,232**	5,500,174	4,841,689
Commitments and contingencies (Note 13)			
Members' equity			
At-risk equity			
Preferred stock	**2,909**	2,102	1,701
Common stock and participation certificates	**103,836**	94,023	100,402
Allocated retained earnings	**34,743**	29,915	27,044
Unallocated retained earnings	**1,095,380**	992,163	905,246
Accumulated other comprehensive income	**218**	869	573
Total members' equity	**1,237,086**	1,119,072	1,034,966
Total liabilities and members' equity	**$ 7,690,318**	$ 6,619,246	$ 5,876,655

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

Combined Statements of Income

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(in thousands)	**2002**	2001	2000
Investment securities, federal funds sold and securities purchased under resale agreements	**$ 14,540**	$ 21,487	$ 28,587
Loans	**386,288**	423,134	427,326
Total interest income	**400,828**	444,621	455,913
Bonds and notes	**163,555**	236,499	261,170
Notes payable and other	**263**	628	3,633
Total interest expense	**163,818**	237,127	264,803
Net interest income	**237,010**	207,494	191,110
Provision for loan losses	**11,317**	9,252	21,876
Net interest income after provision for loan losses	**225,693**	198,242	169,234
Fees for financially related services	**19,691**	17,543	12,660
Miscellaneous income, net	**7,536**	6,508	5,464
Total noninterest income	**27,227**	24,051	18,124
Salaries and employee benefits	**74,993**	68,332	62,818
Occupancy and equipment expense	**8,940**	8,178	7,928
Insurance Fund premiums	**2,008**	—	130
Gains on other property owned, net	**(28)**	(173)	(540)
Intra-system financial assistance expenses	**7,354**	6,894	8,383
Loss from sale of investment securities	**2,919**	—	—
Other operating expenses	**29,380**	28,555	26,116
Total noninterest expense	**125,566**	111,786	104,835
Income before income taxes	**127,354**	110,507	82,523
(Benefit from) provision for income taxes	**(724)**	(1,596)	2,296
Net income	**$ 128,078**	$ 112,103	$ 80,227

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

Combined Statements of Changes in Members' Equity

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	At-Risk Equity						
(in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Retained Earnings Total	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 1999	$ 4,087	$ 111,535	$ 21,401	$ 850,277	$ 871,678	$ (868)	$ 986,432
Comprehensive income							
Net income	—	—	—	80,227	80,227	—	80,227
Unrealized net gains on investment securities	—	—	—	—	—	1,441	1,441
Total comprehensive income	—	—	—	80,227	80,227	1,441	81,668
Capital stock / participation certificates issued	234	32,437	—	—	—	—	32,671
Capital stock / participation certificates and allocated retained earnings retired	(153)	(43,570)	(1,495)	—	(1,495)	—	(45,218)
Patronage distributions							
Cash	—	—	(392)	(20,195)	(20,587)	—	(20,587)
Members' equity	(2,467)	—	7,530	(5,063)	2,467	—	—
Balance at December 31, 2000	1,701	100,402	27,044	905,246	932,290	573	1,034,966
Comprehensive income							
Net income	—	—	—	112,103	112,103	—	112,103
Unrealized net gains on investment securities	—	—	—	—	—	296	296
Total comprehensive income	—	—	—	112,103	112,103	296	112,399
Capital stock / participation certificates issued	—	26,448	—	—	—	—	26,448
Capital stock / participation certificates and allocated retained earnings retired	(29)	(32,827)	(1,588)	—	(1,588)	—	(34,444)
Patronage distributions							
Cash	—	—	—	(20,297)	(20,297)	—	(20,297)
Members' equity	430	—	4,459	(4,889)	(430)	—	—
Balance at December 31, 2001	2,102	94,023	29,915	992,163	1,022,078	869	1,119,072
Comprehensive income							
Net income	—	—	—	128,078	128,078	—	128,078
Unrealized net gains on investment securities	—	—	—	—	—	329	329
Minimum pension liability adjustment	—	—	—	—	—	(980)	(980)
Total comprehensive income	—	—	—	128,078	128,078	(651)	127,427
Capital stock / participation certificates issued	—	24,908	—	—	—	—	24,908
Capital stock / participation certificates and allocated retained earnings retired	(7)	(15,095)	(149)	—	(149)	—	(15,251)
Patronage distributions							
Cash	—	—	(1,192)	(17,878)	(19,070)	—	(19,070)
Members' equity	814	—	6,169	(6,983)	(814)	—	—
Balance at December 31, 2002	**$ 2,909**	**$ 103,836**	**$ 34,743**	**$1,095,380**	**$1,130,123**	**$ 218**	**$1,237,086**

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

Combined Statements of Cash Flows

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(*in thousands*)	Year Ended December 31, 2002	2001	2000
Operating Activities			
Net income	**$ 128,078**	$ 112,103	$ 80,227
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**11,317**	9,252	21,876
Provision for losses on other property owned	**279**	269	59
Depreciation and amortization on premises and equipment	**5,884**	5,582	6,903
Accretion of net discount on loans	**(3,716)**	(6,056)	(5,987)
Accretion of net discount on notes	**16,910**	43,837	74,479
Losses on sales of investment securities	**2,919**	—	—
Gains on sales of other property owned, net	**(226)**	(289)	(467)
Gains on sales of premises and equipment	**(469)**	(236)	(542)
Decrease (increase) in accrued interest receivable	**6,915**	17,990	(22,443)
(Increase) decrease in other assets, net	**(1,172)**	1,530	(1,356)
(Decrease) increase in accrued interest payable	**(5,064)**	(14,392)	12,488
Decrease in intra-system financial assistance payable	**(405)**	(475)	(557)
Increase in other liabilities, net	**3,633**	12,220	6,267
Net cash provided by operating activities	**164,883**	181,335	170,947
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 in loans, net	**(789,282)**	(768,251)	(449,847)
Proceeds from sales of other property owned, net	**914**	935	1,001
Proceeds from sales of premises and equipment	**17,871**	590	5,508
Expenditures for premises and equipment	**(10,309)**	(9,184)	(12,586)
Net cash used in investing activities	**(1,079,458)**	(756,968)	(504,236)
Financing Activities			
Bonds and notes issued	**23,012,741**	25,300,047	19,724,138
Bonds and notes retired	**(22,072,974)**	(24,685,674)	(19,390,610)
(Decrease) increase in advanced conditional payments	**(15,572)**	6,015	(4,555)
Capital stock and participation certificates issued	**24,908**	26,448	32,671
Capital stock and participation certificates retired and allocated retained earnings distributed	**(15,251)**	(34,444)	(45,218)
Cash dividends and patronage distributions paid	**(19,965)**	(24,049)	(15,798)
Net cash provided by financing activities	**913,887**	588,343	300,628
Net (decrease) increase in cash	**(688)**	12,710	(32,661)
Cash at beginning of year	**52,054**	39,344	72,005
Cash at end of year	**$ 51,366**	$ 52,054	$ 39,344
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 2,023**	$ 2,242	$ 2,632
Loans transferred to other property owned	**5,863**	3,724	3,316
Unrealized net gains on investment securities	**329**	296	1,441
Cash dividends or patronage distributions payable	**13,845**	14,740	18,492
Supplemental Information			
Cash paid during the year for:			
Interest	**$ 170,070**	$ 257,593	$ 248,954
Income taxes	**681**	2,726	1,874

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

Notes to Combined Financial Statements

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

Note 1 — Organization and Operations

A. Organization:

The Farm Credit Bank of Texas (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 service the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs), Production Credit Associations (PCAs) 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 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).

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.

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. Structural Changes:

On February 1, 2002, Northwest Louisiana ACA parent company structure was formed with the existing Northwest Louisiana PCA acting as the short-term lending subsidiary and the newly-created Northwest Louisiana FLCA handling the long-term loan portfolio. This restructuring completed the transformation of the district's remaining stand-alone PCA to an ACA. Subsequent to FCA's approval, Northwest Louisiana ACA officially changed its name and the names of its subsidiaries to Louisiana Ag Credit, ACA, Louisiana Ag Credit, FLCA and Louisiana Ag Credit, PCA, respectively, on July 1, 2002.

C. Operations:

The Farm Credit Act sets forth the types of authorized lending activities and financial services which can be offered by the bank and the associations and defines the eligible borrowers which they may serve. The associations are authorized to provide or participate with other lenders to provide credit, credit commitments and related services to eligible borrowers. Eligible borrowers are defined as (a) bona fide farmers and ranchers and producers or harvesters of aquatic products, (b) persons furnishing to farmers and ranchers services directly related to their on-farm operating needs, (c) owners of rural homes, (d) rural residents and (e) farm-related businesses. The bank also may lend to any national bank, state bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union or any association of agricultural producers (aggregately referred to as OFIs) engaged in the making of loans to farmers and ranchers, and any corporation engaged in the making of loans to producers or harvesters of aquatic products.

The associations also serve as intermediaries in offering credit life and multi-peril crop insurance and financial management services to their borrowers. The bank performs appraisals of agricultural properties for eligible borrowers throughout the district.

FCA regulations require borrower information be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

FLCAs borrow funds from the bank and in turn originate and service long-term real estate mortgage loans made to their members. The OFIs borrow from the bank and, in turn, originate and service short- and intermediate-term loans for their members. The ACAs borrow from the bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. ACAs may form a parent-subsidiary structure and may operate their long-term mortgage activities through an FLCA subsidiary and their short- and intermediate-term lending activities through a PCA subsidiary. In the states of Alabama and Mississippi, the bank may discount or purchase from FLCAs long-term real estate mortgage loans. In the states of Louisiana, New Mexico and Texas, the bank may discount or purchase from FLCAs long-term real estate mortgage loans and from PCAs short- and intermediate-term loans.

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:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) — 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.

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 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. The premium is 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 combined bank and associations conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of the bank and associations to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year's presentation.

The accompanying combined financial statements include the accounts of the bank and associations and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests. All significant transactions and balances between the bank and associations have been eliminated in combination. The multi-employer structure of certain retirement and benefit plans of the district results in the recording of these plans upon combination only.

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 district'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 members' equity in the combined balance sheets. 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:

Long-term real estate mortgage loans generally have maturities ranging from five to 40 years. Substantially all short-term and intermediate-term loans are made for agricultural production or operating purposes and have maturities of ten years or less.

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 district on behalf of the borrowers, where legal right of setoff exists, and which can be used to reduce outstanding loan balances at the district's discretion, are netted against loans in the combined balance sheets.

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 or association 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 gains on other property owned, net.

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. In accordance with the American Institute of Certified Public Accountants’ (AICPA) Statement of Position (SOP) 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” the bank has capitalized the costs incurred to acquire or develop computer software for internal use. These costs are amortized on a straight-line basis over the estimated useful life of the software, starting from the date the software is placed in service.

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 combined balance sheets. Income received from mineral and royalty holdings, net of related property taxes, in 2002, 2001 and 2000 was $3.9 million, $4.3 million and $3.4 million, respectively, and is included in miscellaneous income in the combined statements 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 and associations are 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 which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2002, 2001 and 2000 were $231.9 million, $245.3 million and $250.4 million, respectively.

Beginning January 1, 2001, with the adoption of the Financial Accounting Standard Board’s (FASB) Statement of Financial Accounting Standards (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 and associations 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.

As more fully described in Note 10, “Employee Benefit Plans,” these plans are accounted for and reported in accordance with SFAS No. 87, “Employers’ Accounting for Pensions,” SFAS No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,” SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions” and SFAS No. 132, “Employers’ Disclosures About Pensions and Other Postretirement Benefits.”

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 and FLCAs are exempt from federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for federal and certain other income taxes.

Certain ACAs operate as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. These ACAs can exclude from taxable income amounts distributed as qualified patronage distributions to borrowers in the form of cash, stock or allocated retained earnings. Provisions for income taxes for these ACAs are made only on the earnings not distributed as qualified patronage distributions. Certain ACAs distribute patronage on the basis of taxable income. In this method, deferred income taxes are provided on the taxable income of ACAs on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. Other ACAs distribute patronage on the basis of book income. In this method, deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. For all ACAs a valuation allowance is provided for the deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized.

As of December 31, 2002, deferred income taxes have not been provided by the ACAs on $26.5 million of pre-1993 patronage distributions from the bank because management's intent is to (1) permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) pass through any distributions related to pre-1993 earnings to borrowers through qualified patronage allocations. No deferred taxes have been provided on the bank's pre-1993 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances which, if distributions were made, would result in income taxes being paid at the association level.

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 when the bank determines 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.

For years ended December 31, 2002, 2001 and 2000, mortgage-backed securities consisted of collateralized mortgage obligations (CMOs).

	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%**
CMOs	**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%
CMOs	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%
CMOs	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
CMOs	307,459	308,692	3.20
Total	$ 783,873	$ 785,071	2.25%

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 on the combined 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
Long-term farm mortgage	**$ 5,691,555**	$ 4,929,949	$ 4,135,110
Rural home	**111,557**	103,813	99,789
Farm-related business	**80,313**	67,995	64,078
Production and intermediate-term	**881,634**	882,563	919,618
OFIs	**26,704**	19,833	10,065
Sales contracts	**4,329**	5,195	7,299
Total	**$ 6,796,092**	$ 6,009,348	$ 5,235,959

A significant source of liquidity for the district is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2002 and indicates that approximately 15 percent of loans had maturities of one year or less.

	Due in 1 year or less	Due after 1 through 5 years	Due after 5 years	Total
Long-term farm mortgage	$ 398,287	$ 1,239,979	$ 4,211,385	$ 5,849,651
Production and intermediate-term	612,150	273,042	61,249	946,441
Total	**$ 1,010,437**	**$ 1,513,021**	**$ 4,272,634**	**$ 6,796,092**

The district's concentration of credit risk in various agricultural commodities is shown in the following table *(dollars in millions)* at December 31:

	2002		2001		2000	
Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 2,821**	**42**	$ 2,522	42	$ 2,180	42
Crops	**1,271**	**19**	1,201	20	1,132	22
Timber	**752**	**11**	539	9	448	8
Cotton	**696**	**10**	644	11	621	12
Poultry	**372**	**5**	366	6	300	6
Dairy	**151**	**2**	127	2	113	2
Rural home	**112**	**2**	104	2	100	2
Other	**621**	**9**	506	8	342	6
Total	**$ 6,796**	**100%**	$ 6,009	100%	$ 5,236	100%

While the amounts in the table above represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the district's lending activities is collateralized, and, accordingly, the actual credit risk associated with lending activities is considerably less than the recorded loan principal. An estimate of actual credit risk is considered in the combined financial statements in the allowance for loan losses.

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. 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	**$ 30,265**	$ 48,412	$ 17,993
Past due	**18,494**	29,568	36,389
Total nonaccrual loans	**48,759**	77,980	54,382
Accrual loans			
Restructured	**10,350**	5,407	5,286
90 days or more past due	**2,512**	3,369	2,206
Total impaired loans	**$ 61,621**	$ 86,756	$ 61,874

There were $2.5 million in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2002.

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	**$ 4,910**	$ 2,631	$ 3,061
Interest income reversed upon transfer to nonaccrual status	**$ 337**	$ 367	$ 175

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

	December 31,		
	2002	2001	2000
Balance at beginning of year	**$ 156,952**	$ 147,136	$ 142,582
Charge-offs:			
Long-term farm mortgage	**1,190**	146	22,144
Farm-related business	**944**	5	—
Production and intermediate-term	**2,076**	2,162	2,805
Other	**54**	—	—
Total charge-offs	**4,264**	2,313	24,949
Recoveries:			
Long-term farm mortgage	**84**	34	211
Farm-related business	—	44	6,776
Production and intermediate-term	**1,766**	2,799	640
Total recoveries	**1,850**	2,877	7,627
Net (charge-offs) recoveries	**(2,414)**	564	(17,322)
Provision for loan losses	**11,317**	9,252	21,876
Balance at end of year	**$ 165,855**	$ 156,952	147,136
Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period	**0.04%**	(0.01)%	0.35%

During 2000, the district recorded $18.4 million in provisions for loan losses and $20.2 million in charge-offs on a loan participated with another System bank. In December of 2002, the district 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 $3.3 million to reverse the specific allowance on that loan.

Also during 2000, the bank and certain associations received a $10.0 million recovery in connection with loans to the Texas Boll Weevil Eradication Foundation (Foundation). The bank and two associations received $2.6 million and subsequently charged off the remaining $1.8 million balance on their loans to the Foundation. The remaining $7.4 million of the total amount received was distributed to the associations that had previously charged off loans. All but one of these associations recorded total recoveries of $5.5 million and negative provisions for loan losses of $4.4 million during 2000. The remaining association recorded a negative provision for loan losses of $2.0 million in 2001.

The following table presents a breakdown of the allowance for loan losses at December 31 *(dollars in millions)*:

	2002		2001		2000	
	Amount	**%**	Amount	%	Amount	%
Long-term farm mortgage	**$ 139.4**	**84**%	$ 130.8	83%	$ 120.3	82%
Production and intermediate-term	**26.5**	**16**	26.2	17	26.8	18
Total	**$ 165.9**	**100%**	$ 157.0	100%	$ 147.1	100%

The following table presents information concerning impaired loans at:

	2002	2001	2000
With related specific allowance	**$ 11,480**	$ 26,501	$ 18,212
With no related specific allowance	**50,141**	60,255	43,662
Total impaired loans	**$ 61,621**	$ 86,756	$ 61,874
Specific allowance on impaired loans	**$ 3,572**	$ 6,234	$ 5,315

The following table summarizes impaired loan information for years ended December 31:

	2002	2001	2000
Average impaired loans	**$ 81,571**	$ 78,484	$ 75,963
Interest income recognized on impaired loans	**$ 5,600**	$ 3,567	$ 4,783

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2002	2001	2000
Land	**$ 6,275**	$ 7,566	$ 6,927
Buildings and improvements	**23,534**	44,893	41,691
Furniture and equipment	**35,249**	33,439	30,469
	65,058	85,898	79,087
Accumulated depreciation	**(33,468)**	(41,331)	(37,768)
Total	**$ 31,590**	$ 44,567	$ 41,319

In November 2002, the bank sold the district headquarters building and related land, with a net book value of $16.1 million, for net proceeds of $16.3 million. 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	$ —
Deferred tax assets	**7,154**	7,161	7,369
Accounts receivable	**5,271**	3,755	5,709
Intangible assets related to pensions	**3,375**	—	—
Land investment	**877**	891	1,346
Other, net	**4,827**	5,150	4,063
Total	**$ 32,492**	$ 17,616	$ 18,487

Other liabilities comprised the following at December 31:

	2002	2001	2000
Postretirement benefits	**$ 35,151**	$ 31,182	$ 28,210
Advance conditional payments	**25,622**	41,194	35,179
Accrued pension cost	**14,378**	13,906	12,725
Additional minimum pension liability	**4,355**	—	—
Patronage distributions payable	**13,845**	14,740	18,492
Bank draft payable	**11,153**	14,078	692
Deferred tax liabilities	**4,875**	6,840	9,849
Accounts payable	**4,692**	4,464	4,495
FCSIC premium payable	**2,008**	—	101
Notes payable	**1,983**	539	406
Income taxes payable	**1,721**	1,408	3,841
Fair value of derivatives	**—**	1,347	—
Other, net	**6,219**	6,130	6,008
Total	**$ 126,002**	$ 135,828	$ 119,998

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 Market Access Agreement.

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 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 16, "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
Total	$ 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 — Members' Equity

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

A. Capitalization Requirements:

As a condition of borrowing, in accordance with the Farm Credit Act, each borrower is required to invest in common stock (in the case of mortgage or agricultural loans) or participation certificates (in the case of rural residence or farm-related business loans) of their respective association. Capitalization bylaws of the associations establish minimum and maximum stock purchase requirements for borrowers. The initial investment requirement varies by association and ranges from the statutory minimum of one thousand dollars or 2 percent of the loan amount, whichever is less, to a maximum of 4.76 percent of the loan amount. The capitalization bylaws also limit the capital contributions that an institution can require from its borrowers to 10 percent of defined borrowings for associations. If necessary, each association's board of directors may modify, within the range defined in their bylaws, the capitalization requirements to meet the association's capital needs.

A borrower obtaining a mortgage or agricultural loan purchases voting common stock which entitles the holder to a single vote, regardless of the number of shares held in the respective association. Within two years after a borrower's loan is repaid in full, any voting common stock held by the borrower will be converted to nonvoting common stock. A borrower obtaining a rural residence or farm-related business loan purchases participation certificates which provide no voting rights to their owner.

Each class of nonvoting stock must approve, as a class, the adoption of future revisions of capitalization bylaws if the class of stock is affected by a change in the preference provided for in the proposed capitalization bylaws.

Capitalization bylaws for each association provide for the amount of voting common stock or participation certificates that are required to be purchased by a borrower as a percentage of the loan obtained. The borrower acquires ownership of the common stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The bank and the associations have a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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 and associations are 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's permanent capital ratio at December 31, 2002, was 18.06 percent and exceeded FCA standards. All associations currently meet the minimum capital standard established by FCA regulations. All associations are able to retire stock or distribute earnings in accordance with the Farm Credit Act and FCA regulatory restrictions. Management knows of no reasons why the bank and associations would be prohibited from retiring stock or from making patronage distributions during 2003.

The following table sets forth the ranges of capital standards for the district at December 31, 2002:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	18.06	12.56	14.01
FLCAs	13.16 - 28.04	10.86 - 25.60	10.86 - 25.60
ACAs	12.13 - 16.55	8.83 - 15.14	9.41 - 15.33
Regulatory minimum standard	7.00	3.50	7.00

The bank is required by FCA regulations to achieve and maintain net collateral of 103 percent of total liabilities. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, and cash and equivalents. At December 31, 2002, the bank's net collateral ratio was 105.32 percent.

C. Description of Associations' Equities:

The following is a summary of the associations' stock and participation certificates outstanding:

Stock and Participation Certificates	Par Value	Number of Shares at December 31, **2002**	2001	2000
Stock				
Common – voting (eligible for dividends, convertible)	$ 5.00	**20,006,871**	18,108,879	19,438,657
Common – nonvoting (eligible for dividends, convertible)	$ 5.00	**129,719**	112,255	128,943
Preferred – nonvoting (eligible for dividends, nonconvertible)	$ 5.00	**581,877**	420,415	340,182
Participation certificates, nonvoting (eligible for dividends, convertible)	$ 5.00	**528,982**	512,435	494,857

The District's preferred stock is non-voting stock. It is issued by one association as evidence of borrowers' claims to allocated retained earnings of a specific year. The preferred stock may be retired at the sole discretion of the association's board of directors.

In the event of the liquidation or dissolution of an association, any assets of the association remaining after payment or retirement of all liabilities shall be distributed to stockholders in the following order:

First, holders of preferred stock at par value, if any;

Second, ratably to holders of all classes of common stock and participation certificates at par value or face amount;

Third, ratably to the holders of allocated retained earnings on the basis of oldest allocations first;

Fourth, ratably to the holders of nonqualified written notices of allocation on the basis of the oldest allocations first;

Then, the remainder of assets ratably to all holders of common stock and participation certificates, in proportion to the aggregate patronage of each such holder to the total patronage of all holders.

ACA bylaws provide for operation as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under cooperative operations, earnings of the ACA may be distributed to borrowers. Patronage distributions are generally in the form of allocated retained earnings and cash. At least 20 percent of the total patronage distribution must be paid in cash. Amounts not distributed are retained as unallocated retained earnings.

D. 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. These intercompany balances and transactions are eliminated in combination.

The bank requires OFIs to make cash purchases of common nonvoting stock 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. At December 31, 2002, the bank had $508 of common stock outstanding to OFIs at a par value of $5.00 per share.

Note 9 — Income Taxes

The information that follows relates only to the district's ACAs, as the bank and FLCAs are exempt from federal and other income taxes.

The provision for income taxes follows for years ended December 31:

	2002	2001	2000
Current			
Federal	**$ 1,149**	$ 1,106	$ 2,740
State	**85**	99	65
Total current	**1,234**	1,205	2,805
Deferred			
Federal	**(1,935)**	(2,747)	(511)
State	**(23)**	(54)	2
Total deferred	**(1,958)**	(2,801)	(509)
Total (benefit from) provision for income taxes	**$ (724)**	$ (1,596)	$ 2,296

The (benefit from) provision for income tax differs from the amount of income tax determined by applying the statutory federal income tax rate to pretax income as a result of the following differences for years ended December 31:

	2002	2001	2000
Federal tax at statutory rate	**$ 19,385**	$ 17,235	$ 5,437
State tax, net	**85**	62	67
Effect of nontaxable entities	**(15,509)**	(13,056)	—
Patronage distributions	**(3,234)**	(3,609)	(2,790)
Allowance transfers from PCAs to FLCAs within ACA parent company structure	**—**	892	—
Capital download to associations	**(1,937)**	(3,240)	(105)
Other, net	**486**	120	(313)
Total (benefit from) provision for income taxes	**$ (724)**	$ (1,596)	$ 2,296

Deferred tax assets and liabilities comprised the following elements at December 31:

	2002	2001	2000
Allowance for loan losses	**$ 7,626**	$ 7,564	$ 6,943
U.S. Treasury advanced interest payable	**79**	89	108
Allowance for acquired property	**242**	239	165
Other	**155**	188	153
Gross deferred tax assets	**8,102**	8,080	7,369
Less valuation allowance	**(948)**	(919)	—
Adjusted gross deferred tax assets	**7,154**	7,161	7,369
FCBT stock redemption	**(3,757)**	(5,690)	(8,914)
Lease property	**(1,118)**	(1,150)	(935)
Gross deferred tax liabilities	**(4,875)**	(6,840)	(9,849)
Net deferred tax assets (liabilities)	**$ 2,279**	$ 321	$ (2,480)

Note 10 — Employee Benefit Plans

Employees of the bank and district associations participate in either the defined benefit retirement plan (DB plan) or a defined contribution plan (DC plan) and are eligible to participate in the Thrift Plus Plan of the district.

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. Losses attributable to prior service cost no longer expected to be rendered as a result of the reduction of active participants in the DB plan were $9, $40 and $41, for the years ended December 31, 2002, 2001 and 2000, respectively. Under SFAS No. 88, pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under a retention plan totaled $347, $1.2 million and $577 during the years ended December 31, 2002, 2001 and 2000, respectively.

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. Employer contributions to the DC plan were $847, $605 and $553 for the years ended December 31, 2002, 2001 and 2000, respectively. Beginning January 1, 2003, employers will contribute 4 percent of eligible compensation to DC plan participants' accounts.

The district also participates in a district-wide 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. Thrift Plus Plan employer contributions were $1.3 million, $1.1 million and $1.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. In 2003, the bank and associations 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.

Additionally, certain qualified individuals in the bank may participate in a separate, defined benefit supplemental pension plan.

The bank and associations also provide certain health care and life insurance benefits to eligible retired employees (retiree medical plan). Substantially all of the employees of the bank and associations may become eligible for those benefits if they retire from the bank or an association.

The following table reflects the benefit obligation, cost and actuarial assumptions for the district's pension and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
	2002	2001	2000	**2002***	2001	2000
Change in benefit obligation						
Benefit obligation at beginning of year	**$ 123,787**	$ 110,434	$ 96,641	**$ 45,706**	$ 29,670	$ 21,857
Service cost	**2,899**	2,614	3,713	**1,572**	1,436	1,168
Interest cost	**8,668**	8,021	7,460	**2,894**	2,394	2,013
Actuarial loss (gain)	**7,611**	6,861	7,216	**(116)**	12,945	5,567
Plan amendments	**—**	112	—	**(2,997)**	—	—
Loss (gain) due to curtailments	**—**	66	(106)	**—**	—	—
Settlements	**—**	—	—	**44**	33	51
Special termination benefits	**347**	1,197	577	**—**	—	—
Benefits paid	**(5,846)**	(5,518)	(5,067)	**(869)**	(772)	(986)
Benefit obligation at end of year	**$ 137,466**	$ 123,787	$ 110,434	**$ 46,234**	$ 45,706	$ 29,670
Benefit obligation at end of year - pension plan	**$ 135,984**	$ 122,655	$ 109,160			
Benefit obligation at end of year - supplemental pension plan	**1,482**	1,132	1,274			
Total benefit obligation at end of year	**$ 137,466**	$ 123,787	$ 110,434			
Change in plan assets						
Fair value of plan assets at beginning of year	**$ 105,489**	$ 110,375	$ 110,062	**$ 601**	688	$ 725
Actual return on plan assets	**(7,184)**	(3,743)	4,803	**(57)**	(19)	73
Employer contribution	**4,519**	4,375	577	**952**	869	1,023
Settlements	**—**	—	—	**(163)**	(165)	(147)
Benefits paid	**(5,846)**	(5,518)	(5,067)	**(869)**	(772)	(986)
Fair value of plan assets at end of year	**$ 96,978**	$ 105,489	$ 110,375	**$ 464**	601	$ 688
Fair value of plan assets at end of year - pension plan	**$ 96,978**	$ 105,489	$ 110,375			
Fair value of plan assets at end of year - supplemental plan	**—**	—	—			
Total fair value of plan assets at end of year	**$ 96,978**	$ 105,489	$ 110,375			
Funded status - pension plan	**$ (39,006)**	$ (17,166)	$ 1,215			
Funded status - supplemental plan	**(1,482)**	(1,132)	(1,274)			
(Unfunded) funded status	**$ (40,488)**	$ (18,298)	$ (59)	**$ (45,770)**	$ (45,105)	$ (28,982)
Unrecognized actuarial loss (gain)	**22,735**	383	(17,234)	**14,384**	15,202	2,264
Unrecognized prior service cost	**3,375**	4,009	4,568	**(3,765)**	(1,279)	(1,492)
Accrued benefit cost	**$ (14,378)**	$ (13,906)	$ (12,725)	**$ (35,151)**	$ (31,182)	$ (28,210)
Amounts recognized in the combined balance sheets consist of:						
Accrued benefit cost	**$ (14,378)**	$ (13,906)	$ (12,725)	**$ (35,151)**	$ (31,182)	$ (28,210)
Minimum pension liability adjustment	**(4,355)**	—	—	—	—	—
Intangible asset	**3,375**	—	—	—	—	—
Accumulated other comprehensive income	**980**	—	—	—	—	—
Accrued benefit cost	**$ (14,378)**	$ (13,906)	$ (12,725)	**$ (35,151)**	$ (31,182)	$ (28,210)
Weighted-average assumptions as of 12/31						
Discount rate	**6.75%**	7.0%	7.25%	**6.75%**	7.0%	7.25%
Expected return on plan assets	**7.0**	7.0	7.0	**7.0**	7.0	7.0
Rate of compensation increase	**4.5**	4.5	4.5	**N/A**	N/A	N/A

	Pension Benefits			Other Postretirement Benefits		
	2002	2001	2000	**2002***	2001	2000
Components of net periodic benefit cost						
Service cost	**$ 2,899**	$ 2,614	$ 3,713	**$ 1,572**	$ 1,436	$ 1,168
Interest cost	**8,668**	8,021	7,460	**2,894**	2,394	2,013
Expected return on plan assets	**(7,541)**	(6,923)	(6,738)	**(42)**	(48)	(51)
Amortization of prior service cost	**634**	671	754	**(511)**	(213)	(213)
Recognized actuarial (gain) loss	**(16)**	(24)	—	**964**	240	69
Total district sponsored plans	**$ 4,644**	$ 4,359	$ 5,189	**$ 4,877**	$ 3,809	$ 2,986

* For measurement purposes, annual rates of increase in the per capita costs of covered pre- and post-Medicare health care benefits of 11.0 percent and 13.0 percent, respectively, were assumed for 2003. These rates were assumed to decrease gradually to 5.0 percent and 5.5 percent for pre- and post-Medicare health care benefits, respectively, for 2008, and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.
A one percentage point change in assumed health care cost trend rates would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	$ 900	$ (703)
Effect on postretirement benefit obligation	$ 7,610	$ (6,107)

Note 11 — 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 district'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 district 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 district's financial assistance expense totaled $7.4 million, $6.9 million and $8.4 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 12 — Related Party Transactions

In the ordinary course of business, the bank and associations have entered into loan transactions with directors, officers and other employees of the bank or associations and other organizations with which such persons may be associated. Total loans to such persons at December 31, 2002, amounted to $101.6 million. In the opinion of management, such loans outstanding to directors, officers and other employees of the bank at December 31, 2002, did not involve more than a normal risk of collectibility and were subject to approval requirements contained in FCA regulations and were made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Disclosures on individual associations' officers and directors are found in the associations' individual annual reports.

Note 13 — Commitments and Contingencies

In the normal course of business, the bank and associations have 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 and associations 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 combined financial position or results of operations of the bank and associations.

Note 14 — Financial Instruments With Off-Balance-Sheet Risk

The bank and associations 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 and associations have outstanding a significant number of commitments to extend credit. The bank and associations also provide 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 combined balance sheets (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 district's commitments to extend credit totaled $652.3 million, $698.4 million and $591.1 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 15 — Disclosure About the Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the district'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 district'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	**$ 890,406**	**$ 890,406**	$ 595,032	$ 595,032	$ 600,968	$ 600,968
Loans	**6,796,092**	**6,876,086**	6,009,348	5,987,520	5,235,959	5,162,151
Allowance for loan losses	**(165,855)**	**—**	(156,952)	—	(147,136)	—
Loans, net	**6,630,237**	**6,876,086**	5,852,396	5,987,520	5,088,823	5,162,151
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 district 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 bank's and / or the associations' 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 which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

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 16 — Derivative Instruments and Hedging Activity:

The district 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 district'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 district'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 district's gains and losses on the derivative instruments that are linked to these hedged liabilities. The district 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 district enters into derivatives, particularly interest rate swaps, primarily to lower interest rate risk. Interest rate swaps allow the district to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the district if floating-rate borrowings were made directly. Under interest rate swap arrangements, the district 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 district'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 district pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the district's net interest income.

By using derivative instruments, the district exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the district'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 district, thus creating a repayment risk for the district. When the fair value of the derivative contract is negative, the district 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 district's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the district'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 district's overall interest rate risk-management strategies. The district 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 17 — 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	**$ 53,580**	**$ 58,520**	**$ 60,462**	**$ 64,448**	**$ 237,010**
Provision for loan losses	**2,772**	**2,849**	**4,812**	**884**	**11,317**
Noninterest expense, net	**24,255**	**20,114**	**20,147**	**25,745**	**90,261**
FAC expense	**1,724**	**1,836**	**1,854**	**1,940**	**7,354**
Net income	**$ 24,829**	**$ 33,721**	**$ 33,649**	**$ 35,879**	**$ 128,078**

	2001				
	First	Second	Third	Fourth	Total
Net interest income	$ 50,547	$ 49,502	$ 51,541	$ 55,904	$ 207,494
(Negative provision) provision for loan losses	(284)	2,759	2,441	4,336	9,252
Noninterest expense, net	21,032	17,404	17,256	23,553	79,245
FAC expense	1,734	1,657	1,746	1,757	6,894
Net income	$ 28,065	$ 27,682	$ 30,098	$ 26,258	$ 112,103

	2000				
	First	Second	Third	Fourth	Total
Net interest income	$ 48,402	$ 46,135	$ 47,722	$ 48,851	$ 191,110
Provision for loan losses	2,801	7,741	2,304	9,030	21,876
Noninterest expense, net	19,187	19,227	19,489	22,721	80,624
FAC expense	1,745	1,974	2,948	1,716	8,383
Net income	$ 24,669	$ 17,193	$ 22,981	$ 15,384	$ 80,227

Note 18 — Bank Only Financial Data

Condensed financial information for the bank follows. All significant transactions and balances between the bank and 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 upon combination.

	December 31,		
Balance Sheet Data	**2002**	2001	2000
Cash, federal funds sold and securities purchased under resale agreements	**$ 61,859**	$ 48,804	$ 13,630
Investment securities	**785,071**	503,978	551,124
Loans			
To associations	**5,411,885**	4,663,544	3,976,820
To others	**415,066**	447,649	444,792
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
Other assets	**21,576**	27,546	27,190
Total assets	**$ 6,707,443**	$ 5,700,995	$ 5,032,273
Bonds and notes	**$ 6,284,567**	$ 5,316,214	$ 4,658,692
Other liabilities	**51,781**	55,896	71,325
Total liabilities	**6,336,348**	5,372,110	4,730,017
Capital stock and participation certificates	**109,896**	93,938	77,918
Retained earnings	**260,001**	234,078	223,765
Accumulated other comprehensive income	**1,198**	869	573
Total members' equity	**371,095**	328,885	302,256
Total liabilities and members' equity	**$ 6,707,443**	$ 5,700,995	$ 5,032,273

	Year Ended December 31,		
Statement of Income Data	**2002**	2001	2000
Interest income	**$ 208,675**	$ 272,964	$ 343,385
Interest expense	**163,584**	236,537	270,988
Net interest income	**45,091**	36,427	72,397
(Negative provision) provision for loan losses	**(2,902)**	1,439	19,191
Net interest income after provision for loan losses	**47,993**	34,988	53,206
Noninterest income	**6,718**	7,041	6,429
Intra-system financial assistance expense	**3,206**	3,106	3,269
Other expense	**19,340**	12,979	13,199
Net income	**$ 32,165**	$ 25,944	$ 43,167

As discussed in Note 11, "Intra-System Financial Assistance," the financial data presented above does not reflect a liability and a deduction from retained earnings of $1.2 million, $1.6 million and $2.1 million as of December 31, 2002, 2001 and 2000, respectively, related to the present value of FAC obligations.

Disclosure Information and Index

Disclosures Required by Farm Credit Administration Regulations

Description of Business

The Farm Credit Bank of Texas (FCBT or bank), Agricultural Credit Associations (ACAs) and the Federal Land Credit Associations (FLCAs) of the Tenth Farm Credit District (district) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers / stockholders for qualified agricultural purposes 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, persons 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 combined 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 district 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 February 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

		Annual			
Name of Individual or Group	Year	Salary (a)	Bonus (b)	Other (c)	Total
Arnold Henson,	2002	$ 310,000	$ 50,000	$ —	$ 360,000
Chief Executive Officer	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 the district 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. The district associations own 19 headquarter locations and lease 3. There are 106 owned and 58 leased association branch locations. The bank's and associations' investment in property is further detailed in Note 5, "Premises and Equipment," to the accompanying combined financial statements.

Legal Proceedings

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 13, "Commitments and Contingencies," to the accompanying combined financial statements outlines the bank's position with regard to possible contingencies at December 31, 2002.

Description of Capital Structure

The bank and associations are authorized to issue and retire certain classes of capital stock and retained earnings in their management of the capital structure. Details of the capital structure are described in Note 8, "Members' Equity," to the accompanying combined financial statements, and in the "Management's Discussion and Analysis" of the district 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 combined financial statements. The bank's contingent liabilities and intra-system financial assistance rights and obligations are described in Note 13, "Commitments and Contingencies," and Note 11, "Intra-System Financial Assistance," to the accompanying combined 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 Combined 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 combined financial statements in this annual report, is incorporated herein by reference.

Transactions With Senior Officers and Directors

The bank's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 12, "Related Party Transactions," to the accompanying combined financial statements.

Relationship With Public Accountants

There were no changes in independent public accountants since the prior 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 February 21, 2003, and the report of management, appearing on pages 12 through 13 of 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*.

Tenth District Associations

as of March 31, 2003

AGRICULTURAL CREDIT ASSOCIATIONS

Texas

AgCredit of South Texas, ACA .... (956) 447-5500
555 S. International Blvd., Weslaco, TX 78596

AgriLand, Farm Credit Services .... (903) 593-0151
3210 W. Northwest Loop 323, Tyler, TX 75702

AgTexas Farm Credit Services .... (806) 687-4068
6502 Slide Road, Suite 307, Lubbock, TX 79424

Capital Farm Credit, ACA .... (979) 822-3018
507 East 26th Street, Bryan, TX 77803

First Ag Credit, FCS .... (806) 281-1789
5715 50th Street, Lubbock, TX 79414

Great Plains Ag Credit, ACA .... (806) 376-4669
320 West 7th Street, Amarillo, TX 79101

Heritage Land Bank, ACA .... (903) 534-4975
4608 Kinsey Drive, Suite 100, Tyler, TX 75703

Lone Star Land Bank, ACA .... (817) 341-4000
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605 West Hondo Street, Devine, TX 78016

Texas AgFinance, FCS .... (361) 387-8563
545 South Highway 77, Robstown, TX 78380

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Louisiana Ag Credit, ACA .... (318) 263-2082
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Ag New Mexico, Farm Credit Services, ACA .... (505) 762-3828
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of North Alabama, FLCA .... (256) 734-0132
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Federal Land Bank Association
of South Alabama, FLCA .... (334) 270-8686
7602 Halcyon Summit Drive, Montgomery, AL 36117

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Louisiana Federal Land Bank
Association, FLCA .... (318) 387-7535
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Land Bank of North Mississippi, FLCA .... (662) 562-9664
5509 Highway 51 North, Senatobia, MS 38668

Federal Land Bank Association
of South Mississippi, FLCA .... (601) 355-8500
500 Greymont Avenue, Suite D, Jackson, MS 39202

Texas

Brady Land Bank, FLCA .... (915) 597-2252
203 South Blackburn, Brady, TX 76825

Panhandle-Plains
Federal Land Bank Association, FLCA .... (806) 331-0926
5700 Southwest 45th, Amarillo, TX 79109

The Land Bank of Sulphur Springs, FLCA .... (903) 885-9566
303 Connally Street, Sulphur Springs, TX 75482

Federal Land Bank Association
of Texas, FLCA .... (915) 625-2165
215 West Elm Street, Coleman, TX 76834

Texas Land Bank, FLCA .... (254) 772-9343
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