FARM CREDIT BANK OF TEXAS

STANDING STRONG WITH RURAL AMERICA

2001 ANNUAL REPORT

MESSAGE TO STOCKHOLDERS

The Tenth Farm Credit District shared in the shock of the tragedy in 2001 that threatened America's freedom and shook the nation's economy. Throughout this time of uncertainty, we stood strong with rural America, supporting our customers so they could continue their operations without interruption. Thanks to the ingenuity and cooperative efforts of employees of the Farm Credit Bank of Texas and the Federal Farm Credit Banks Funding Corporation, we successfully maintained the flow of money needed to meet association loan commitments during those first critical days following September 11.

Looking back on the events of 2001, it is encouraging to report that just as America emerged stronger than ever, the Tenth Farm Credit District also ended last year on a strong note. Reductions in interest rates kept the district in a very competitive position throughout the year and contributed to a stable rural real estate market in spite of a downturn in the general economy. These factors resulted in a 45 percent increase in new business for the district, strong earnings and record year-end loan volume.

Livestock operations were generally profitable last year, while the farm sector was pressured by low commodity prices, high input costs and large commodity supplies throughout the year. The quality of the district's loan portfolio nevertheless remained extremely high, as many borrowers have off-farm income to help meet their debt obligations. Additionally, the government fulfilled its role in protecting the security of the nation's food supply by providing federal payments to agriculture.

Last year saw the early fruit of association restructuring efforts that began in 2000 and continued into 2001. By year end, 11 of the district's 22 associations had become full-service retail lenders, or Agricultural Credit Associations (ACAs), and a twelfth association joined them as an ACA in early 2002. Each association decides which business model is the most competitive for its local marketplace. Collectively, these individual decisions will position the Tenth District to better serve the agricultural industry's financing needs in years to come.

Excellent operating results, such as those we experienced in 2001, are the result of strategic planning and hard work rather than circumstance. It is a pleasure to be associated with the talented and dedicated employees and directors of the Tenth District who, together, were responsible for our outstanding achievements. They are to be commended for implementing a host of projects that streamlined our credit delivery system and made our associations more responsive and competitive in the marketplace.

Recognizing that we will be challenged to sustain our 2001 performance, we have adopted a 2002 business plan that encourages efficiency and profitability alongside new business development. We look forward to expanding and improving our products and services, with more emphasis on e-commerce and advanced technology.

Our customers' financing needs may grow and our products may change, but our mission — to be a stable and reliable source of credit for agricultural producers and rural residents — has remained the same for 85 years. We will continue to stand strong with rural America and support our customers' freedom to farm and ranch and to enjoy the benefits of rural life.

Arnold R. Henson
Chief Executive Officer

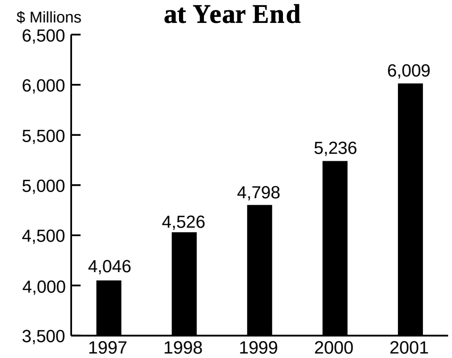
KEY RESULT AREAS

2001 Key Financial Highlights

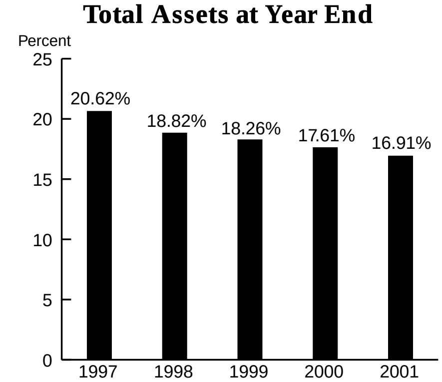
(Dollars in Thousands)

Total Loans	$6,009,348
Total Assets	$6,619,246
Net Income	$112,103
Return on Average Assets	1.83%
Return on Average Members' Equity	10.37%

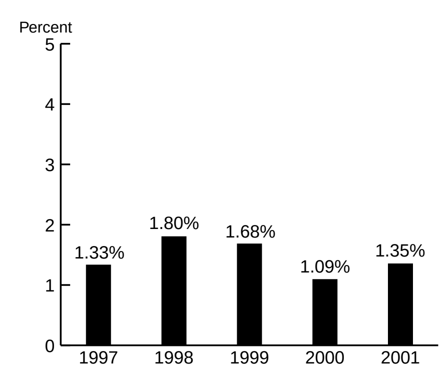
Total Loans Outstanding at Year End



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)	**2001**	2000	1999	1998	1997
Balance Sheet Data					
Cash, federal funds sold and securities purchased under resale agreements	**$ 91,054**	$ 49,844	$ 97,005	$ 56,058	$ 85,227
Investment securities	**503,978**	551,124	486,871	525,825	335,966
Loans	**6,009,348**	5,235,959	4,798,131	4,525,544	4,045,538
Less allowance for loan losses	**156,952**	147,136	142,582	129,126	121,023
Net loans	**5,852,396**	5,088,823	4,655,549	4,396,418	3,924,515
Other property owned, net	**3,319**	2,752	2,661	4,725	4,343
Other assets	**168,499**	184,112	159,596	176,692	162,260
Total assets	**$6,619,246**	$ 5,876,655	$ 5,401,682	$ 5,159,718	$ 4,512,311
Obligations with maturities of one year or less	**$4,039,044**	$ 3,578,765	$ 3,099,617	$ 3,288,133	$ 2,668,648
Obligations with maturities greater than one year	**1,461,130**	1,262,924	1,315,633	900,607	913,401
Total liabilities	**5,500,174**	4,841,689	4,415,250	4,188,740	3,582,049
Capital stock and participation certificates	**96,125**	102,103	115,622	147,824	157,515
Allocated retained earnings	**29,915**	27,044	21,401	18,724	14,503
Unallocated retained earnings	**992,163**	905,246	850,277	804,520	758,295
Accumulated other comprehensive income (loss)	**869**	573	(868)	(90)	(51)
Total members' equity	**1,119,072**	1,034,966	986,432	970,978	930,262
Total liabilities and members' equity	**$6,619,246**	$ 5,876,655	$ 5,401,682	$ 5,159,718	$ 4,512,311
Statement of Income Data					
Net interest income	**$ 208,445**	$ 192,007	$ 187,040	$ 181,734	$ 168,203
Provision for loan losses	**(9,252)**	(21,876)	(13,443)	(8,106)	(16,994)
Noninterest expense, net	**(88,686)**	(87,608)	(90,302)	(85,852)	(65,180)
(Benefit from) provision for income taxes	**1,596**	(2,296)	(1,515)	(2,220)	(132)
Extraordinary loss on early extinguishment of debt	**—**	—	—	(5,379)	—
Net income	**$ 112,103**	$ 80,227	$ 81,780	$ 80,177	$ 85,897
Key Financial Ratios (unaudited)					
Net income to:					
Average assets	**1.83%**	1.48%	1.58%	1.72%	1.94%
Average members' equity	**10.37**	7.82	8.28	8.30	9.46
Net interest income to average earning assets	**3.45**	3.57	3.65	3.95	3.85
Net (recoveries) charge-offs to average loans	**(.01)**	.35	—	—	.27
Total members' equity to total assets	**16.91**	17.61	18.26	18.82	20.62
Allowance for loan losses to total loans	**2.61**	2.81	2.97	2.85	2.99
Regulatory permanent capital ratio (bank only)	**18.10**	19.18	14.61	15.18	18.63
Total surplus ratio (bank only)	**14.01**	14.40	11.59	12.20	14.56
Core surplus ratio (bank only)	**12.82**	13.63	11.03	11.68	13.85
Net collateral ratio (bank only)	**105.33**	105.21	106.29	106.18	107.33
Other (unaudited)					
Net income distributions declared					
Cash dividends	**$ 3,617**	$ 3,466	$ 4,723	$ 3,903	$ 4,148
Patronage distributions					
Cash	**16,680**	17,121	27,046	24,040	12,016
Capital stock	—	—	—	—	1,402
Retained earnings	**4,889**	5,063	4,254	6,009	5,140

COMBINED AVERAGE BALANCES AND NET INTEREST EARNINGS

Farm Credit Bank of Texas and District Associations

(unaudited)

December 31,

	2001			2000			1999		
(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	**$ 460,904**	**$ 21,487**	**4.66%**	$ 433,512	$ 28,587	6.59%	$ 491,150	$ 26,326	5.36%
Long-term real estate loans	**4,667,122**	**352,045**	**7.54**	4,064,109	345,170	8.49	3,818,962	307,346	8.05
Short- and intermediate-term loans	**920,136**	**72,040**	**7.83**	876,289	83,053	9.48	816,146	72,308	8.86
Total loans	**5,587,258**	**424,085**	**7.59**	4,940,398	428,223	8.67	4,635,108	379,654	8.19
Total interest-earning assets	**6,048,162**	**445,572**	**7.37**	5,373,910	456,810	8.50	5,126,258	405,980	7.92
Cash	**15,875**			7,964			14,822		
Accrued interest receivable	**128,011**			121,357			114,270		
Allowance for loan losses	**(150,083)**			(143,884)			(134,082)		
Other noninterest-earning assets	**67,638**			61,493			64,479		
Total average assets	**$6,109,603**			$5,420,840			$5,185,747		
Liabilities and members' equity									
Bonds and medium-term notes, net	**$3,653,613**	**$ 187,341**	**5.13%**	$3,128,537	$ 195,425	6.25%	$2,644,411	$ 147,812	5.59%
Discount notes, net	**1,209,460**	**49,786**	**4.12**	1,106,618	69,378	6.27	1,411,871	71,128	5.04
Total interest-bearing liabilities	**4,863,073**	**237,127**	**4.88**	4,235,155	264,803	6.25	4,056,282	218,940	5.40
Noninterest-bearing liabilities	**165,712**			159,765			141,900		
Total liabilities	**5,028,785**			4,394,920			4,198,182		
Members' equity and retained earnings	**1,080,818**			1,025,920			987,565		
Total average liabilities and members' equity	**$6,109,603**			$5,420,840			$5,185,747		
Net interest income/yield on interest-earning assets		**$ 208,445**	**3.45%**		$ 192,007	3.57%		$ 187,040	3.65%

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

(dollars in thousands, except as noted)

Overview

The Tenth Farm Credit District (district) continued to realize loan volume growth, strong earnings and strong credit quality in 2001. District loan volume grew by $773.4 million, net income exceeded $112 million and approximately $25.2 million of cash dividends and patronage distributions have been paid or declared for payment to district stockholders. This was achieved despite notably dry conditions which persisted during the summer growing season in most regions of the district, high fuel and other input costs, an abundance of commodity supplies and continued low commodity prices. Federal government payments made to farmers in 1999, additional payments approved and distributed in 2000 and 2001, including emergency assistance originating from special legislations, a low interest rate environment, the availability of off-farm income sources and the full utilization of Farm Service Agency guarantees have mitigated the impact of adverse agricultural economic conditions, allowing district entities to sustain the high credit quality of their loan portfolios in 2001. Despite the downturn in the general economy through the end of 2001, farmers and ranchers have benefited from stable land values and the continued demand for farm and ranch land around larger metropolitan areas.

Livestock operations, which represent approximately 42 percent of the district's loan portfolio, were generally profitable during the first nine months of 2001. Following historical trends, fed cattle prices declined during the fourth quarter of 2001, resulting in losses on cattle sold during that period and operational losses for some producers for the year. Demand for replacements in cow herds was strong during 2001 as a result of significantly improved range conditions throughout most of the district, especially over the last 120 days of the year. Economic forecasts indicate favorable trends in this sector of the agricultural economy for the next year. At present, range conditions are good and feed supplies are relatively plentiful and moderately priced for the producers. Little, if any, deterioration in this segment of the loan portfolio is anticipated as we begin 2002.

Grain, row crop and cotton operations, representing approximately 31 percent of the district's loan portfolio, continue to experience challenging economic conditions. Large supplies of crops, both domestically and overseas, continue to depress commodity prices. The world capacity to produce crops is increasing and demand is being outpaced by the increase in production capacity.

Overall district loan credit quality is expected to remain stable or decline modestly during 2002, as farmers and ranchers continue to face the challenging economic conditions that existed during 2001. Additionally, the U.S. government farm policy beyond 2001 remains a source of uncertainty for farmers. While the 1996 Farm Bill limited government involvement in agriculture and placed more reliance on world markets, the government, under various programs, kept total payments to farmers above $20 billion in 2001 for the third consecutive year. These payments, coupled with the availability of off-farm income sources and lower interest rates, will help mitigate current adverse economic circumstances. During 2001, the Federal Reserve Board's Federal Open Market Committee reduced its interest rate target for federal funds by 525 basis points. Lending rates, which have reached historical lows, are close to lenders' pricing thresholds and will probably not reflect any further declines, should the Federal Reserve continue to reduce interest rates. However, most of the operators in the district will continue to benefit from the lower interest rate environment in the near term. Economic forecasts indicate that interest rates generally are expected to increase after the first quarter of 2002.

The duration of the challenging conditions described above is a concern that has the potential to be more problematic for financial results over the longer term, for both the lender and the operator.

Figure 1

Changes in Net Income Analysis

(dollars in millions)

	Year Ended December 31, 2001	**Increase (Decrease) Amount**	**Increase (Decrease) Percent**	Year Ended December 31, 2000	Increase (Decrease) Amount	Increase (Decrease) Percent	Year Ended December 31, 1999
Interest income	**$ 445.5**	**$ (11.3)**	**(2)%**	$ 456.8	$ 50.9	13%	$ 405.9
Interest expense	**237.1**	**(27.7)**	**(10)**	264.8	45.9	21	218.9
Net interest income	**208.4**	**16.4**	**9**	192.0	5.0	3	187.0
Provision for loan losses	**9.2**	**(12.7)**	**(58)**	21.9	8.5	63	13.4
Noninterest income	**23.1**	**5.9**	**34**	17.2	(1.4)	(8)	18.6
Noninterest expense	**111.8**	**7.0**	**7**	104.8	(4.1)	(4)	108.9
Income before (benefit from) provision for income taxes	**110.5**	**28.0**	**34**	82.5	(.8)	(1)	83.3
(Benefit from) provision for income taxes	**(1.6)**	**(3.9)**	**(170)**	2.3	.8	53	1.5
Net income	**$ 112.1**	**$ 31.9**	**40**	$ 80.2	$ (1.6)	(2)	$ 81.8

Figure 2

Analysis of Net Interest Income

(dollars in millions)

	Year Ended December 31, 2001	**Rate**	**Volume**	Year Ended December 31, 2000	Rate	Volume	Year Ended December 31, 1999
Interest income, loans	**$ 424.1**	**$ (55.6)**	**$ 51.5**	$ 428.2	$ 23.5	$ 25.1	$ 379.6
Interest income, investments	**21.4**	**(8.9)**	**1.7**	28.6	5.6	(3.3)	26.3
Total interest income	**445.5**	**(64.5)**	**53.2**	456.8	29.1	21.8	405.9
Interest expense	**237.1**	**(63.3)**	**35.6**	264.8	35.9	10.0	218.9
Net interest income	**$ 208.4**	**$ (1.2)**	**$ 17.6**	$ 192.0	$ (6.8)	$ 11.8	$ 187.0

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.

Continued diligence in the areas of credit controls and monitoring will be essential over the next one to two years. The managements of the district's associations and the Farm Credit Bank of Texas (bank) are focused on meeting these challenges and will work closely with borrowers to minimize any adverse impact of these conditions in order to maintain strong district earnings and credit quality. To achieve these results, managements of both the bank and the associations will explore options for diversifying portfolio risk, increasing efficiency and streamlining operations where possible.

At December 31, 2001, the district comprised 10 Federal Land Credit Associations (FLCAs), one Production Credit Association (PCA), 11 Agricultural Credit Associations (ACAs), and certain Other Financing Institutions (OFIs), and is part of the federally chartered Farm Credit System (System). ACAs, FLCAs and the PCA operating in the district collectively are referred to as associations. During 2001, the 11 ACAs, each comprising a parent company, with PCA and FLCA operating subsidiaries, were formed by 6 of the FLCAs and 10 of the PCAs in existence at December 31, 2000. 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. These organizational changes in the district are positioning the associations and the bank to more effectively and efficiently meet the financing needs of agriculture for the present and beyond.

Expanded discussion of the combined financial position and results of operations of the district can be found in the following narrative, tables and charts. The narrative should be read in conjunction with the accompanying combined financial statements and notes thereto. 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.

Net Income

The district's net income of $112.1 million for the year ended December 31, 2001, reflects an increase of $31.9 million, or 39.8 percent, from net income of $80.2 million for the year ended December 31, 2000. Figure 1 provides an analysis of the major components of changes in net income for the current and preceding years. The return on average assets increased to 1.83 percent for the year ended December 31, 2001, from 1.48 percent reported for the year ended December 31, 2000. The return on average assets was 1.58 percent for the year ended December 31, 1999.

Net Interest Income

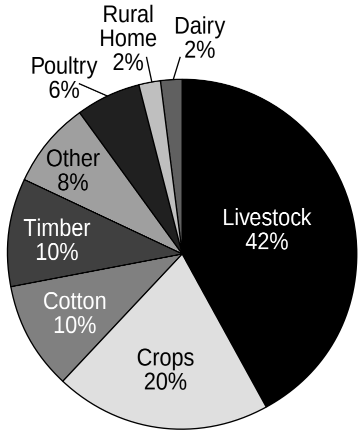
Net interest income of $208.4 million for the year ended December 31, 2001, reflected an increase of $16.4 million, or 8.5 percent, from $192.0 million reported for the comparable period in 2000. This increase resulted from a $27.7 million decrease in interest expense, partially offset by an $11.3 million decrease in interest income. The decrease in interest income is attributed to a $4.1 million decrease in loan interest income, principally driven by decreased loan rates, partially offset by increased loan volume, and a $7.2 million decrease in investment interest income, principally driven by lower average investment rates, partially offset by higher average investment volume. The $27.7 million decrease in interest expense from 2000 to 2001 was primarily due to decreases in interest rates, partially offset by an increase in average bond and note volume. Figure 2 provides an analysis of the changes in net interest income.

The district's net interest margin declined by 12 basis points to 3.45 percent in 2001 from 3.57 percent in 2000. This ratio's decline is mainly attributable to the growth in average earning assets. There was a $674.3 million, or 12.5 percent, increase in average earning assets (primarily long-term real estate loans), while net interest income increased by $16.4 million, or 8.5 percent. The interest rate spread increased by 24 basis points to 2.49 percent in 2001 from 2.25 percent in 2000, primarily because the rates on average interest-bearing liabilities decreased by a greater amount than the decrease in yields on average interest-earning assets. Figure 3 presents the district's net interest margin in comparison to its operating expense for the years ended December 31, 2001, 2000 and 1999.

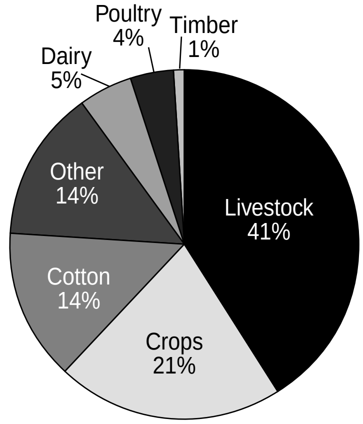
Figure 3

Analysis of Operating Margin to Average Earning Assets

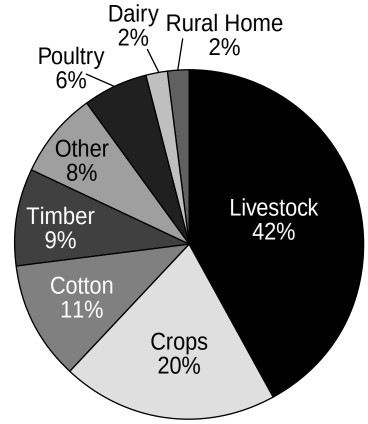
	For the Years Ended December 31,		
	2001	2000	1999
Net interest margin	**3.45%**	3.57%	3.65%
Operating expense	**1.74**	1.80	1.88
Operating margin	**1.71%**	1.77%	1.77%



Real Estate Mortgage Loans
85 Percent of Total Loans
Figure 4



Production Loans
15 Percent of Total Loans
Figure 5



Total Loans
Figure 6

Noninterest Income

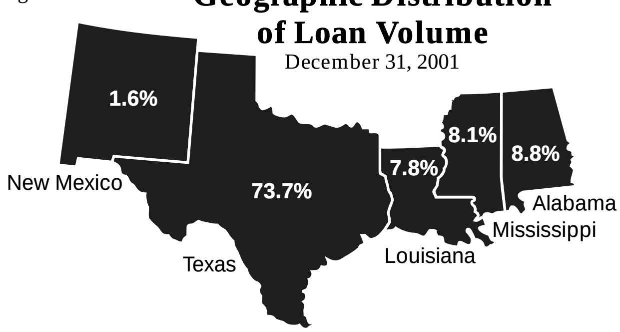
Noninterest income increased by $5.9 million from year-to-date December 31, 2000, to year-to-date December 31, 2001. This increase is primarily due to a $4.8 million increase in fees for financially related services attributable to growth in the loan portfolio and a $0.9 million increase in income from mineral interests.

Operating Expenses

Operating expenses for 2001, comprising salaries and employee benefits, occupancy and equipment expense, Insurance Fund premiums and other operating expenses, totaled $105.1 million, reflecting an increase of $8.1 million, or 8.4 percent, from $97.0 million reported for the comparable period of 2000. This increase is primarily due to the net effect of a $5.5 million increase in salaries and employee benefits and a $2.4 million increase in other operating expenses. Salaries and benefits for the year increased over 2000 primarily due to the net effect of increases in the number of employees at district associations and increases of $1.9 million for the cost of post-employment and post-retirement benefits. Costs for post-employment and post-retirement 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. Post-employment expenses are more fully described in Note 10, "Employee Benefit Plans." Other operating expenses increased primarily due to district association increases in advertising and public and member relations, Farm Credit Administration (FCA) supervisory and examination expenses, training and travel.

Figure 7

Geographic Distribution of Loan Volume
December 31, 2001



Tenth Farm Credit District

Intra-System Financial Assistance Expenses

In 1998, the bank entered into two agreements with the other System banks and the Financial Assistance Corporation (FAC) to call certain of the FAC callable debt issues used to provide financial assistance to certain System entities (the $89 million of 9.20 percent, September 2005 issuance) and to fund Capital Preservation Agreement accruals (the $157 million of 9.50 percent, April 2004 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, and $5.4 million in 1999, related to the call of the $157 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.

LOAN PORTFOLIO AND CREDIT QUALITY

Gross loan volume of $6.009 billion at December 31, 2001, reflected an increase of $773.4 million, or 14.8 percent, from the $5.236 billion loan portfolio balance at December 31, 2000. Loans, net of the allowance for loan losses, represented 88.4 percent, 86.6 percent and 86.2 percent of total assets as of December 31, 2001, 2000 and 1999, respectively.

The short- and intermediate-term loan portfolio experienced a $34.8 million, or 3.5 percent, decrease from the $1.003 billion reported at December 31, 2000, to the $968.2 million recorded at December 31, 2001. The decrease is due to transfers of approximately $143.3 million of loans qualifying as long-term from PCAs to FLCAs within the same newly formed ACA parent companies during 2001. The effect of these transfers was substantially offset by growth in the existing short-term loan markets in the district and the development of new markets by PCAs created as a result of ACA formations. The associations' competitive pricing is the primary reason for this short-term loan portfolio growth. The long-term mortgage portfolio experienced an $808.2 million, or 19.1 percent, increase from the $4.233 billion reported at December 31, 2000, to the $5.041 billion reported at December 31, 2001. The

Figure 8

Analysis of Combined High-Risk Assets

(dollars in millions)

	December 31, 2001	**Increase (Decrease) Amount**	**Increase (Decrease) Percent**	December 31, 2000	Increase (Decrease) Amount	Increase (Decrease) Percent	December 31, 1999
Nonaccrual loans	**$ 78.0**	**$ 23.6**	**43.4%**	$ 54.4	$ (23.6)	(30.3)%	$ 78.0
Formally restructured loans	**5.4**	**0.1**	**1.9**	5.3	(0.7)	(11.7)	6.0
Loans past due 90 days or more and still accruing interest	**3.4**	**1.2**	**54.5**	2.2	(0.7)	(24.1)	2.9
Other property owned, net	**3.3**	**0.5**	**17.9**	2.8	0.1	3.7	2.7
Total	**$ 90.1**	**$ 25.4**	**39.3%**	$ 64.7	$ (24.9)	(27.8)%	$ 89.6

factors contributing to the growth in the long-term portfolio included: transfer of loans from PCAs to FLCAs within some newly formed ACA parent companies, competitive prices offered by the bank and associations, continued solid demand for real estate in the district, increased marketing and customer service efforts and increased activity in district loan participations.

The composition of the district's loan portfolio at December 31, 2001, broken down by commodity between the real estate mortgage and production loan portfolios, may be found in Figures 4, 5 and 6. The geographic distribution of loan volume at December 31, 2001, is presented in Figure 7.

Acceptable loan volume of 97.5 percent at December 31, 2001, reflects a slight decrease from the acceptable loan volume of 97.6 percent at December 31, 2000. Reasons for the sustained high credit quality in the district's loan portfolio were previously discussed in the section titled "Overview."

High-Risk Assets

Figure 8 illustrates the components and trends in the district's high-risk assets over the past two years. As the table indicates, total high-risk assets have increased by $25.4 million, or 39.3 percent, from $64.7 million reported at December 31, 2000, to $90.1 million at December 31, 2001. The increase is primarily attributable to a $23.6 million increase in nonaccrual loans, largely attributed to weather effects on crop production and depressed commodity prices.

At December 31, 2001, $48.4 million, or 62.1 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $18.0 million, or 33.1 percent, of nonaccrual loans at December 31, 2000, and $53.5 million, or 68.6 percent, at December 31, 1999.

Figures 9, 10 and 11 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members' equity at December 31, 2001, 2000 and 1999. These analyses reflect the district's ability to absorb credit losses in the future.

Allowance and Provision for Loan Losses

At December 31, 2001, the allowance for loan losses was $157.0 million, or 2.61 percent of total loans outstanding, compared to $147.1 million (2.81 percent) and $142.6 million (2.97 percent) at December 31, 1999, respectively. Net recoveries of $564, net charge-offs of $17.3 million and net recoveries of $13 were recorded in 2001, 2000, and 1999, respectively. The district's net provision for loan losses for the twelve months ended December 31, 2001, was $9.2 million, reflecting a decrease of $12.7 million, or 58.0 percent, from the $21.9 million net provision recorded for the year ended December 31, 2000. This decrease is reflective of the fact that: (1) during 2000, the district recorded $18.4 million in provisions for loan losses on a loan participated with another System bank, (2) during 2000, negative provisions of $4.4 million related to loan recoveries from the Texas Boll Weevil Eradication Foundation (Foundation) were recorded, and (3) a negative provision of $2.0 million was recorded by an association in 2001 due to similar recoveries on Foundation loans. The transactions pertaining to the Foundation loans are more fully described in Note 4, "Loans and Allowance for Loan Losses," to the accompanying combined financial statements. Other factors contributing to the current year provision for loan losses were growth in both the long-term

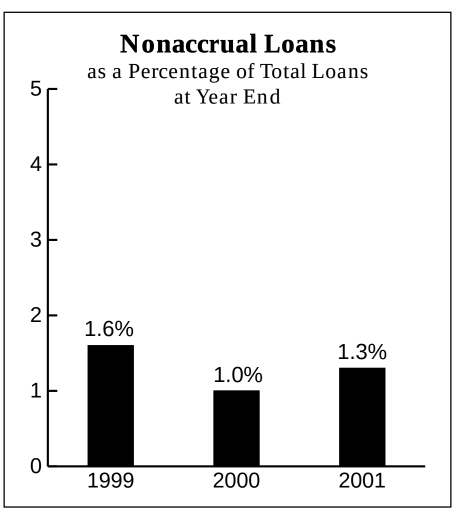


Figure 9

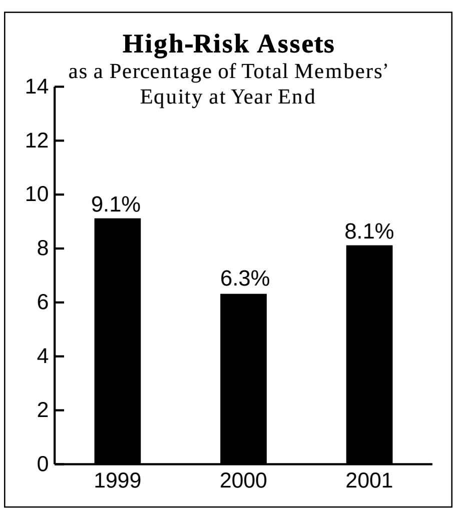


Figure 10

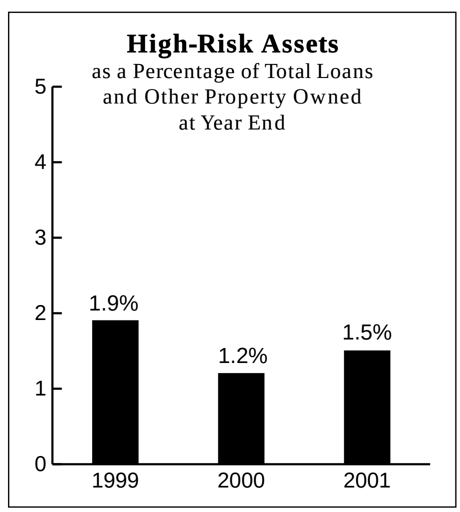


Figure 11

Figure 12

Interest Rate Gap Analysis
as of December 31, 2001

	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	$ 2,287,369	$ 1,738,733	$ 207,063	**$ 4,233,165**	$ 1,147,376	$ 628,807	**$ 6,009,348**
Total investments	382,328	110,082	12,702	**505,112**	37,866	–	**542,978**
Total earning assets	2,669,697	1,848,815	219,765	**4,738,277**	1,185,242	628,807	**6,552,326**
Interest-Bearing Liabilities							
Total interest-bearing funds*	1,614,761	2,255,453	158,000	**4,028,214**	988,000	300,000	**5,316,214**
Loanable funds	–	–	–	–	–	1,236,112	**1,236,112**
Total interest-bearing liabilities	1,614,761	2,255,453	158,000	**4,028,214**	988,000	1,536,112	**$6,552,326**
Interest rate sensitivity gap	$ 1,054,936	$ (406,638)	$ 61,765	**$ 710,063**	$ 197,242	$ (907,305)	
Cumulative interest rate sensitivity gap	$ 1,054,936	$ 648,298	$ 710,063	**$ 710,063**	$ 907,305		

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

mortgage and the short-term loan portfolios, the persistent effects of dry conditions in some parts of the district, 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,		
	2001	2000	1999
Allowance for loan losses as a percentage of:			
Average loans	**2.8%**	3.0%	3.1%
Loans at year end			
Total loans	**2.61**	2.81	2.97
Nonaccrual loans	**201.3**	270.4	182.7
Total high-risk loans	**180.9**	237.6	164.0
Net (recoveries) charge-offs to average loans	**(.01)**	.35	–
Provision expense to average loans	**.2**	.4	.3

ASSET AND 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. The bank's asset/liability management objective is to generate adequate and stable earnings 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 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 12 sets forth the district's volume of interest rate sensitive assets and liabilities outstanding as of December 31, 2001, 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 12. 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.

In addition, the bank uses derivative instruments, primarily 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, 2001, the bank had a notional amount of $110.0 million in interest rate swaps outstanding. Figure 13 summarizes the district's activity in derivative financial instruments for 2001. On January 1, 2001, the bank adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires derivatives to be recorded on the balance sheet as assets and liabilities, measured at fair value. As the district utilizes derivatives only for hedging purposes, the recording of these derivatives on 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 86 basis points scenario." This represents one-half of the 3-month 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 policy guideline. As of December 31, 2001, projected district net interest income would increase by $14.2 million, or 6.0 percent, if interest rates were to increase by 200 basis points, or would decrease by $6.5 million, or 2.8 percent, if interest rates were to decrease by 86 basis points.

Figure 13

Activity in Derivative Financial Instruments

(Notional Amounts)

(in millions)	Receive Fixed; Pay Floating	Receive Floating; Pay Floating	Total
Balance, December 31, 2000	$ 48.5	$ –	$ 48.5
Additions	135.0	–	135.0
Maturities/calls	73.5	–	73.5
Balance, December 31, 2001	**$ 110.0**	**$ –**	**$ 110.0**

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," to the accompanying combined financial statements. 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, 2001, the bank had excess collateral of $310.3 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 consolidated systemwide debt obligations of the bank (dollars in millions):

	December 31,		
	2001	2000	1999
Bonds and term notes outstanding	**$ 4,050**	$ 3,314	$ 2,974
Average effective interest rate	**3.85%**	6.26%	5.61%
Average life (years)	**1.6**	1.5	1.6
Discount notes outstanding	**$ 1,266**	$ 1,345	$ 1,277
Average effective interest rates	**2.06%**	6.44%	5.76%
Average life (days)	**50**	44	89

	For the years ended December 31,		
	2001	2000	1999
Average interest-bearing liabilities outstanding	**$ 4,863**	$ 4,235	$ 4,056
Average interest rates on interest-bearing liabilities	**4.88%**	6.25%	5.40%

The district had no commercial bank lines of credit in use at December 31, 2001.

The bank is required by FCA regulations to maintain a liquidity reserve fund composed of cash and investment securities. The purpose of this liquidity reserve is 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, 2001.

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. Because there is no market for the district's loans, there is a certain degree of subjectivity for much of the disclosure, and absolute reliance should not be placed on the information.

MEMBERS' EQUITY

Borrower equity purchases required by association capitalization bylaws (see Note 8, "Members' Equity," to the accompanying combined financial statements), combined with a history of growth in surplus from earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions.

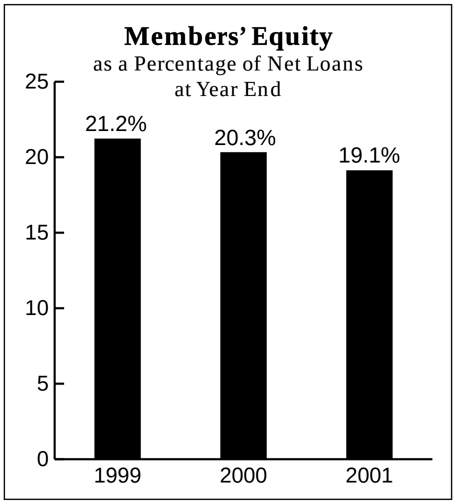


Figure 14

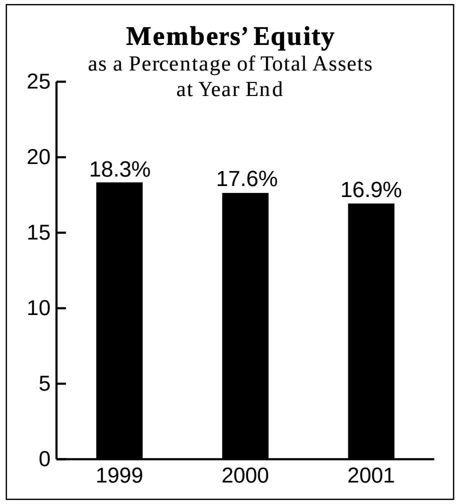


Figure 15

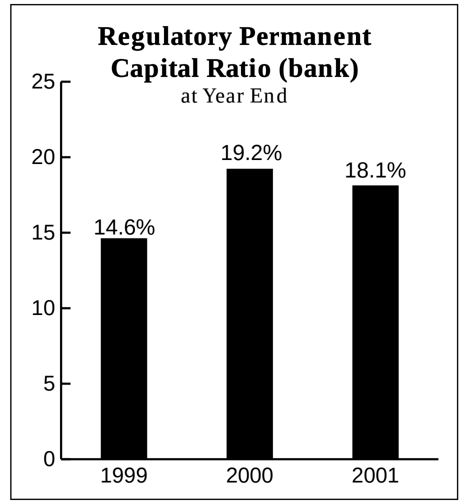


Figure 16

The $1.119 billion capital position of the district at December 31, 2001, reflects an increase of $84.1 million, or 8.1 percent, over the December 31, 2000, capital position of $1.035 billion. This increase is attributable to the $112.1 million of net income earned in 2001, reduced by net capital stock, participation certificates and allocated retained earnings retirements of $8.0 million, cash patronage and dividend distributions of $20.3 million which have either been paid or declared for payment to district stockholders and a $0.3 million unrealized net gain on investment securities.

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

In addition to the $20.3 million of cash patronage and dividend distributions that have either been paid or declared for payment, allocated equities of $4.9 million have also been declared for future distribution to stockholders, totaling $25.2 million in equity distributions. Subsequent to December 31, 2001, 3 associations declared, and will pay to their shareholders on or before March 31, 2002, approximately $1.6 million of distributions through dividends and patronage.

An analysis of the trend in the district's capital ratios is presented in Figures 14, 15 and 16.

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, 2001, the bank and all associations were in compliance with the regulations. Note 8, "Members' Equity," to the accompanying combined financial statements provides the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 18.1 percent at December 31, 2001, 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 2002.

Association Structural Changes

During 2001, 11 ACA parent companies, with PCA and FLCA operating subsidiaries, were formed by 6 of the FLCAs and 10 of the PCAs in existence at December 31, 2000. Subsequently another PCA in existence at December 31, 2000 merged with an ACA. As of December 31, 2001, there were 11 ACAs, 10 FLCAs, and 1 PCA, totaling 22 associations within the district, reflecting an increase of 11 ACAs, a decrease of 6 FLCAs, and a decrease of 11 PCAs from December 31, 2000.

Effective February 1, 2002, the remaining PCA formed an ACA parent company with PCA and FLCA operating subsidiaries, leaving 12 ACAs and 10 FLCAs, totaling 22 associations within the district.

These and other association structural changes are discussed in more detail in Note 1, "Organization and Operations," to the accompanying combined financial statements.

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. 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 Procedure 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 five affected associations and the bank appealed the District Court's decision, which upheld the FCA's regulation authorizing participations with non-System lenders without the consent from these associations, to the Circuit Court of Appeals for the District of Columbia.

FINANCIAL STATEMENTS

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, 2001.

Ralph W Cortese

Ralph W. Cortese
Chairman of the Board

Arnold R. Henson

Arnold R. Henson
Chief Executive Officer

Thomas W. Hill

Thomas W. Hill
Chief Financial Officer

February 22, 2002

PricewaterhouseCoopers LLP
600 Congress Avenue
Suite 1800
Austin TX 78701-3266
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, 2001, 2000 and 1999, 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 22, 2002

COMBINED BALANCE SHEETS

Farm Credit Bank of Texas and District Associations

(in thousands)	December 31, 2001	2000	1999
Assets			
Cash	**$ 52,054**	$ 39,344	$ 72,005
Federal funds sold and securities purchased under resale agreements	**39,000**	10,500	25,000
Investment securities	**503,978**	551,124	486,871
Loans	**6,009,348**	5,235,959	4,798,131
Less allowance for loan losses	**156,952**	147,136	142,582
Net loans	**5,852,396**	5,088,823	4,655,549
Accrued interest receivable	**106,316**	124,306	101,863
Other property owned, net	**3,319**	2,752	2,661
Premises and equipment, net	**44,567**	41,319	40,602
Other assets	**17,616**	18,487	17,131
Total assets	**$ 6,619,246**	$ 5,876,655	$ 5,401,682
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	**$ 5,316,214**	$ 4,658,692	$ 4,250,685
Accrued interest payable	**43,393**	57,785	45,297
Intra-system financial assistance payable	**4,739**	5,214	5,771
Other liabilities	**135,828**	119,998	113,497
Total liabilities	**5,500,174**	4,841,689	4,415,250
Commitments and contingencies (Note 13)			
Members' equity			
At-risk equity			
Capital stock and participation certificates	**96,125**	102,103	115,622
Allocated retained earnings	**29,915**	27,044	21,401
Unallocated retained earnings	**992,163**	905,246	850,277
Accumulated other comprehensive income (loss)	**869**	573	(868)
Total members' equity	**1,119,072**	1,034,966	986,432
Total liabilities and members' equity	**$ 6,619,246**	$ 5,876,655	$ 5,401,682

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)	**2001**	2000	1999
Investment securities, federal funds sold and securities purchased under resale agreements	**$ 21,487**	$ 28,587	$ 26,326
Loans	**424,085**	428,223	379,640
Other	—	—	14
Total interest income	**445,572**	456,810	405,980
Bonds and notes	**236,499**	261,170	215,623
Notes payable and other	**628**	3,633	3,317
Total interest expense	**237,127**	264,803	218,940
Net interest income	**208,445**	192,007	187,040
Provision for loan losses	**9,252**	21,876	13,443
Net interest income after provision for loan losses	**199,193**	170,131	173,597
Fees for financially related services	**16,592**	11,763	11,021
Miscellaneous income, net	**6,508**	5,464	7,548
Total noninterest income	**23,100**	17,227	18,569
Salaries and employee benefits	**68,332**	62,818	55,565
Occupancy and equipment expense	**8,178**	7,928	8,327
Insurance Fund premiums	—	130	3,200
Gains on other property owned, net	**(173)**	(540)	(415)
Intra-system financial assistance expenses	**6,894**	8,383	12,658
Other operating expenses	**28,555**	26,116	29,536
Total noninterest expense	**111,786**	104,835	108,871
Income before (benefit from) provision for income taxes	**110,507**	82,523	83,295
(Benefit from) provision for income taxes	**(1,596)**	2,296	1,515
Net income	**$ 112,103**	$ 80,227	$ 81,780

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						
			Retained Earnings				
(in thousands)	Preferred Stock	Common Stock and Participation Certificates	Allocated	Unallocated	Total	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 1998	$ 3,861	$ 143,963	$ 18,724	$ 804,520	$ 823,244	$ (90)	$ 970,978
Comprehensive income							
Net income	—	—	—	81,780	81,780	—	81,780
Unrealized net losses on investment securities	—	—	—	—	—	(778)	(778)
Total comprehensive income	—	—	—	81,780	81,780	(778)	81,002
Capital stock/participation certificates issued	230	56,160	—	—	—	—	56,390
Capital stock/participation certificates and allocated retained earnings retired	(4)	(88,588)	(1,577)	—	(1,577)	—	(90,169)
Patronage distributions							
Cash	—	—	—	(31,769)	(31,769)	—	(31,769)
Members' equity	—	—	4,254	(4,254)	—	—	—
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**

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

	Year Ended December 31,		
(*in thousands*)	**2001**	2000	1999
Operating Activities			
Net income	**$ 112,103**	$ 80,227	$ 81,780
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**9,252**	21,876	13,443
Provision for losses on other property owned	**269**	59	188
Depreciation and amortization on premises and equipment	**5,582**	6,903	5,252
Accretion of loan discounts	**(6,056)**	(5,987)	(3,107)
Gains on sales of other property owned, net	**(289)**	(467)	(948)
Gains on sales of premises and equipment	**(236)**	(542)	(148)
Gain on FCLSC stock recapitalization	**—**	—	(3,792)
Decrease (increase) in accrued interest receivable	**17,990**	(22,443)	8,913
Increase (decrease) in unamortized discount on notes	**6,074**	(3,361)	5,310
Decrease (increase) in other assets	**871**	(1,356)	13,013
(Decrease) increase in accrued interest payable	**(14,392)**	12,488	6,587
Decrease in intra-system financial assistance payable	**(475)**	(557)	(1,002)
Increase in other liabilities	**19,582**	1,712	7,795
Net cash provided by operating activities	**150,275**	88,552	133,284
Investing Activities			
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	**(28,500)**	14,500	(400)
Investment securities			
Purchases	**(1,845,746)**	(2,090,545)	(1,611,110)
Proceeds from maturities, calls and prepayments	**1,893,188**	2,027,733	1,649,286
Increase in loans, net	**(768,251)**	(449,847)	(269,539)
Proceeds from sales of other property owned, net	**935**	1,001	2,896
Proceeds from sales of premises and equipment	**590**	5,508	2,124
Expenditures for premises and equipment	**(9,184)**	(12,586)	(8,266)
Net cash used in investing activities	**(756,968)**	(504,236)	(235,009)
Financing Activities			
Bonds and notes issued	**25,300,047**	19,724,138	16,523,569
Bonds and notes retired	**(24,648,599)**	(19,312,770)	(16,322,613)
Capital stock and participation certificates issued	**26,448**	32,671	56,390
Capital stock and participation certificates retired and allocated retained earnings distributed	**(34,444)**	(45,218)	(90,169)
Cash dividends and patronage distributions paid	**(24,049)**	(15,798)	(24,905)
Net cash provided by financing activities	**619,403**	383,023	142,272
Net increase (decrease) in cash	**12,710**	(32,661)	40,547
Cash at beginning of year	**39,344**	72,005	31,458
Cash at end of year	**$ 52,054**	$ 39,344	$ 72,005
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 2,242**	$ 2,632	$ 2,203
Loans transferred to other property owned	**3,724**	3,316	2,275
Unrealized net gains (losses) on investment securities	**296**	1,441	(778)
Cash dividends or patronage distributions payable	**14,740**	18,492	13,703
Supplemental Information			
Cash paid during the year for:			
Interest	**$ 257,593**	$ 248,954	$ 219,935
Income taxes	**2,726**	1,874	2,818

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 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 six 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). FLCAs, PCAs 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). The district's 10 FLCAs, one PCA, 11 ACA parent associations containing two wholly-owned subsidiaries (an FLCA and a PCA) and certain Other Financing Institutions (OFIs) jointly owned the bank at December 31, 2001.

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 January 1, 2001, six FLCAs and nine PCAs restructured their organizations to form ten ACA parent company structures with operating FLCA and PCA subsidiaries. These reorganizations are more fully described in the district's 2000 annual report to stockholders. Structural changes after January 1, 2001, are as follows:

- On June 1, 2001, Ag New Mexico, Farm Credit Services (FCS), ACA parent company structure was formed with the existing Ag New Mexico, FCS, PCA acting as the short-term lending subsidiary and the newly created Ag New Mexico, FCS, FLCA handling the long-term loan portfolio.
- The Board of Directors of Ag New Mexico, FCS, ACA and PCA of New Mexico operated under a joint management agreement effective April 16, 2001, which later resulted in the merger and consolidation of the two entities effective November 1, 2001.
- 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.

C. Operations:

The Farm Credit Act sets forth the types of authorized lending activity 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 PCA and 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 Leasing Services Corporation (FCLSC) — provides a variety of leasing services for agricultural-related equipment and facilities.
- 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 Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. The premium is based on the average principal outstanding of accrual and nonaccrual loans of the district for the year. At December 31, 2001, the assets in the Insurance Fund were approximately $1.7 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, 2001, available funds in the Trust Fund amounted to $122.6 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 (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 financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable. Certain amounts in prior years’ financial statements have been reclassified to conform to the current year’s financial statement 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 statement of cash flows, 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, 2001, 2000 and 1999. 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." The Farm Credit System Accounting Standards Workgroup issued revised high-risk asset accounting guidelines. These guidelines indicate that 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. The district implemented these guidelines effective January 1, 2000. Prior to 2000, when a nonaccrual loan was transferred to accrual status, remaining previous charge-offs were reversed and recognized as recoveries and all previously earned but unrecognized interest was recognized as current income.

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.

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 will be amortized on a straight-line basis over the estimated useful life of the software, starting from the date the software is implemented.

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 in 2001, 2000 and 1999 was $4.3 million, $3.4 million and $2.1 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 payments from borrowers. To the extent the borrower's access to such advance payments is restricted and the legal right of setoff exists, the advance conditional payments are netted against the borrower's related loan balance. Advance conditional payments, which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrowers, are classified as other liabilities in the Combined Balance Sheets. Advance conditional payments are not insured, and interest is generally paid by the association on such balances. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2001, 2000 and 1999 were $245.3 million, $250.4 million and $237.5 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. The district also provides certain health care and life insurance benefits to eligible retired employees.

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 a participating employer, nor is a 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 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 the PCA 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 and the PCA, 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, 2001, deferred income taxes have not been provided by the ACAs or the PCA on $23.9 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 district manages its exposure to fluctuations in interest rates by entering into derivative financial instruments, specifically interest rate swap contracts, with financial institution counterparties. Derivatives are principally used to manage interest rate risk on assets, liabilities, and anticipated transactions. Under interest rate swap arrangements, the district agrees with the counterparties to exchange, at specified intervals, interest payment streams calculated on a specified notional principal amount, primarily with at least one stream based on a specified floating rate index. All derivative financial instruments are held for purposes other than trading. The district's principal objective of asset / liability management activities is to provide optimal levels of net interest income while maintaining acceptable levels of interest rate and liquidity risk and facilitating the district's funding needs.

The use of derivative instruments for risk management purposes involves the credit risk of dealing with counterparties and their abilities to meet the terms of the outstanding contracts, market risks related to movements in interest rates and operating risks. The bank is exposed to credit-related losses in the event of nonperformance by counterparties to derivative contracts. To minimize the risk of incurring credit losses, the bank deals only with nationally recognized counterparties that have an investment grade quality rating based upon a major rating agency and that meet internal policy guidelines relating to limitations of financial risks to any given counterparty. In addition, the bank continuously monitors its credit risk exposure and reports these results regularly to its board of directors. The credit risk exposure of derivative transactions is equal to the positive fair value of the instrument if the counterparty fails to perform. The credit risk is normally a small percentage of the notional amount of the derivative and fluctuates as market interest rates change. The estimated fair value of the bank's derivative transactions is summarized in Note 15, "Disclosure About the Fair Value of Financial Instruments." The bank's management of counterparty credit risk involves an objective measurement system, risk limits at appropriate levels and timely reports to management.

Information follows for the district's interest rate swaps existing at December 31, 2001. The notional amount of $110.0 million includes $75.0 million of swaps callable by the counterparties. These callable swaps are intended to modify the interest rate characteristics of $75.0 million of outstanding callable debt with the same call features.

Maturities of Financial Instruments

(dollars in millions)	2003	2004	Total
Receive fixed; pay floating swaps			
Notional value	$ 60.0	$ 50.0	$ 110.0
Weighted average receive rate	3.67%	3.64%	3.66%
Weighted average pay rate	1.95%	1.93%	1.94%

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 other assets or other liabilities, measured at fair value. Prior to January 1, 2001, derivatives were treated as off-balance-sheet financial instruments and, thus, were not reflected in the balance sheet. At December 31, 2001, the district's four interest rate swaps had positive fair values of $659 included in other assets, and negative fair values of $1,347 included in other liabilities. These swaps offset the positive fair value of $688 accounted for as a reduction of the hedged bonds and notes. The district's derivative transactions had no net effect on net income and are not considered to be material to the financial condition and results of operations of the combined bank and related associations.

Note 3 — Investment Securities

A summary of the amortized cost and estimated fair value of investment securities at December 31, 2001, 2000 and 1999, follows.

For years ended December 31, 2001, 2000 and 1999, mortgage-backed securities consisted of collateralized mortgage obligations (CMOs).

	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%

	December 31, 1999				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Commercial paper, Certificates of Deposit and other	$ 274,005	$ 102	$ —	$ 274,107	6.17%
CMOs	143,633	—	(988)	142,645	6.39
Asset-backed securities	70,101	18	—	70,119	5.63
Total	$ 487,739	$ 120	$ (988)	$ 486,871	6.16%

A summary of expected maturity, amortized cost and estimated fair value of investment securities at December 31, 2001, follows:

	Amortized Cost	Fair Value
In one year or less	$ 298,029	$ 298,016
After one year through five years	136,744	136,588
CMOs	68,336	69,374
Total	$ 503,109	$ 503,978

CMOs have stated contractual maturities in excess of fifteen years. However, the security structure of the CMOs is designed to have a relatively short-term life. At December 31, 2001, the CMO portfolio had a weighted average life of approximately 1.5 years.

Note 4 — Loans and Allowance for Loan Losses

Loans comprised the following categories at:

	December 31,		
	2001	2000	1999
	Amount	Amount	Amount
Long-term farm mortgage	**$ 4,929,949**	$ 4,135,110	$ 3,903,338
Rural home	**103,813**	99,789	79,257
Farm-related business	**67,995**	64,078	30,103
Production and intermediate-term	**882,563**	919,618	768,121
OFIs	**19,833**	10,065	8,033
Sales contracts	**5,195**	7,299	9,279
Total	**$ 6,009,348**	$ 5,235,959	$ 4,798,131

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

	December 31,					
	2001		2000		1999	
Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 2,522**	**42**	$ 2,180	42	$ 2,012	42
Crops	**1,201**	**20**	1,132	22	1,157	24
Cotton	**644**	**11**	621	12	592	12
Timber	**539**	**9**	448	8	402	8
Poultry	**366**	**6**	300	6	237	5
Dairy	**127**	**2**	113	2	105	2
Rural home	**104**	**2**	100	2	79	2
Other	**506**	**8**	342	6	214	5
Total	**$ 6,009**	**100%**	$ 5,236	100%	$ 4,798	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 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,		
	2001	2000	1999
Nonaccrual loans			
Current as to principal and interest	**$ 48,412**	$ 17,993	$ 53,548
Past due	**29,568**	36,389	24,479
Total nonaccrual loans	**77,980**	54,382	78,027
Accrual loans			
Restructured	**5,407**	5,286	5,976
90 days or more past due	**3,369**	2,206	2,935
Total impaired loans	**$ 86,756**	$ 61,874	$ 86,938

There were $1.5 million in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2001.

The following table sets forth interest income recognized on nonaccrual loans for:

	Year Ended December 31,		
	2001	2000	1999
Cash payments on nonaccrual loans qualifying for income recognition	**$ 2,631**	$ 3,061	$ 4,348
Interest income recognized upon reinstatement to accrual status	**$ —**	$ 27	$ 2,267

Interest income recognized upon reinstatement of loans to accrual status has decreased from the year ended December 31, 1999, to the year ended December 31, 2000, pursuant to the adoption of revised high-risk asset accounting guidelines on January 1, 2000. In accordance with the revised guidelines, as described in Note 2, "Summary of Significant Accounting Policies," item C, "Loans and Allowance for Loan Losses," unrecognized interest income that exists upon reinstatement of a nonaccrual loan to accrual status will only be recognized upon receipt of cash payments applied to the loan.

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

	Year Ended December 31,		
	2001	2000	1999
Balance at beginning of year	**$ 147,136**	$ 142,582	$ 129,126
Provision for loan losses	**9,252**	21,876	13,443
Loans charged off	**(2,313)**	(24,949)	(1,352)
Recoveries	**2,877**	7,627	1,365
Balance at end of year	**$ 156,952**	$ 147,136	$ 142,582

The allowance for loan losses at December 31, 2001, reflected $2.0 million in negative provisions for loan losses on loans to the Texas Boll Weevil Eradication Foundation (Foundation). The Foundation was formed in 1993 by the Texas legislature to provide eradication services to Texas farmers to fight a boll weevil infestation. The loans to the Foundation were to be repaid by participating farmers through a per-acre assessment. Certain areas of the state were excluded from the eradication program, and, as a result, several PCAs wrote off $9.9 million in loans in 1997 in connection with this action. In December 2000, by an act of Congress, the bank and certain associations received a total of $10.0 million to recover amounts previously written off on the Lower Rio Grande Valley eradication zone loan. The bank and two PCAs 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 PCAs that had previously charged off loans in 1997. To maintain the allowance for loan losses needed to adequately absorb estimated losses inherent in their current loan portfolios, all but one of these PCAs recorded total recoveries of $5.5 million and negative provisions for loan losses of $4.4 million during 2000. The remaining PCA recorded a negative provision for loan losses in 2001, as described above.

Also 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.

The following table presents information concerning impaired loans at:

	December 31,		
	2001	2000	1999
With related specific allowance	**$ 26,501**	$ 18,212	$ 38,985
With no related specific allowance	**60,255**	43,662	47,953
Total impaired loans	**$ 86,756**	$ 61,874	$ 86,938
Allowance on impaired loans	**$ 6,234**	$ 5,315	$ 4,177

The following table summarizes impaired loan information for:

	Year Ended December 31,		
	2001	2000	1999
Average impaired loans	**$ 78,484**	$ 75,963	$ 86,404
Interest income recognized on impaired loans	**$ 3,567**	$ 4,783	$ 7,737

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2001	2000	1999
Land	**$ 7,566**	$ 6,927	$ 6,120
Buildings and improvements	**44,893**	41,691	42,062
Furniture and equipment	**33,439**	30,469	29,010
	85,898	79,087	77,192
Accumulated depreciation	**(41,331)**	(37,768)	(36,590)
Total	**$ 44,567**	$ 41,319	$ 40,602

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at:

	December 31,		
	2001	2000	1999
Deferred tax assets	**$ 8,080**	$ 7,369	$ 6,454
Accounts receivable	**2,836**	5,709	3,712
Land investment	**891**	1,346	1,238
Fair value of derivatives	**659**	—	—
Pre-funding of FAC bond calls	**—**	—	1,186
FCLSC stock and accrued interest receivable	**—**	—	50
Other, net	**5,150**	4,063	4,491
Total	**$ 17,616**	$ 18,487	$ 17,131

The pre-funding of FAC bond calls is more fully explained in Note 11, “Intra-System Financial Assistance.”

Other liabilities comprised the following at:

	December 31,		
	2001	2000	1999
Advance conditional payments	**$ 41,194**	$ 35,179	$ 39,734
Postretirement benefits	**31,182**	28,210	26,197
Patronage distribution payable	**14,740**	18,492	13,703
Bank draft payable	**14,078**	692	2,095
Accrued pension liability	**13,906**	12,725	7,536
Deferred tax liabilities	**6,840**	9,849	9,443
Accounts payable	**5,902**	5,769	3,003
Income taxes payable	**1,408**	3,841	3,178
Fair value of derivatives	**1,347**	—	—
Notes payable	**539**	406	942
FCSIC premium payable	**—**	101	3,207
Other, net	**4,692**	4,734	4,459
Total	**$ 135,828**	$ 119,998	$ 113,497

Note 7 — Bonds and Notes

The bank's participation in bonds and notes follows:

	December 31,		
	2001	2000	1999
Systemwide bonds	**$ 2,972,844**	$ 2,122,881	$ 1,485,948
Systemwide medium-term notes	**676,255**	937,424	1,264,709
Systemwide master notes	**400,662**	253,250	223,250
Systemwide discount notes	**1,266,453**	1,345,137	1,276,778
Total	**$ 5,316,214**	$ 4,658,692	$ 4,250,685

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, 2001, was 50 days.

The aggregate maturities of bonds and notes and the weighted average effective rates at December 31, 2001, follow:

Year of Maturity	Weighted Average Effective Rate	Amount
2002	2.68%	$ 3,855,084
2003	4.96	399,409
2004	4.76	358,927
2005	5.98	230,111
2006	5.48	167,014
Subsequent years	6.17	305,669
Total	3.42%	$ 5,316,214

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."

Systemwide debt includes callable debt consisting of the following at December 31, 2001:

Year of Maturity	Amount	First Call Date
2003	$ 30,000	01/22/02
2004	70,000	05/29/02
2005	5,000	09/06/02
2006	49,000	04/26/02
2007	—	—
Subsequent years	10,000	07/11/02
Total	$ 164,000	

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

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, 2001, the bank had such specified eligible assets totaling $5.7 billion and obligations and accrued interest payable totaling $5.4 billion, resulting in excess eligible assets of $310.3 million. At December 31, 2001, 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.

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 on the financial statements are uninsured.

The bank had no outstanding commercial bank lines of credit at December 31, 2001.

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:

In accordance with the Farm Credit Act, each borrower is required to invest in capital stock of their respective association as a condition of borrowing. As amended, the Farm Credit Act permits the initial borrower stock requirements to be not less than the lesser of one thousand dollars or 2 percent of the amount of the loan. Capitalization bylaws of the bank and all associations establish minimum and maximum stock purchase requirements for borrowers. The capitalization bylaws also limit the capital contributions that an institution can require from its borrowers to 10 percent of defined borrowings for associations and 5 percent of defined borrowings for the bank.

Based on the financial condition of each institution, the respective board of directors establishes the level of stock that must be purchased as a condition for obtaining a loan. The FLCA and PCA operating subsidiaries, within each of the district's 11 ACAs, have their own borrower stock requirements. Nine FLCAs have a capital stock requirement of 2 percent of the loan, while twelve FLCAs have a capital stock requirement of the lesser of 2 percent of the loan or one thousand dollars. Three PCAs require borrowers to purchase voting common stock or participation certificates of 4.76 to 5 percent of the loan, eight PCAs require the lower of 2 percent of the loan or one thousand dollars, and one PCA requires 2 percent of the loan.

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 capital 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, 2001, was 18.10 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 2002.

The following table sets forth the ranges of capital standards for the district at December 31, 2001:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	18.10	12.82	14.01
PCA	14.57	8.85	11.69
FLCAs	13.23 - 30.70	11.01 - 28.27	11.01 - 28.27
ACAs	12.79 - 18.61	8.77 - 17.01	10.13 - 17.56
Regulatory minimum standard	7.00	3.50	7.00

The bank is required to achieve and maintain net collateral of 103 percent of total liabilities. At December 31, 2001, the bank's net collateral ratio was 105.33 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, 2001	2000	1999
Class A common – voting (eligible for dividends, convertible)	$ 5.00	**8,846,800**	16,001,970	16,379,223
Class A common – nonvoting (eligible for dividends, convertible)	$ 5.00	**112,255**	84,527	93,523
Class B common – voting (eligible for dividends, convertible)	$ 5.00	**9,262,079**	3,436,687	5,249,043
Class C common – nonvoting (not eligible for dividends, nonconvertible)	$ 5.00	**—**	44,416	47,579
Class C preferred – nonvoting (not eligible for dividends, nonconvertible)	$ 5.00	**420,415**	340,182	804,474
Class D preferred – nonvoting (not eligible for dividends, nonconvertible)	$ 5.00	**—**	—	255,271
Participation certificates, nonvoting (eligible for dividends, convertible)	$ 5.00	**512,435**	494,857	556,054

The decrease in Class A common–voting stock and the increase in Class B common–voting stock from December 31, 2000, to December 31, 2001, are primarily due to the conversion of Class A stock to Class B stock in FLCAs which became part of ACA parent-subsidiary formations during 2001.

In 2000, the PCAs retired the outstanding shares of Class D preferred nonvoting stock in exchange for future interest credits from the bank. All stock balances and transactions between the PCAs and the bank are eliminated in combination.

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 Class C 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 surplus 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 refund 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 stock investment required by the ACAs, PCA and FLCAs is 2 percent of each association's average borrowings from the bank. The bank changed its bylaws effective January 1, 2000, requiring the PCAs' and FLCAs' investments in the bank to be in the form of Class A voting common stock. Prior to 2000, the PCAs' investment in the bank was in the form of Class A voting common stock and Class BB, nonvoting preferred stock. Prior to 2000, the FLCAs' investment in the bank was in the form of Class A voting common stock and Class AA, nonvoting preferred stock. These intercompany balances and transactions are eliminated in combination.

Effective January 1, 2000, the bank requires OFIs to make cash purchases of common nonvoting stock in the bank, at the inception of each OFI loan. Prior to 2000, OFIs were required to purchase preferred nonvoting stock in the bank. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. At December 31, 2001, the bank had $355 of preferred stock outstanding to OFIs at a par value of $5.00 per share.

Effective January 1, 2000, the bank capitalization bylaws were changed to eliminate all of the associations' Class AA preferred and Class BB preferred stock investment in the bank by converting it to Class A voting common stock. The bank bylaws were also changed to eliminate all of the OFI preferred nonvoting stock in the bank by converting it to common nonvoting stock. This stock conversion had no impact on the associations' voting rights.

Note 9 — Income Taxes

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

The provision for income taxes follows:

	Year Ended December 31,		
	2001	2000	1999
Current			
Federal	**$ 2,025**	$ 2,740	$ 1,639
State	**99**	65	90
Total current	**2,124**	2,805	1,729
Deferred			
Federal	**(3,666)**	(511)	(207)
State	**(54)**	2	(7)
Total deferred	**(3,720)**	(509)	(214)
Total (benefit from) provision for income taxes	**$ (1,596)**	$ 2,296	$ 1,515

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:

	Year Ended December 31,		
	2001	2000	1999
Federal tax at statutory rate	**$ 17,235**	$ 5,437	$ 3,897
State tax, net	**62**	67	82
Effect of nontaxable entities	**(13,056)**	—	—
Patronage distributions	**(3,609)**	(2,790)	(2,424)
Allowance transfers from PCAs to FLCAs within ACA parent company structure	**892**	—	—
Capital download to association	**(3,240)**	(105)	269
Other, net	**120**	(313)	(309)
Total (benefit from) provision for income taxes	**$ (1,596)**	$ 2,296	$ 1,515

Deferred tax assets and liabilities comprised the following elements at:

	December 31,		
	2001	2000	1999
Allowance for loan losses	**$ 7,564**	$ 6,943	$ 6,065
U.S. Treasury advanced interest payable	**89**	108	105
Allowance for acquired property	**239**	165	—
Other	**188**	153	284
Gross deferred tax assets	**8,080**	7,369	6,454
FCBT stock redemption	**(5,690)**	(8,914)	(8,658)
Lease property	**(1,150)**	(935)	(785)
Gross deferred tax liabilities	**(6,840)**	(9,849)	(9,443)
Net deferred tax assets (liabilities)	**$ 1,240**	$ (2,480)	$ (2,989)

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.

The 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 restructuring among district employers. 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 $40, $41 and $67, for the years ended December 31, 2001, 2000 and 1999, respectively. Under SFAS No. 88, pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under the retention plan totaled $1.2 million, $577 and $928 during the years ended December 31, 2001, 2000 and 1999, respectively.

The DC plan participants 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. (The DB plan does not accept new participants.) DC plan participants direct the placement of their employers' contributions (currently 3.3 percent of salaries) made on their behalf into various investment alternatives. Employer contributions to the DC plan were $605, $553 and $470 for the years ended December 31, 2001, 2000 and 1999, respectively.

The district also participates in a district-wide Thrift Plus Plan which requires the bank and associations to match 50 percent of employee contributions up to a maximum employee contribution of 6 percent of base salary. Thrift Plus Plan employer contributions were $1.1 million, $1.1 million and $999 for the years ended December 31, 2001, 2000 and 1999, respectively.

Additionally, certain qualified individuals in the bank may participate in a separate, 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		
	2001	2000	1999	**2001***	2000	1999
Change in benefit obligation						
Benefit obligation at beginning of year	**$ 110,434**	$ 96,641	$ 96,492	**$ 29,670**	$ 21,857	$ 16,800
Service cost	**2,614**	3,713	2,184	**1,436**	1,168	588
Interest cost	**8,021**	7,460	6,236	**2,394**	2,013	1,100
Actuarial loss (gain)	**6,861**	7,216	(4,650)	**12,945**	5,567	4,110
Plan amendments	**112**	—	—	**—**	—	—
Loss (gain) due to curtailments	**66**	(106)	293	**—**	—	—
Settlements	**—**	—	—	**33**	51	—
Special termination benefits	**1,197**	577	928	**—**	—	—
Benefits paid	**(5,518)**	(5,067)	(4,842)	**(772)**	(986)	(741)
Benefit obligation at end of year	**$ 123,787**	$ 110,434	$ 96,641	**$ 45,706**	$ 29,670	$ 21,857
Benefit obligation at end of year - pension plan	**$ 122,655**	$ 109,160	$ 96,641			
Benefit obligation at end of year - supplemental pension plan	**1,132**	1,274	—			
Total benefit obligation at end of year	**$ 123,787**	$ 110,434	$ 96,641			
Change in plan assets						
Fair value of plan assets at beginning of year	**$ 110,375**	$ 110,062	$ 105,004	**$ 688**	$ 725	$ 918
Actual return on plan assets	**(3,743)**	4,803	8,972	**(19)**	73	19
Employer contribution	**4,375**	577	928	**869**	1,023	714
Settlements	**—**	—	—	**(165)**	(147)	(185)
Benefits paid	**(5,518)**	(5,067)	(4,842)	**(772)**	(986)	(741)
Fair value of plan assets at end of year	**$ 105,489**	$ 110,375	$ 110,062	**$ 601**	$ 688	$ 725
Fair value of plan assets at end of year - pension plan	**$ 105,489**	$ 110,375	$ 110,062			
Fair value of plan assets at end of year - supplemental plan	**—**	—	—			
Total fair value of plan assets at end of year	**$ 105,489**	$ 110,375	$ 110,062			
Funded status - pension plan	**$ (17,166)**	$ 1,215	$ 13,421			
Funded status - supplemental plan	**(1,132)**	(1,274)	—			
(Unfunded) funded status	**$ (18,298)**	$ (59)	$ 13,421	**$ (45,105)**	$ (28,982)	$ (21,132)
Unrecognized actuarial loss (gain)	**383**	(17,234)	(26,279)	**15,202**	2,264	(3,359)
Unrecognized prior service cost	**4,009**	4,568	5,322	**(1,279)**	(1,492)	(1,706)
Accrued benefit cost	**$ (13,906)**	$ (12,725)	$ (7,536)	**$ (31,182)**	$ (28,210)	$ (26,197)
Weighted-average assumptions as of 12/31						
Discount rate	**7.0%**	7.25%	7.0%	**7.0%**	7.25%	7.0%
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	3.6	**N/A**	N/A	N/A

	Pension Benefits			Other Postretirement Benefits		
	2001	2000	1999	**2001***	2000	1999
Components of net periodic benefit cost						
Service cost	**$ 2,614**	$ 3,713	$ 2,184	**$ 1,436**	$ 1,168	$ 588
Interest cost	**8,021**	7,460	6,236	**2,394**	2,013	1,100
Expected return on plan assets	**(6,923)**	(6,738)	(6,171)	**(48)**	(51)	(64)
Amortization of prior service cost	**671**	754	1,033	**(213)**	(213)	(213)
Recognized actuarial (gain) loss	**(24)**	—	—	**240**	69	(688)
Total district sponsored plans	**$ 4,359**	$ 5,189	$ 3,282	**$ 3,809**	$ 2,986	$ 723

* For measurement purposes, annual rates of increase in the per capita costs of covered pre- and post-Medicare health care benefits of 12.0 percent and 14.0 percent, respectively, were assumed for 2001. 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	$ 740	$ (583)
Effect on postretirement benefit obligation	$ 5,940	$ (4,779)

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 require that banks pay 100% 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, 2001, 2000 and 1999 is estimated to be $1.6 million, $2.1 million and $2.5 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 two agreements with the other System banks and the FAC to call certain of the FAC callable debt issues used to provide financial assistance to certain System entities (the $89 million of 9.20 percent, September 2005 issuance) and to fund Capital Preservation Agreement accruals (the $157 million of 9.50 percent, April 2004 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, and $5.4 million in 1999, related to the call of the $157 million issuance, representing its pro rata shares of the additional funding required.

The district's financial assistance expense totaled $6.9 million, $8.4 million and $12.7 million for the years ended December 31, 2001, 2000 and 1999, 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, 2001, amounted to $84.7 million. In the opinion of management, such loans outstanding to directors, officers and other employees of the bank at December 31, 2001, 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 to the accompanying combined financial statements.

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, 2001 were approximately $80.7 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 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, 2001. 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 $698.4 million, $591.1 million and $515.5 million at December 31, 2001, 2000 and 1999, 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, 2001, 2000 and 1999. 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, 2001		December 31, 2000		December 31, 1999	
	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	**$ 595,032**	**$ 595,032**	$ 600,968	$ 600,968	$ 583,876	$ 583,876
Loans	**6,009,348**	**5,987,520**	5,235,959	5,162,151	4,798,131	4,760,683
Allowance for loan losses	**(156,952)**	**—**	(147,136)	—	(142,582)	—
Loans, net	**5,852,396**	**5,987,520**	5,088,823	5,162,151	4,655,549	4,760,683
Derivative assets*	**659**	**659**	—	—	—	—
Financial liabilities						
Bonds and notes	**5,316,902**	**5,367,300**	4,658,692	4,675,674	4,250,685	4,243,788
Fair value adjustment of derivatives*	**(688)**	**(688)**	—	—	—	—
Total bonds and notes	**5,316,214**	**5,366,612**	4,658,692	4,675,674	4,250,685	4,243,788
Financial assistance related liabilities**	**4,739**	**3,423**	5,214	4,093	5,771	5,111
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 recorded as off-balance-sheet transactions, for which the district had net payable positions of $13 and $545 at December 31, 2000 and 1999, respectively.

** These amounts exclude the assumption of Third Quarter 1986 Capital Preservation Agreement obligations with carrying amounts of $1.6 million, $2.1 million and $2.5 million and estimated fair values of $3.9 million, $4.2 million and $4.4 million at December 31, 2001, 2000 and 1999, 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 and approximates the recorded value.

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:

As discussed in Note 11, "Intra-System Financial Assistance," the district is liable for certain obligations of the FAC, in the amount of $1.6 million, which is unrecorded. 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 — Selected Quarterly Financial Information (Unaudited)

Quarterly results of operations are shown below for the years ended December 31, 2001, 2000 and 1999:

	Year Ended December 31, 2001				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 50,664**	**$ 49,818**	**$ 51,760**	**$ 56,203**	**$ 208,445**
(Negative provision) provision for loan losses	**(284)**	**2,759**	**2,441**	**4,336**	**9,252**
Noninterest expense, net	**21,149**	**17,720**	**17,475**	**23,852**	**80,196**
FAC expense	**1,734**	**1,657**	**1,746**	**1,757**	**6,894**
Net income	**$ 28,065**	**$ 27,682**	**$ 30,098**	**$ 26,258**	**$ 112,103**

	Year Ended December 31, 2000				
	First	Second	Third	Fourth	Total
Net interest income	$ 48,974	$ 46,310	$ 47,809	$ 48,914	$ 192,007
Provision for loan losses	2,801	7,741	2,304	9,030	21,876
Noninterest expense, net	19,759	19,402	19,576	22,784	81,521
FAC expense	1,745	1,974	2,948	1,716	8,383
Net income	$ 24,669	$ 17,193	$ 22,981	$ 15,384	$ 80,227

	Year Ended December 31, 1999				
	First	Second	Third	Fourth	Total
Net interest income	$ 46,616	$ 46,279	$ 45,508	$ 48,637	$ 187,040
Provision for loan losses	2,691	2,447	5,610	2,695	13,443
Noninterest expense, net	19,260	19,743	15,173	24,983	79,159
FAC expense	7,360	1,760	1,747	1,791	12,658
Net income	$ 17,305	$ 22,329	$ 22,978	$ 19,168	$ 81,780

Note 17 — 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	**2001**	2000	1999
Cash, federal funds sold and securities purchased under resale agreements	**$ 48,804**	$ 13,630	$ 87,814
Investment securities	**503,978**	551,124	486,840
Loans			
To associations	**4,663,544**	3,976,820	1,089,322
To others	**447,649**	444,792	3,435,472
Less allowance for loan losses	**13,643**	12,189	57,626
Net loans	**5,097,550**	4,409,423	4,467,168
Accrued interest receivable	**22,744**	30,533	72,810
Other property owned, net	**373**	373	1,318
Other assets	**27,546**	27,190	33,811
Total assets	**$ 5,700,995**	$ 5,032,273	$ 5,149,761
Bonds and notes	**$ 5,316,214**	$ 4,658,692	$ 4,250,685
Other liabilities	**55,896**	71,325	538,118
Total liabilities	**5,372,110**	4,730,017	4,788,803
Capital stock and participation certificates	**93,938**	77,918	99,638
Retained earnings	**234,078**	223,765	262,188
Accumulated other comprehensive income (loss)	**869**	573	(868)
Total members' equity	**328,885**	302,256	360,958
Total liabilities and members' equity	**$ 5,700,995**	$ 5,032,273	$ 5,149,761

	Year Ended December 31,		
Statement of Income Data	**2001**	2000	1999
Interest income	**$ 273,953**	$ 344,294	$ 369,917
Interest expense	**236,537**	270,988	244,401
Net interest income	**37,416**	73,306	125,516
Provision for loan losses	**1,439**	19,191	9,188
Net interest income after provision for loan losses	**35,977**	54,115	116,328
Noninterest income	**6,052**	5,520	10,534
Intra-system financial assistance expense	**3,106**	3,269	8,471
Other expense	**12,979**	13,199	26,967
Net income	**$ 25,944**	$ 43,167	$ 91,424

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 $1.6 million, $2.1 million and $2.5 million as of December 31, 2001, 2000 and 1999, 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), Federal Land Credit Associations (FLCAs) and the Production Credit Association (PCA) 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. ACAs, FLCAs and the PCA collectively are 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, 2002:

DIRECTORS

R.W. "Buddy" Cortese was appointed to the board in 1995, elected in 1996 and re-elected in 1999. In 1998 and 1999, he served as board vice chairman, and in January 2000 he was elected chairman. He was re-elected to the chairmanship in January 2001 and in January 2002. 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 "Mike" Garnett began his first three-year term on the board in January 1999 and was elected board vice chairman in January 2000. He was re-elected as vice chairman in January 2001 and in January 2002. 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. Garnett produces alfalfa, forage crops, wheat and stocker cattle near Spearman, Texas, and operates a custom haying and baling business.

Kenneth Andrews began his third term on the board in January 2000. 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 a three-year term on the board in January 1998. He was re-elected and began his second three-year term in January 2001. 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. Crawford, who lives near Baileyton, Alabama, has owned and operated a cattle business since 1968.

James A. McCarthy, a cotton, grain, and sugarcane producer from Rio Hondo, Texas, began his fifth term on the board in January 2000. He was elected board chairman in 1998 and in 1999. A former director of the PCA of South Texas, he was a congressional appointee to the National Commission on Agricultural Finance in 1986. Since 1994, McCarthy has been a member of the Federal Agricultural Mortgage Corporation (Farmer Mac) Board of Directors.

William F. Staats began his second three-year term as board-elected director in January 2000. 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 is also board chairman of the Consumer Credit Counseling Services of Louisiana as well as chairman of Seven Oaks Capital Corporation, a factoring company serving the U.S. trucking industry.

SENIOR OFFICERS

Name and Title	Time in Position	Experience — Past Five Years
Arnold Henson, *Chief Executive Officer*	10 years	Chief Executive Officer, FCBT
Tom Hill, *Senior Vice President, Chief Financial Officer*	7 years	Senior Vice President, Chief Financial Officer, FCBT
Steve Fowlkes, *Senior Vice President, Bank Administration*	4 years	Senior management and management positions, FCBT
David Clinton, *Senior Vice President, Chief Information Officer*	3 years	Senior management position, FCBT; prior to FCBT, senior management position in information technology at RTW, Inc., in Minneapolis, Minnesota
Dennis Raesener, *Senior Vice President, Credit Operations*	Less than one year	Vice President and Department Manager, Lending Operations, FCBT
William Zimmerman, *Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	14 years	Senior Vice President, Corporate Affairs, 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 2001 was paid at the rate of $2,056 per month, the maximum allowed under the Farm Credit Administration's (FCA) "Annual Adjustment of Maximum Director Compensation for 2001." Under exceptional circumstances, the directors may also receive additional compensation of $200 per day, paid in half-day increments, and not to exceed thirty percent of the annual maximum, for certain special assignments approved by the board. Such payments in excess of the statutory maximum totaled $7,400 in 2001. Information for each director for the year ended December 31, 2001, is provided below:

Board Member	Days Served at Board Meetings	Days Served on Other Official Assignments	Total Compensation Paid
R.W. "Buddy" Cortese	45.5	35.0	$ 32,066
Jon "Mike" Garnett	40.5	30.0	32,066
Kenneth Andrews	35.5	27.0	31,466
Joe R. Crawford	35.5	29.0	32,066
James A. McCarthy	46.5	51.5	32,066
William F. Staats	40.0	19.0	31,566
			$ 191,296

The following table summarizes the compensation paid to all senior officers of the bank during 2001, 2000 and 1999:

Summary Compensation Table

Name of Individual or Group	Year	Annual Salary (a)	Annual Bonus (b)	Other (c)	Total
Arnold Henson,	2001	$ 295,000	$ 40,500	$ —	$ 335,500
Chief Executive Officer	2000	270,000	37,500	22,319	329,819
	1999	255,000	32,175	12,260	299,435
Aggregate number of senior officers: (includes Chief Executive Officer)					
6	2001	1,096,087	75,969	—	1,172,056
6	2000 (d)	1,008,874	167,744	59,515	1,236,133
6	1999 (d)	941,254	145,262	37,293	1,123,809

(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 and 1999 have been restated to conform with current year presentation.

Disclosure of the compensation paid during 2001 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 2001, 2000 and 1999 totaled $74,924, $59,346 and $59,855, 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 both 2000 and 1999, the bank paid to employees any unused annual leave in excess of 240 hours that remained accrued but unused at December 31, 1999 and 1998, respectively. The payments were based upon each employee's salary at December 31 of the applicable years.

Description of Property

The FCBT owns the district headquarters building situated on part of 12.1 acres of land on the northeast side of Austin, Texas. 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, 2001.

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, 2001, 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 22, 2002, and the report of management, appearing on pages 12 through 32 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 calling (512) 483-9260. Copies of the district's quarterly and annual stockholder reports can be requested by e-mailing kristin.tankersley@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, 2002

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) 745-4575
6502 Caprock, Lubbock, TX 79412

Capital Farm Credit, ACA .... (979) 822-3018
507 East 26th, 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
1111 Santa Fe Drive, Weatherford, TX 76086

Southwest Texas ACA .... (830) 663-2845
605 West Hondo, Devine, TX 78016

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

Louisiana

Northwest Louisiana ACA .... (318) 263-2082
1564 Hazel, Arcadia, LA 71001

New Mexico

Ag New Mexico, Farm Credit Services, ACA ..... (505) 762-3828
233 Fairway Terrace North, Clovis, NM 88101

FEDERAL LAND CREDIT ASSOCIATIONS

Alabama

Federal Land Bank Association
of North Alabama, FLCA .... (256) 734-0132
1949 St. Joseph Drive NW, Cullman, AL 35055

Federal Land Bank Association
of South Alabama, FLCA .... (334) 270-8686
4170 Lomac, Suite B, Montgomery, AL 36106

Louisiana

Louisiana Federal Land Bank
Association, FLCA .... (318) 387-7535
3107 DeSoto, Monroe, LA 71201

Mississippi

Federal Land Bank Association
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, 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, Sulphur Springs, TX 75482

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

Texas Land Bank, FLCA .... (254) 772-9343
8225 Central Park Dr., Suite 112, Waco, TX 76712

OTHER FINANCIAL INSTITUTIONS

Agrow Credit Corporation .... (512) 892-8999
2579 Western Trails Blvd., Suite 210, Austin, TX 78745

For more information, on financing visit our web site at www.farmcreditbank.com.

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