FARM CREDIT BANK OF TEXAS

POSITIONED FOR SUCCESS

2003

ANNUAL REPORT

FARM CREDIT BANK OF TEXAS
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" … in business, as in chess,

one must play all sorts of positions well,

seize the opportunities when available,

defend if forced to, and attack when possible,

but always adhere to the dictates of the truth of the position."

— David Gliksman

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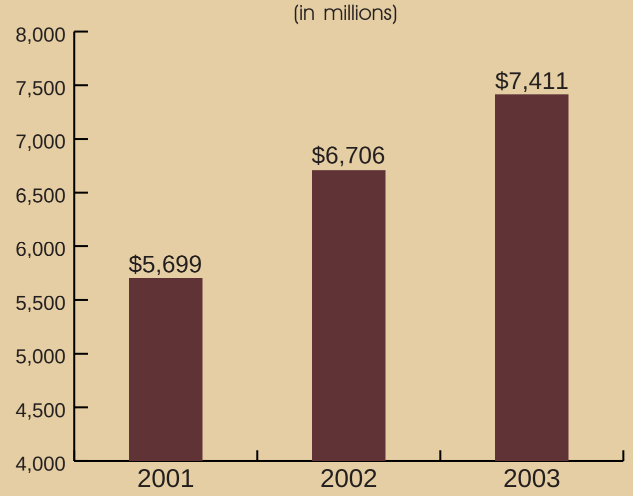
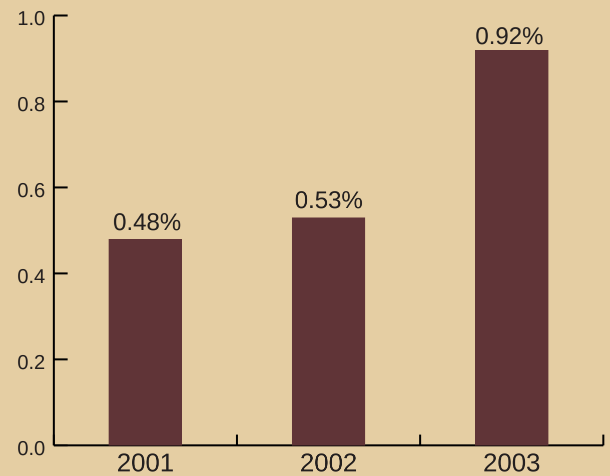
F I N A N C I A L

Total Assets Outstanding at Year End

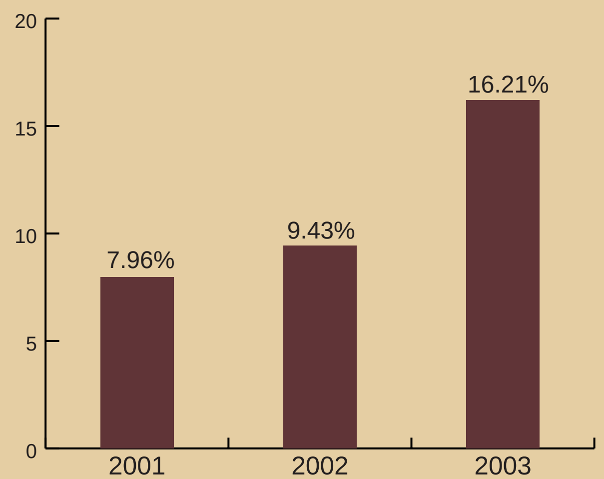
(in millions)



Return on Average Assets for the Year



Return on Average Equity for the Year



H I G H L I G H T S

For the Year *(in thousands)*	Year Ended December 31, 2003	2002	2001
Net interest income	**$ 49,826**	$ 45,091	$ 36,427
(Provision) negative provision for loan losses	**(340)**	2,902	(1,439)
Noninterest income (expense), net	**15,338**	(15,526)	(10,110)
Net income	**64,824**	$ 32,467	$ 24,878
Rate of return on:			
Average assets	**0.92%**	0.53%	0.48%
Average shareholders' equity	**16.21**	9.43	7.96
Cash patronage paid	**$ 49,144**	$ 3,615	$ 3,102

At Year End *(in millions)*	2003	2002	2001
Total loans	**$ 5,835**	$ 5,827	$ 5,111
Total assets	**7,411**	6,706	5,699
Total liabilities	**6,933**	6,337	5,373
Total shareholders' equity	**478**	369	326
Permanent capital ratio	**23.71%**	18.06%	18.10%
Total surplus ratio	**19.15**	14.01	14.01
Core surplus ratio	**14.44**	12.56	12.82
Net collateral ratio	**106.62**	105.32	105.33

OUR COOPERATIVE ADVANTAGE

The Farm Credit Bank of Texas is one of the oldest and largest players in the rural financing business. A longstanding pillar of the agricultural community, we have been financing rural America since 1916.

Our underlying strength is our cooperative structure. The Austin-based Bank is a wholesale lender, owned by 21 rural financing cooperatives, to which we provide funding and services. These retail-lending Associations in turn extend credit and financial services to their owners: nearly 45,000 agricultural producers, agribusinesses, country homeowners and other rural landowners, primarily in Alabama, Louisiana, Mississippi, New Mexico and Texas. Governed by a stockholder-elected board of directors, each financing co-op gives its customers a voice and a vote in the business of the organization.

This cooperative structure offers unique business advantages. We share a portion of our earnings with our customer cooperatives, thereby lowering their cost of funds. Similarly, when they are successful, they return patronage to their stockholders, in effect lowering their customer-owners' cost of borrowing.

Seated: Ralph W. "Buddy" Cortese (left), Chairman; Jon "Mike" Garnett, Vice Chairman. Standing (left to right): Jimmy Dodson, Kenneth Andrews, William Staats, Joe Crawford.

As part of the $115-billion federally regulated Farm Credit System, the largest agricultural financing organization in the United States, we benefit from having a dependable and competitively priced source of capital: Our funds come primarily from the sale of System bonds and notes in the nation's money markets.

2003 ACCOMPLISHMENTS

Farm Credit Bank of Texas
Senior Management Team

Steve Fowlkes (left), Senior Vice President and Chief Credit Officer;
Larry Doyle (center), Chief Executive Officer;
Tom Hill, Senior Vice President and Chief Financial Officer.

For the Farm Credit Bank of Texas, 2003 was a landmark year—a year of change, growth and outstanding accomplishment, a year of strategic moves undertaken to strengthen our position as one of America's leading rural lenders.

In early 2003, we welcomed Larry R. Doyle as our new chief executive officer, and under his leadership we refocused on our primary goal—to increase our profitability and that of our customer-owners, the lending Associations of the Tenth Farm Credit District.

Taking advantage of historically low interest rates, we fast-tracked an ambitious strategy to accomplish this goal. We would raise our capital level and fuel the Bank as an earnings engine for the District. We would streamline operations and increase efficiency. And we would provide the Associations with improved loan products and lending systems.

STRATEGIC MOVES

By year end, we had accomplished all of our key objectives for the year and more. In fact, the Bank surpassed expectations, with net income doubling over the previous year to total $64.8 million and total Bank assets increasing by more than 10 percent to $7.4 billion at December 31, 2003. The extraordinary increase in income resulted largely from the sale of the Bank's mineral rights for $30 million, which enabled the Bank to distribute $49.1 million in cash patronage to Associations. This infusion of capital will be leveraged into lending activities by the Associations.

2003 ACCOMPLISHMENTS

Capital Growth and Increased Earnings

Our success as a wholesale bank directly impacts our Association-owners' success. By generating strong returns from investments and capital markets transactions, we are able to reduce our reliance on Association direct-note income and lower the Associations' cost of borrowing. In 2003, the Farm Credit Bank of Texas took several important steps to increase our income stream. These measures included:

- The issuance of $100 million in preferred stock. This additional capital increased our capacity to grow our portfolio and manage risk, and to meet our Associations' wholesale funding needs.
- The creation in September of a seasoned Capital Markets Group to facilitate the origination and servicing of large participation and syndication transactions for the Bank and District. During the fourth quarter, this new group funded or approved for purchase more than $250 million in capital markets transactions.
- The formation of an Association Direct Lending Group staffed by veteran Farm Credit officers, who will serve as account managers and will partner with Associations and the Capital Markets Group on new business development.
- The sale of a large participation interest in a block of direct notes.
- The restructuring of our debt portfolio for asset/liability management purposes.

Streamlined Operations and Enhanced Products

While it is important to increase income on the front end, it is equally important to improve efficiency in the back-office. In 2003, the Farm Credit Bank of Texas adopted new standards and updated processes to make the organization more efficient and competitive. Among our key accomplishments, we implemented a new liquidity strategy and focused on technology to improve credit delivery. We also reorganized certain Bank departments to focus on key initiatives, and we added employees with varied backgrounds and skills in lending and business to bring strength and diversity to the Bank staff.

In addition, we weighed the financial pros and cons involved in selecting a new home for the Farm Credit Bank of Texas. Ultimately, we chose to lease existing office space rather than to buy or build, leaving capital available for revenue generation. We will relocate to new headquarters in West Austin in mid-2004.

The Farm Credit Bank of Texas provides its Associations with the innovative loan products, credit-delivery services and technology they need to be successful. Because we understand their unique needs, we are able to custom-design products so that Associations do not have to create their own solutions. In 2003, for instance, we launched two new loan guarantee programs, offered a new cash-management product and developed a credit-training school for loan officers.
In addition, we expanded the interest-rate options that Associations may offer their customers, a move that significantly improved their competitiveness.

FINANCIAL GOALS

STRATEGY FOR THE FUTURE

In 2004 and the years ahead, the Farm Credit Bank of Texas will continue to implement a long-range strategy to become even more profitable and more competitive.

Through our new Capital Markets and Association Direct Lending groups, we will aggressively pursue capital markets opportunities by participating in large loans to agribusiness companies, timber firms, rural utilities and rural telecommunications companies.

In so doing, the Bank will strengthen its position as an earnings producer for the Tenth District.

We will continue to streamline our lending practices. Our commitment is to provide outstanding products, business systems and technology that will enable the Bank and our Association partners to increase their market share and penetration.

As a value-added partner, we will equip our Associations to be the most trusted and reliable source of funding for agriculture and rural America.

The focus of all these efforts is the success of our Association stockholders. Our ability to increase earning assets will allow us to increase patronage to our Associations and ultimately lower their cost of funds.

As a cooperative, we always should perform as well or better than other well-managed institutions in the market-place. In the ever-changing world of banking, the cooperative business model has stood the test of time. The advantages it offers, when combined with our sound long-term business strategy, position the Farm Credit Bank of Texas for a successful future. We ask our stockholders to set a high standard for the Bank, knowing that we will achieve what is expected of us.

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 annually 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, 2003, 2002 and 2001.

Ralph W. Cortese
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Thomas W. Hill
Chief Financial Officer

February 24, 2004

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	**2003**	2002	2001	2000	1999
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 28,265**	$ 61,859	$ 48,804	$ 13,630	$ 87,814
Investment securities	**1,518,102**	785,071	503,978	551,124	486,840
Loans	**5,834,929**	5,826,951	5,111,193	4,421,612	4,524,794
Less allowance for loan losses	**9,834**	9,695	13,643	12,189	57,626
Net loans	**5,825,095**	5,817,256	5,097,550	4,409,423	4,467,168
Other property owned, net	**529**	2,615	373	373	1,318
Other assets	**38,833**	39,225	48,679	57,288	107,627
Total assets	**$ 7,410,824**	$ 6,706,026	$ 5,699,384	$ 5,031,838	$ 5,150,767
Obligations with maturities of one year or less	**$ 2,487,260**	$ 3,751,585	$ 3,911,788	$ 3,468,011	$ 3,474,176
Obligations with maturities greater than one year	**4,445,935**	2,585,463	1,461,130	1,262,924	1,315,633
Total liabilities	**6,933,195**	6,337,048	5,372,918	4,730,935	4,789,809
Preferred stock, net	**98,644**	—	—	—	—
Capital stock and participation certificates	**109,787**	109,896	93,938	77,918	99,638
Retained earnings	**273,647**	257,884	231,659	222,412	262,188
Accumulated other comprehensive (loss) income	**(4,449)**	1,198	869	573	(868)
Total shareholders' equity	**477,629**	368,978	326,466	300,903	360,958
Total liabilities and shareholders' equity	**$ 7,410,824**	$ 6,706,026	$ 5,699,384	$ 5,031,838	$ 5,150,767
Statement of Income Data					
Net interest income	**$ 49,826**	$ 45,091	$ 36,427	$ 53,816	$ 115,003
Provision for loan losses	**(340)**	2,902	(1,439)	(19,191)	(9,188)
Noninterest income (expense), net	**15,338**	(15,526)	(10,110)	7,189	(14,391)
Net income	**$ 64,824**	$ 32,467	$ 24,878	$ 41,814	$ 91,424
Key Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**0.92%**	0.53%	0.48%	0.87%	1.84%
Average shareholders' equity	**16.21%**	9.43%	7.96%	12.68%	25.38%
Net interest income to average earning assets	**0.71%**	0.74%	0.70%	1.14%	2.35%
Net charge-offs to average loans	**—**	0.02%	—	0.49%	—
Total shareholders' equity to total assets	**6.45%**	5.50%	5.73%	5.98%	7.01%
Debt to shareholders' equity (:1)	**14.52**	17.17	16.46	15.72	13.27
Allowance for loan losses to total loans	**0.17%**	0.17%	0.27%	0.28%	1.27%
Permanent capital ratio	**23.71%**	18.06%	18.10%	19.18%	14.61%
Total surplus ratio	**19.15%**	14.01%	14.01%	14.40%	11.59%
Core surplus ratio	**14.44%**	12.56%	12.82%	13.63%	11.03%
Net collateral ratio	**106.62%**	105.32%	105.33%	105.21%	106.29%
Net Income Distributions					
Patronage distributions declared					
Cash	**$ 49,144**	$ 3,615	$ 3,102	$ 25,322	$ 80,859
Allocated retained earnings	**1,645**	928	—	—	3

MANAGEMENT'S DISCUSSION & ANALYSIS

(dollars in thousands, except as otherwise noted)

The following commentary provides a discussion and analysis of the financial position and the results of operations of the Farm Credit Bank of Texas (the Bank or FCBT) for the years ended December 31, 2003, 2002 and 2001. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (Notes) and additional sections of this annual report.

The Bank is part of the Tenth Farm Credit District (District), which is part of the federally chartered Farm Credit System (System). The Bank provides funding to District Associations, which, in turn, provide credit to their borrowers/shareholders. As of December 31, 2003, the Bank served 10 Federal Land Credit Associations (FLCAs), 12 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs). FLCAs and ACAs are collectively referred to as Associations. See Note 1,"Organization and Operations," for an expanded description of the structure and operations of the Bank.

Financial Highlights

- Net income totaled $64.8 million for the year ended December 31, 2003, an increase of 99.7 percent compared to 2002. Net income included a one-time gain of $30.5 million from the sale of the Bank's mineral interest holdings in November 2003.
- Net interest income for the year ended December 31, 2003, was $49.8 million, a 10.5 percent increase over the year ended December 31, 2002.
- Return on average assets and return on average shareholders' equity for the year ended December 31, 2003, were 0.92 and 16.21 percent, respectively, compared to 0.53 and 9.43 percent for 2002, respectively.
- The Bank issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98.6 million, after expenses associated with the offering in November 2003.
- Approximately $300 million of participations in five of the Bank's direct notes with the District Associations were sold, at par, to another System bank.
- Patronage distributions declared and retained earnings allocated totaled $50.8 million in 2003, compared to $4.5 million in 2002. These distributions included patronage of $29.6 million related to the Bank's sale of its mineral interest holdings.

Projects Completed in 2003

- Bank staff and certain processes were reorganized, including the revision of the General Financing Agreement (GFA), the formation of Capital Markets and Association Direct Lending groups, and the conversion of administered variable-rate loans to Prime and/or London Interbank Offered Rate (LIBOR) indexed loans, was undertaken in 2003.
- The Bank implemented a new liquidity strategy by which it maintains 90 days of debt principal coverage in the form of liquid assets composed of cash and eligible investment securities, as defined by Farm Credit Administration (FCA) regulations.
- An enhanced cash-management product, *FastCa$h*, was implemented automating intra-District financial transactions as well as transactions between District entities and their customers via electronic transfer of funds.
- The Bank entered into an arrangement with the Federal Agricultural Mortgage Corporation ("Farmer Mac") for usage of the Long-Term Standby Commitment Program by District entities. The program mitigates the risk of loan losses by giving the lender the right to sell the loans identified in the agreements to Farmer Mac in the event of default, subject to certain conditions.

Strategic Initiatives for 2004

- **Credit classification system** – The Bank will implement a new 14-point credit classification system by year-end, thereby expanding District entities' risk-management practices.
- **Economic capital model** – The Bank will continue to assess and analyze loan performance data elements that will support the economic capital model based on the Basel Capital Accord.
- **Strategic alliances** – The Bank will pursue strategic alliances in certain operational areas with other System banks to create economies of scale.
- **Cash management** – The Bank is continuing to implement tools and products to address the cash management needs of the District. In addition, the Bank is pursuing a new commercial banking relationship for use by District entities to provide potential financial synergies and benefits to the group as a whole.

Risk Management

The major risks to which the Bank is exposed are:

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

RESULTS OF OPERATIONS

Net Income

The Bank's net income of $64,824 for the year ended December 31, 2003, reflects an increase of 99.7 percent over 2002, while 2002 income of $32,467 increased by 30.5 percent from 2001. The return on average assets increased to 0.92 percent for the year ended December 31, 2003, from 0.53 percent reported for the year ended December 31, 2002, as a result of the Bank's sale of its mineral rights holdings. The return on average assets was 0.48 percent for the year ended December 31, 2001. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion.

	2003 vs. 2002	2002 vs. 2001
Net income (prior period)	$ 32,467	$ 24,878
Increase (decrease) due to:		
Interest income	(19,369)	(64,289)
Interest expense	24,104	72,953
Net interest income	4,735	8,664
Provision for loan losses	(3,242)	4,341
Gain on sale of mineral rights	30,494	—
Noninterest income	1,511	(866)
Noninterest expense	(1,141)	(4,550)
Total change in net income	32,357	7,589
Net income	$ 64,824	$ 32,467

Interest Income

Total interest income for the year ended December 31, 2003, was $189,306, a decrease of $19,369, or 9.3 percent, compared to 2002. This decrease is primarily attributable to the effect of the decreasing rate environment that has prevailed during 2003, partially offset by an increase in average earning assets.

Total interest income for 2002 was $208,675, a decrease of $64,289, or 23.6 percent, from 2001. This decrease was largely due to the effects of the decreasing rate environment during 2002. The impact of these interest rate decreases from 2001 to 2002 was partially mitigated by an increase in average earning assets.

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

	Year Ended December 31, 2003 vs. 2002	2002 vs. 2001
Increase in average earning assets	$ 918,694	$ 917,851
Average yield (prior year)	3.42%	5.26%
Interest income variance attributed to change in volume	31,419	48,279
Average earning assets (current year)	7,028,003	6,109,309
Decrease in average yield	(0.73%)	(1.84%)
Interest income variance attributed to change in yield	(50,788)	(112,568)
Net change in interest income	$ (19,369)	$ (64,289)

Interest Expense

Total interest expense for the year ended December 31, 2003, was $139,480, a decrease of $24,104, or 14.7 percent, compared to the same period of 2002. Total interest expense for 2002 was $163,584, a decrease of $72,953, or 30.8 percent from 2001. These decreases in interest expense were primarily attributable to declining interest rates, partially offset by an increase in average interest-bearing liabilities.

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

	Year Ended December 31, 2003 vs. 2002	2002 vs. 2001
Increase in average interest-bearing liabilities	$ 871,227	$ 893,926
Average rate (prior year)	2.84%	4.86%
Interest expense variance attributed to change in volume	24,743	43,445
Average interest-bearing liabilities (current year)	6,628,227	5,757,000
Decrease in average rate	(0.74%)	(2.02%)
Interest expense variance attributed to change in rate	(48,847)	(116,398)
Net change in interest expense	$ (24,104)	$ (72,953)

Net Interest Income

Net interest income increased by $4,735 from 2002 to 2003, and increased by $8,664 from 2001 to 2002. The increase was due to a $918,694 increase in average interest-earning assets and a slight increase in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt. Factors responsible for these changes are illustrated in the table below.

Net interest income in 2002 was $8,664 greater than 2001. This increase was primarily due to a $917,851 increase in average interest earning assets and to an improvement of 18 basis points in the spread. The improvement in the interest rate spread was due to the Bank's ability to exercise call options and reprice debt during this period of decline in interest rates, effectively lowering the cost of funds relative to the assets, which did not reprice as quickly.

The impact of capital on net interest income decreased by 4 basis points from 2002 to 2003, and by 14 basis points from 2001 to 2002. These decreases were due to the effects of the decreasing interest rate environment during these periods, and also to the fact that a greater percentage of earning assets had to be funded with interest-bearing debt.

ANALYSIS OF NET INTEREST INCOME

	2003		2002		2001	
	Avg. Balance	**Interest**	Avg. Balance	Interest	Avg. Balance	Interest
Loans	**$ 5,897,185**	**$ 165,037**	$ 5,488,761	$ 194,135	$ 4,730,554	$ 251,477
Investments	**1,130,818**	**24,269**	620,548	14,540	460,904	21,487
Total earning assets	**7,028,003**	**189,306**	6,109,309	208,675	5,191,458	272,964
Interest-bearing liabilities	**6,628,227**	**139,480**	5,757,000	163,584	4,863,074	236,537
Impact of capital	**$ 399,776**		$ 352,309		$ 328,384	
NET INTEREST INCOME		**$ 49,826**		$ 45,091		$ 36,427

	2003 Average Yield	2002 Average Yield	2001 Average Yield
Yield on loans	**2.80%**	3.54%	5.32%
Yield on investments	**2.15%**	2.34%	4.66%
Yield on earning assets	**2.69%**	3.42%	5.26%
Cost of interest-bearing liabilities	**2.10%**	2.84%	4.86%
Interest rate spread	**0.59%**	0.58%	0.40%
Impact of capital	**0.12%**	0.16%	0.30%
Net interest income/average earning assets	**0.71%**	0.74%	0.70%

Provision for Loan Losses

On an ongoing basis, the Bank establishes an appropriate allowance for loan losses based on the risks inherent in its loan portfolio. The $340 provision for loan losses for 2003 reflected an increase of $3,242 from 2002. This increase is attributable to a negative provision in 2002 of $3,332 related to a sale of a nonaccrual loan to another System bank. The $2,902 negative provision for loan losses for 2002 reflected a decrease of $4,341 from 2001, also due to the $3,332 negative provision recorded in 2002.

Noninterest Income

Noninterest income for the year ended December 31, 2003, was $49,788, an increase of $32,005 compared to 2002. The increase is attributable to the Bank's gain of $30,494 on the sale of its mineral rights holdings in late 2003 and an increase of $1,220 in annual mineral income for the year. The mineral rights had been retained on foreclosed properties when the surface rights were sold prior to the amendment of the Farm Credit Act in 1987. The mineral rights were recorded at zero value on the balance sheet. Ordinary mineral income from these mineral rights was included in "Miscellaneous income, net" in 2003, 2002 and 2001, and totaled $4,994, $3,775 and $4,184, respectively.

Noninterest income totaled $17,783 for 2002, a decrease of $866 from 2001, primarily due to a $543 decrease in fees for services to Associations and a $409 decrease in mineral income, which is included in "Miscellaneous income, net."

Noninterest Expenses

Noninterest expenses totaled $34,450 for 2003, reflecting an increase of $1,141, or 3.4 percent, over 2002. This increase was primarily due to a $2,242 increase in salaries and employee benefits, an increase of $664 in assessments from the Farm Credit Banks Funding Corporation (Funding Corporation), an increase of $448 in occupancy and equipment expense, and a $340 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC), partially offset by a $2,919 decrease in losses realized on sale of investment securities during 2002. The increase in salaries and employee benefits is attributable to a $1,043 increase in compensation and a $2,072 increase in retirement expenses due to payments required for the Bank's defined benefit plan obligations and an increase in the liability for the Supplemental Pension Plan, partially offset by a $1,307 decrease in postretirement benefits. Premiums to the FCSIC increased due to an increase in rates in 2003 on accrual loans from 3 basis points to 12 basis points per $1,000 of loans outstanding.

Noninterest expenses for the year ended December 31, 2002, totaled $33,309, an increase of $4,550 over the same period of 2001. The increase was primarily due to a $2,919 loss on the Bank's sale of asset-backed securities during 2002 and an increase of $1,783 in salaries and employee benefits. The asset-backed securities were backed by securitized credit cards and were sold when they failed to meet the Bank's and FCA's investment eligibility criteria due to a downgrade in the investment's credit rating. Increases in salaries and employee benefits were primarily due to increases in postretirement benefits recognized in 2002, attributable to an increase in the accumulated benefit obligations to retirees of the FCB of Jackson, which the Bank assumed as a part of loans purchased from that institution upon the cancellation of its charter.

FINANCIAL CONDITION

Loans

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

Gross loan volume of $5.835 billion at December 31, 2003, reflected an increase of $8 million, or 0.1 percent, from December 31, 2002. In November 2003, the Bank sold $300 million in participations in its direct notes receivable from District Associations. The balance of $5.827 billion at December 31, 2002, reflected an increase of $716 million, or 14.0 percent, from the $5.111 billion balance at December 31, 2001.

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

	December 31,		
	2003	2002	2001
Direct notes receivable from District Associations	**91.5%**	92.9%	91.2%
Participations purchased	**7.7**	6.3	7.9
Other loans	**0.8**	0.8	0.9
Total	**100.0%**	100.0%	100.0%

Bank credit quality has remained strong during the past three years, with all Association and OFI direct notes rated acceptable during this period. Credit quality for all loans other than direct notes to Associations and OFIs was 96.0, 93.2 and 94.4 acceptable percent at December 31, 2003, 2002 and 2001, respectively.

While loan participations purchased made up only 7.7 percent of the Bank's total loans at December 31, 2003, the Bank has undertaken an initiative to increase the size of its participations portfolio. To this end, in November 2003, the Bank sold, at par, $300 million of participations in five of its direct notes receivable from Associations to another System bank. The purpose of the sale was to diversify the credit exposure of the Bank by providing capital for liquidity and expansion of the capital markets loan participations portfolio.

Association Direct Notes

As the table illustrates, 91.5 percent of the Bank's portfolio consisted of direct notes from Associations at December 31, 2003. Terms of loans to Associations are specified in a separate General Financing Agreement between each Association and the Bank, and all assets of each Association secure the direct notes to the Bank. Each Association is a federally chartered instrumentality of the United States and is regulated by the FCA. See Note 1, "Organization and Operations," for further discussion of the Farm Credit System.

The credit exposure of the Bank's loans to Associations, which are evidenced by direct notes with full recourse, is dependent on the Associations' creditworthiness and the ability of their borrowers to repay loans made to them. The credit risk to the Bank is mitigated by diversity in the Associations' loan portfolios in terms of underlying collateral and income sources, geography and range of individual loan amounts. In addition, the risk-bearing capacities of the Associations are assessed annually by the Bank and are currently deemed adequate to absorb most interest-related shocks. Each

Association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area. Associations are subject to FCA regulations concerning minimum capital, loan underwriting and portfolio management, and are audited annually by independent accountants.

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

Government support of agriculture, the availability of off-farm income sources and utilization of guarantees have helped to diminish the effects of adverse economic conditions for the District's Associations.

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

	Percentage of Portfolio		
Commodity Group	**2003**	2002	2001
Livestock	**41%**	42%	42%
Crops	**17**	19	20
Timber	**12**	11	9
Cotton	**10**	10	11
Poultry	**6**	5	6
Dairy	**2**	2	2
Rural home	**2**	2	2
Other	**10**	9	8
Total	**100%**	100%	100%

Livestock operations including fed cattle stockers and cow-calf operations represented approximately 41 percent of the District's loan portfolio at year-end. 2003 was one of the most profitable years in history for the cattle industry. Live cattle prices reached an all-time high, and feed prices remained reasonable. In addition, demand for beef grew in 2003, in spite of increased prices. That trend was projected to continue in 2004 until a case of bovine spongiform encephalopathy (BSE, or "mad cow disease") was discovered in Washington state on December 23, 2003. The immediate effect was the temporary banning of beef imports from the U.S. by Japan, China, Mexico and other countries. However, in the weeks since that discovery, the solid domestic demand for beef has helped cattle prices regain about half of the 20 percent drop in prices that occurred in the commodities markets in the days following the discovery, despite the fact that foreign markets remain closed to U.S. beef. The impact of the BSE discovery on the market for 2004 is difficult to predict. Strong prices are still forecasted for 2004, but they will probably not reach the record levels of 2003. While the Bank and District Associations have a significant number of loans to cattle producers, nearly half of these loans are not dependent on agricultural income for repayment, and the majority are collateralized by real estate.

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

	December 31,		
	2003	2002	2001
Texas	**74%**	71%	70%
Alabama	**9**	10	10
Mississippi	**8**	9	9
Louisiana	**8**	9	9
New Mexico	**1**	1	2
Total	**100%**	100%	100%

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

Loans $5,000 or greater in size (which generally represent corporate agribusiness) make up approximately 6.7 percent of the District's loan volume outstanding. Approximately 61 percent of District loans outstanding are made up of loans of $500 or less, and loans less than $250 make up approximately 45 percent of outstanding loan volume.

Credit quality at the District's Associations at December 31, 2003, 2002 and 2001 remained strong, with greater than 97 percent acceptable for each of the three year-ends. Association non-earning assets as a percentage of total loans at December 31, 2003, was 0.9 percent, compared to 0.7 percent and 1.0 percent at December 31, 2002 and 2001, respectively.

High-Risk Assets

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

	2003	2002	2001
Nonaccrual loans	**$ 10,322**	$ 4,789	$ 24,638
Formally restructured loans	**633**	937	1,017
Loans past due 90 days or more and still accruing interest	**—**	—	831
Other property owned, net	**529**	2,615	373
Total	**$ 11,484**	$ 8,341	$ 26,859

High-risk assets increased by $3,143, or 37.7 percent, from December 31, 2002, to $11,484 at December 31, 2003. The increase in nonaccrual loans is attributed to $4,883 in nonaccrual participation loans to one borrower and $1,716 to another borrower. At December 31, 2003, $9,921, or 96.1 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $2,555 (53.4 percent) and $17,787 (72.2 percent) at December 31, 2002 and 2001, respectively. Other property owned, net, decreased due to the sale during 2003 of properties which had been acquired through foreclosure.

Allowance for Loan Losses

The allowance for loan losses at December 31, 2003, was $9,834, compared to $9,695 and $13,643 at December 31, 2002 and 2001, respectively. The allowance is maintained at a level considered adequate by Bank management to provide for estimated losses inherent in the loan portfolio. Because analysis indicates that an allowance on the Association direct notes is not warranted, the entire balance of the allowance for loan losses reflects reserves for risks identified in the Bank's participations portfolio. The current-year provision reflects management's decision to reduce "pool-specific" and "general" provisions for loan losses, and reflects management's evaluation that the allowance for loan losses is adequate to absorb the losses inherent in the current loan portfolio.

Management plans to conduct studies to further refine its methodologies for calculating the allowance for loan losses, taking into account generally accepted accounting principles and applicable Farm Credit Administration requirements, as well as focusing specifically on the Securities and Exchange Commission and Federal Financial Institutions Examination Council guidelines. These studies are likely to be completed by the fourth quarter of 2004, with any appropriate reductions to the allowance for loan losses implemented at that time.

The following table provides an analysis of key statistics related to the allowance for loan losses at December 31,

	2003	2002	2001
Allowance for loan losses as a percentage of:			
Average loans	0.17%	0.18%	0.29%
Loans at year-end			
Total loans	0.17	0.17	0.27
Participations	2.19	2.64	3.38
Nonaccrual loans	95.27	202.44	55.37
Total high-risk loans	89.77	169.32	51.51
Net charge-offs to average loans	—	0.02	—
Provision (negative provision) expense to average loans	0.01	(0.05)	0.03

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

Liquidity and Funding Sources

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

During 2002, the Bank implemented a new liquidity policy to enhance its liquidity position. Under the new policy, the Bank maintains cash and marketable investment securities to equal a minimum of 90 days (up from 15 days) of maturing debt obligations. Implementation of this strategy required restructuring of the Bank's debt portfolio and increasing the investment portfolio. A significant portion of short-term debt was replaced by a combination of long-term, floating-rate notes and term debt hedged with interest rate swaps to support the repricing characteristics of the Bank's variable rate loan portfolio. The policy's goals were fully implemented in the second quarter of 2003.

As of December 31, 2003, the Bank's investment portfolio consisted of the following:

	Amount	**Percent of Total**
Mortgage-backed securities	$ 1,191,433	77%
Money market instruments	260,331	17
Corporate debt	30,050	2
Asset-backed securities	36,288	3
Total investment securities	1,518,102	99
Overnight investments	21,800	1
Total	$ 1,539,902	100%

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

The Bank's primary source of funds is Systemwide debt securities issued through the Federal Farm Credit Banks Funding Corporation. This funding is readily available to the Bank due to the System's high credit quality and standing in the capital markets. The types and characteristics of securities are described in Note 7, "Bonds and Notes." As a condition of the Bank's participation in the issuance of Systemwide debt securities, the Bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the Bank is liable. At December 31, 2003, the Bank had excess collateral of $473.6 million. Management expects the Bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

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

	December 31,		
	2003	2002	2001
Bonds and term notes outstanding	**$ 6,657**	$ 5,512	$ 4,050
Average effective interest rate	**2.04%**	2.58%	3.85%
Average remaining life (years)	**1.8**	1.6	1.6
Discount notes outstanding	**$ 230**	$ 773	$ 1,266
Average effective interest rates	**0.82%**	1.44%	2.06%
Average remaining life (days)	**19**	68	50

	For the years ended December 31,		
	2003	2002	2001
Average interest-bearing liabilities outstanding	**$ 6,628**	$ 5,757	$ 4,863
Average interest rates on interest-bearing liabilities	**2.10%**	2.84%	4.86%

The Bank had no commercial bank lines of credit in use at December 31, 2003.

ASSET/LIABILITY MANAGEMENT

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

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

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

FCBT uses high-level complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities, including gap and simulation analyses. The following interest rate gap analysis sets forth the Bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2003, which are expected to mature or reprice in each of the future time periods shown:

INTEREST RATE GAP ANALYSIS

as of December 31, 2003

	Interest-Sensitive Period						
	One Month or Less	Over One Through Six Months	Over Six Through Twelve Months	**Total Twelve Months or Less**	Over One Year but Less Than Five Years	Over Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 3,483,532	$ 878,126	$ 250,720	**$ 4,612,378**	$ 989,759	$ 232,792	**$ 5,834,929**
Total investments	616,044	47,804	49,455	**713,303**	532,505	294,094	**1,539,902**
Total interest-earning assets	4,099,576	925,930	300,175	**5,325,681**	1,522,264	526,886	**7,374,831**
Interest-Bearing Liabilities							
Total interest-bearing funds*	4,446,738	734,000	145,000	**5,325,738**	1,246,000	315,000	**6,886,738**
Excess of interest-earning assets over interest-bearing liabilities	—	—	—	—	—	488,093	**488,093**
Total interest-bearing liabilities	4,446,738	734,000	145,000	**5,325,738**	1,246,000	803,093	**$ 7,374,831**
Interest rate sensitivity gap	$ (347,162)	$ 191,930	$ 155,175	**$ (57)**	$ 276,264	$ (276,207)	
Cumulative interest rate sensitivity gap	$ (347,162)	$ (155,232)	$ (57)	**$ (57)**	$ 276,207		

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

The amount of assets or liabilities shown, which reprice or mature during the time period, were determined based on the earlier of repricing date, contractual maturity or anticipated loan prepayments. Additionally, adjustments have been made to reflect the characteristics of callable debt instruments and the impact of derivative transactions. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the Bank has a positive gap position, indicating that the Bank has an exposure to increasing interest rates. This occurs when maturing or repricing debt is replaced by debt with higher cost, while corresponding income on interest-earning assets increases more slowly due to the lag in their maturity or repricing cycle.

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

Interest rate risk exposure is measured by simulation modeling, which calculates the Bank's expected net interest income based upon projections of interest-rate-sensitive assets and liabilities, derivative financial instruments and interest rate scenarios. The Bank monitors its financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. Per FCA regulations, when the current 3-month Treasury bill interest rate is less than 4 percent, both the minus 400 and minus 200 basis point scenarios should be replaced with a downward shock equal to one-half of the 3-month Treasury bill rate. The Bank's policy guideline for the maximum negative impact to the Bank's net interest income is 16 percent. The Bank manages its interest rate risk exposure well within this guideline. As of December 31, 2003, projected annual district net interest income of the existing interest-earning assets and interest-bearing liabilities would decrease by $2,492, or 4.2 percent, if interest rates were to increase by 200 basis points, and would increase by $1,513, or 2.6 percent, if interest rates were to decrease by 47 basis points.

Utilizing simulation analysis, the Bank projects net interest income and market value of equity under multiple interest rate scenarios. The following tables set forth FCBT's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2003, based on the Bank's interest-earning assets and interest-bearing liabilities at December 31, 2003.

Net Interest Income

Scenario	Net Interest Income	% Change
400 BP Shock	$ 53,227	(10.0)%
200 BP Shock	56,627	(4.2)
0 BP	59,119	—
- 47 BP Shock	60,632	2.6

Market Value of Equity

Scenario	Assets	Liabilities	Equity	% Change
Book value	$ 7,410,824	$ 6,933,195	$ 477,629	— %
+ 200 BP Shock	7,231,422	6,882,695	348,727	14.9
0 BP Shock	7,407,184	6,997,448	409,736	—
- 47 BP Shock	7,444,381	7,022,757	421,624	2.9

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

At December 31, 2003, the Bank had interest rate swaps outstanding with a notional amount of $1.7 billion and a positive fair value of $8.7 million. To the extent that its derivatives have a positive fair value, the Bank has a receivable on the instrument, and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the Bank monitors the credit ratings of all counterparties with whom it transacts business. The Bank's activity in derivative financial instruments for 2003 is summarized in the table below:

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	Receive Fixed; Pay Floating
Balance, December 31, 2002	$ 1,144
Additions	1,670
Maturities/calls	(374)
Terminations	(770)
Balance, December 31, 2003	**$ 1,670**

Capital

Total shareholders' equity at December 31, 2003, was $477,629, compared to $368,978 and $326,466 at December 31, 2002 and 2001, respectively. The increases are due primarily to the issuance of preferred stock and increases in retained earnings. On November 7, 2003, FCBT issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98.6 million, after expenses associated with the offering. The dividend rate is 7.561%, payable semi-annually to December 15, 2013, after which dividends are payable quarterly at a rate equal to 3-month LIBOR plus 445.75 bps. The preferred stock qualifies as capital and is reflected as a separate line item in the Bank's balance sheet. The issuance of the preferred stock is a part of the Bank's plan to fund the expansion of its loan portfolio with higher earning participations, which will contribute to a reduction in the cost of funds for the District's Associations.

The Bank paid out dividends of $798 on the preferred stock on December 15, 2003. The Bank paid out cash patronage totaling $49.1 million during 2003, including $29.6 million related to the sale of the mineral rights holdings, $8.0 million related to mineral income, $5.5 million in direct loan patronage, $3.1 million in patronage on certain participations and $2.9 million in interest credit patronage, based on the Associations' stock investment in the Bank.

Capital adequacy is evaluated using various ratios for which the FCA has established regulatory minimums. The following table reflects the Bank's capital ratios at December 31,

	2003	2002	2001	Regulatory Minimum
Permanent capital ratio	**23.71%**	18.06%	18.10%	7.00%
Total surplus ratio	**19.15**	14.01	14.01	7.00
Core surplus ratio	**14.44**	12.56	12.82	3.50
Collateral ratio	**106.62**	105.32	105.33	103.00

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

OTHER

Contractual Interbank Performance Agreement

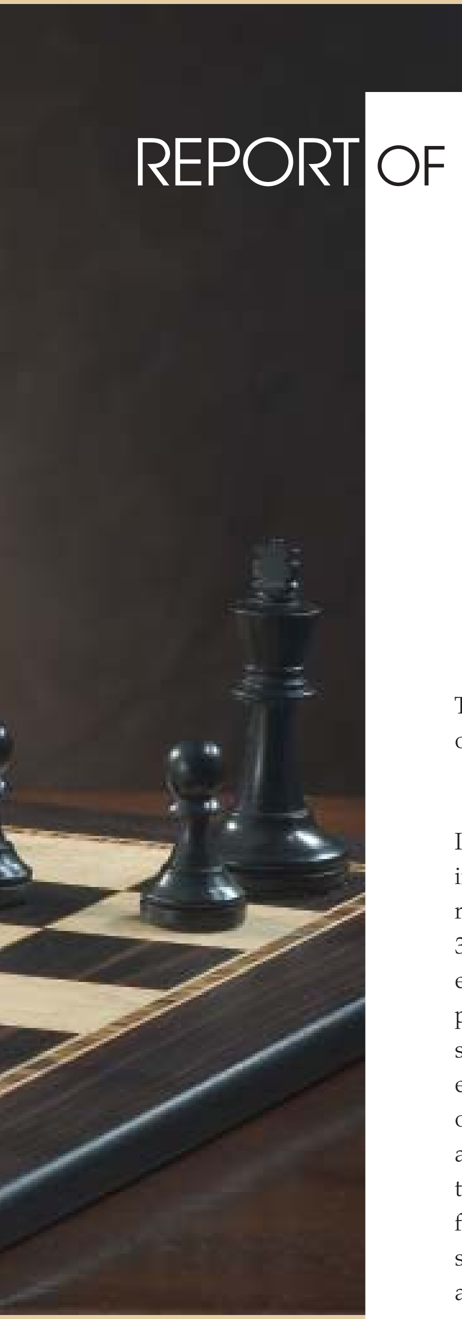
All banks in the System, the Federal Farm Credit Banks Funding Corporation and the Financial Assistance Corporation (FAC) participate in the Contractual Interbank Performance Agreement (CIPA). The objective of CIPA is to encourage Districts to achieve and/or maintain higher levels of financial condition and performance by subjecting them to a scoring process based on District profitability, asset quality and capital adequacy, with penalties for weak liquidity and excessive interest rate risk. The District's composite CIPA score is in compliance with agreed-upon CIPA standards and is expected to remain so during 2004.

Regulatory and Other Matters

Effective January 1, 2004, two of the District's FLCAs merged, leaving 12 ACAs and 9 FLCAs, totaling 21 Associations in the District.

On February 24, 2004, the FCA issued an informational memorandum to System institutions that certain syndication transactions are direct loans, not participations. Unlike participations, direct-loan transactions are subject to territorial concurrence, stock requirements and borrower rights. However, syndication transactions with similar entities are participations, not direct loans. FCA may consider whether to initiate a rulemaking that would allow waivers of borrower rights in syndications for certain sophisticated borrowers that are not similar entities. This informational memorandum may impact our ability to compete for certain loans in the syndication market in the future. As of December 31, 2003, total syndication volume was less than one percent of the District portfolio. Some existing loans would be affected only if renewed or extended.

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



REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and the related statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of the Farm Credit Bank of Texas (Bank) at December 31, 2003, 2002 and 2001, and the results of its operations, changes in shareholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 24, 2004

BALANCE SHEETS

Farm Credit Bank of Texas

(*in thousands*)	**2003**	December 31, 2002	2001
Assets			
Cash	**$ 6,465**	$ 7,890	$ 9,804
Federal funds sold and overnight investments	**21,800**	53,969	39,000
Investment securities	**1,518,102**	785,071	503,978
Loans	**5,834,929**	5,826,951	5,111,193
Less allowance for loan losses	**9,834**	9,695	13,643
Net loans	**5,825,095**	5,817,256	5,097,550
Accrued interest receivable	**19,194**	19,066	22,744
Other property owned, net	**529**	2,615	373
Premises and equipment, net	**957**	929	17,639
Other assets	**18,682**	19,230	8,296
Total assets	**$ 7,410,824**	$ 6,706,026	$ 5,699,384
Liabilities and shareholders' equity			
Liabilities			
Bonds and notes, net	**$ 6,886,738**	$ 6,284,567	$ 5,316,214
Accrued interest payable	**32,700**	38,329	43,393
Intra-System financial assistance payable	**280**	4,334	4,739
Other liabilities	**13,477**	9,818	8,572
Total liabilities	**6,933,195**	6,337,048	5,372,918
Commitments and contingencies (Note 12)			
Shareholders' equity			
Preferred stock, net	**98,644**	—	—
Capital stock	**109,787**	109,896	93,938
Allocated retained earnings	**14,237**	11,711	13,410
Unallocated retained earnings	**259,410**	246,173	218,249
Accumulated other comprehensive (loss) income	**(4,449)**	1,198	869
Total shareholders' equity	**477,629**	368,978	326,466
Total liabilities and shareholders' equity	**$ 7,410,824**	$ 6,706,026	$ 5,699,384

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

STATEMENTS OF INCOME

Farm Credit Bank of Texas

(*in thousands*)	2003	Year Ended December 31, 2002	2001
Interest Income			
Investment securities and other	**$ 24,269**	$ 14,540	$ 21,487
Loans	**165,037**	194,135	251,477
Total interest income	**189,306**	208,675	272,964
Interest Expense			
Bonds and notes	**139,447**	163,555	236,499
Notes payable and other	**33**	29	38
Total interest expense	**139,480**	163,584	236,537
Net Interest Income	**49,826**	45,091	36,427
Provision (negative provision) for loan losses	**340**	(2,902)	1,439
Net interest income after provision for loan losses	**49,486**	47,993	34,988
Noninterest Income			
Fees for services to Associations	**10,624**	11,065	11,608
Fees for financially related services	**3,071**	2,446	2,551
Gain on sale of mineral rights	**30,494**	—	—
Miscellaneous income, net	**5,599**	4,272	4,490
Total noninterest income	**49,788**	17,783	18,649
Noninterest Expenses			
Salaries and employee benefits	**18,643**	16,401	14,618
Occupancy and equipment	**3,694**	3,246	3,188
Intra-System financial assistance expenses	**2,801**	3,206	3,106
Loss from sale of investment securities	**––**	2,919	—
Other operating expenses	**9,312**	7,537	7,847
Total noninterest expenses	**34,450**	33,309	28,759
Net Income	**$ 64,824**	$ 32,467	$ 24,878

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Farm Credit Bank of Texas

(in thousands)	Preferred Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2000	$ —	$ 77,918	$ 26,192	$ 196,220	$ 573	$ 300,903
Comprehensive income						
Net income	—	—	—	24,878	—	24,878
Unrealized net gains on investment securities	—	—	—	—	296	296
Total comprehensive income	—	—	—	24,878	296	25,174
Capital stock/participation certificates issued	—	20,300	—	—	—	20,300
Capital stock/participation certificates and allocated retained earnings retired	—	(4,280)	(12,529)	—	—	(16,809)
Patronage						
Cash	—	—	—	(3,102)	—	(3,102)
Shareholders' equity	—	—	(253)	253	—	—
Balance at December 31, 2001	—	93,938	13,410	218,249	869	326,466
Comprehensive income						
Net income	—	—	—	32,467	—	32,467
Unrealized net gains on investment securities	—	—	—	—	329	329
Total comprehensive income	—	—	—	32,467	329	32,796
Capital stock/participation certificates issued	—	17,726	—	—	—	17,726
Capital stock/participation certificates and allocated retained earnings retired	—	(1,768)	(2,627)	—	—	(4,395)
Patronage						
Cash	—	—	—	(3,615)	—	(3,615)
Shareholders' equity	—	—	928	(928)	—	—
Balance at December 31, 2002	—	109,896	11,711	246,173	1,198	368,978
Comprehensive income						
Net income	—	—	—	64,824	—	64,824
Unrealized net losses on investment securities	—	—	—	—	(5,647)	(5,647)
Total comprehensive income	—	—	—	64,824	(5,647)	59,177
Preferred stock issued, net of expenses	98,644	—	—	—	—	98,644
Capital stock/participation certificates issued	—	6,638	953	—	—	7,591
Capital stock/participation certificates and allocated retained earnings retired	—	(6,747)	(72)	—	—	(6,819)
Cash dividends – preferred stock	—	—	—	(798)	—	(798)
Patronage						
Cash	—	—	—	(49,144)	—	(49,144)
Shareholders' equity	—	—	1,645	(1,645)	—	—
Balance at December 31, 2003	**$ 98,644**	**$ 109,787**	**$ 14,237**	**$ 259,410**	**$ (4,449)**	**$ 477,629**

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

STATEMENTS OF CASH FLOWS

Farm Credit Bank of Texas

	Year Ended December 31,		
(in thousands)	**2003**	2002	2001
Cash Flows From Operating Activities			
Net income	**$ 64,824**	$ 32,467	$ 24,878
Reconciliation of net income to net cash provided by operating activities			
Provision (negative provision) for loan losses	**340**	(2,902)	1,439
Provision for losses on other property owned	**132**	171	—
Depreciation on premises and equipment	**456**	1,168	1,897
Accretion of net (premium) discount on notes	**(7,006)**	16,910	43,837
Accretion of net (premium) on investments	**(7,663)**	(491)	(722)
Losses on sales of investment securities	—	2,919	—
Gain on sales of mineral rights	**(30,494)**	—	—
Gains on sales of other property owned, net	**(409)**	(36)	(87)
Loss on sales of premises and equipment	**20**	220	24
(Increase) decrease in accrued interest receivable	**(128)**	3,678	7,789
Increase in other assets, net	**(2,519)**	(605)	(28)
Decrease in accrued interest payable	**(5,629)**	(5,064)	(14,394)
Decrease in intra-System financial assistance payable	**(4,054)**	(405)	(475)
Increase (decrease) in other liabilities, net	**3,659**	2,593	(2,017)
Net cash provided by operating activities	**11,529**	50,623	62,141
Cash Flows From Investing Activities			
Net decrease (increase) in federal funds sold and securities purchased under resale agreements	**32,169**	(14,969)	(28,500)
Investment securities			
Purchases	**(7,713,178)**	(4,738,052)	(1,845,746)
Proceeds from maturities, calls and prepayments	**6,982,163**	4,432,751	1,893,910
Proceeds from sales	—	22,109	—
Increase in loans, net	**(8,179)**	(719,212)	(689,812)
Proceeds from sales of mineral rights, net	**30,494**	—	—
Proceeds from sales of other property owned, net	**2,363**	31	333
Proceeds from sales of premises and equipment	**68**	15,962	47
Expenditures for premises and equipment	**(572)**	(640)	(461)
Net cash used in investing activities	**(674,672)**	(1,002,020)	(670,229)
Cash Flows From Financing Activities			
Bonds and notes issued	**32,134,277**	23,012,741	25,300,047
Bonds and notes retired	**(31,522,033)**	(22,072,974)	(24,685,674)
Preferred stock issued, net of expenses	**98,644**	—	—
Capital stock and participation certificates issued	**7,591**	17,726	20,300
Capital stock and participation certificates retired and allocated retained earnings distributed	**(6,819)**	(4,395)	(16,809)
Cash dividends on preferred stock	**(798)**	—	—
Cash patronage distributions paid	**(49,144)**	(3,615)	(3,102)
Net cash provided by financing activities	**661,718**	949,483	614,762
Net (decrease) increase in cash	**(1,425)**	(1,914)	6,674
Cash at beginning of year	**7,890**	9,804	3,130
Cash at end of year	**$ 6,465**	7,890	$ 9,804
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ —**	$ 40	$ 91
Loans transferred to other property owned	—	2,448	155
Unrealized net (loss) gains on investment securities	**(5,647)**	329	296
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	**$ (3,067)**	$ 11,676	$ 688
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 147,640**	$ 156,801	$ 257,001

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

NOTES TO FINANCIAL STATEMENTS

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

Note 1 — Organization and Operations

A. Organization:

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

The United States is served by four 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 the lending authorities of an FCB within its chartered territories. The Bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The District's 10 FLCAs, 12 ACA parent Associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs), and preferred stockholders jointly owned the Bank at December 31, 2003. FLCAs and ACAs collectively are referred to as Associations. The Bank and its related Associations collectively are referred to as the Tenth Farm Credit District (District).

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

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

B. Operations:

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

The Bank lends primarily to the District Associations in the form of revolving lines of credit (direct notes) to fund the Associations' loan portfolios. These direct notes are collateralized by a pledge of substantially all of each Association's assets. The terms of the revolving direct notes are governed by a general financing agreement between the Bank and each Association. Each advance is structured so that the principal cash flow, repricing characteristics and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the interest rate risk is effectively transferred to the Bank. Advances are also made to fund general operating expenses of the Associations. FLCAs borrow money from the Bank and, in turn, originate and service long-term real estate and agribusiness loans to their members. ACAs borrow from the Bank and in turn originate and service long-term mortgage loans through the FLCA subsidiary and short- and intermediate-term loans through the PCA subsidiary. 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, but not all, of its loan advances to Association members/borrowers.

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

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

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

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

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

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

Each System bank is insured and is required to pay premiums to the Insurance Fund until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the System's aggregate insured obligations (Systemwide debt obligations). When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. Premiums are based on the average principal outstanding of accrual and nonaccrual loans of the District for the year. At December 31, 2003, the assets in the Insurance Fund were approximately $2 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, 2003, available funds in the Trust Fund amounted to $73.8 million.

Note 2 — Summary of Significant Accounting Policies

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

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

A. Cash:

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

B. Investment Securities:

The Bank, as permitted under FCA regulations, holds eligible investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2003, 2002 and 2001. These investments are reported at fair value, and unrealized holding gains and losses are netted and reported as a separate component of shareholders' equity in the balance sheet. Purchased premiums and discounts are amortized or accreted using the straight-line method (which is not materially different from the effective interest method) over the term of the respective issues. Realized gains and losses are determined using the specific identification method and are recognized in current operations.

The Bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or permanent. In the event of permanent impairment, the cost basis of the investment would be written down to its fair value, and the realized loss would be included in current earnings.

C. Loans and Allowance for Loan Losses:

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

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

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

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

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

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

D. Other Property Owned:

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

E. Premises and Equipment:

Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of 40 years for buildings and improvements, three to 10 years for furniture, equipment and certain leasehold improvements, and three to four years for automobiles. Computer software and hardware are amortized over three years. Gains and losses on dispositions are reflected currently. Maintenance and repairs are charged to operating expense, and improvements are capitalized and amortized over the remaining useful life of the asset.

F. Other Assets and Other Liabilities:

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

In connection with past foreclosure and sale proceedings, the Bank retained certain mineral interests in land from which it receives revenues from lease bonuses, rentals and royalties. These intangible assets were recorded at nominal or no value in the balance sheet. Income received from mineral and royalty holdings, net of related property taxes, in 2003, 2002 and 2001 was $4,994, $3,775 and $4,184, respectively, and is included in miscellaneous income in the statement of income. These mineral interests were sold in November 2003 for proceeds of $30.5 million, which is included in "gains on sale of mineral rights." Of this gain, $29.6 million was paid out as patronage to the District Associations.

The Bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Bank on such balances. There were no significant balances of ACPs at December 31, 2003, 2002 and 2001.

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

G. Employee Benefit Plans:

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

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

The Bank and Associations provide certain health care and life insurance benefits to eligible retired employees and directors. No Bank employees hired on or after January 1, 2004, will be eligible for these health care and life insurance benefits upon retirement.

H. Income Taxes:

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

I. Derivative Instruments and Hedging Activity:

The Bank is party to derivative financial instruments, consisting of interest rate swaps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. On January 1, 2001, the Bank adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), which requires derivatives to be recorded on the balance sheet as assets and liabilities, measured at fair value.

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

Note 3 — Investment Securities

A summary of the amortized cost and estimated fair value of investment securities at December 31, 2003, 2002 and 2001, follows.

	December 31, 2003				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Commercial paper and other	**$ 290,331**	**$ 56**	**$ (6)**	**$ 290,381**	**1.16%**
Collateralized mortgage obligations	**1,196,072**	**2,586**	**(7,225)**	**1,191,433**	**3.17**
Asset-backed securities	**36,148**	**144**	**(4)**	**36,288**	**1.36**
Total	**$ 1,522,551**	**$ 2,786**	**$ (7,235)**	**$ 1,518,102**	**2.72%**

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

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

A summary of expected maturity, amortized cost, estimated fair value and weighted average yield of investment securities at December 31, 2003, follows:

	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	$ 260,337	$ 260,331	1.14%
Due after one year through five years	29,995	30,050	1.27
Due after five years through ten years	171,189	171,467	3.40
Due after ten years	1,061,030	1,056,254	3.07
Total securities	$ 1,522,551	$ 1,518,102	2.72%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2003, the CMO portfolio had a weighted average remaining life of approximately two years.

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

	Year Ended December 31,		
	2003	2002	2001
Proceeds on sales	**$ —**	$ 22,109	$ —
Realized losses	**—**	(2,919)	—

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

Note 4 — Loans and Allowance for Loan Losses

Loans comprised the following categories at December 31:

	2003	2002	2001
Direct notes receivable from District Associations	**$ 5,341,875**	$ 5,411,885	$ 4,663,544
Participations purchased	**448,306**	367,552	403,453
Other loans	**44,748**	47,514	44,196
Total loans	**$ 5,834,929**	$ 5,826,951	$ 5,111,193

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

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

Commodity	2003	2002	2001
Livestock	**41%**	42%	42%
Crops	**17**	19	20
Timber	**12**	11	9
Cotton	**10**	10	11
Poultry	**6**	5	6
Dairy	**2**	2	2
Rural home	**2**	2	2
Other	**10**	9	8
Total	**100%**	100%	100%

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

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

	December 31,		
	2003	2002	2001
Nonaccrual loans			
Current as to principal and interest	**$ 9,921**	$ 2,555	$ 17,787
Past due	**401**	2,234	6,851
Total nonaccrual loans	**10,322**	4,789	24,638
Impaired accrual loans			
Restructured accrual loans	**633**	937	1,017
Accrual loans 90 days or more past due	**—**	—	831
Total impaired accrual loans	**633**	937	1,848
Total impaired loans	**$ 10,955**	$ 5,726	$ 26,486
Average impaired loans	**$ 6,865**	$ 10,293	$ 23,020

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans for the years ended December 31:

	2003	2002	2001
Interest income recognized on nonaccrual loans	**$ 378**	$ 2,914	$ 775
Interest income on impaired accrual loans	**81**	136	201
Interest income recognized on impaired loans	**$ 459**	$ 3,050	$ 976

The following table presents information concerning impaired loans as of December 31:

	2003	2002	2001
With related specific allowance	**$ 638**	$ 2,247	$ 16,243
With no related specific allowance	**10,317**	3,479	10,243
Total impaired loans	**$ 10,955**	$ 5,726	$ 26,486
Allowance on impaired loans	**$ 291**	$ 599	$ 4,925

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31, 2003, were as follows:

Interest income which would have been recognized under the original loan terms	**$ 1,004**
Less: interest income recognized	**459**
Foregone interest income	**$ 545**

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

	December 31,		
	2003	2002	2001
Balance at beginning of year	**$ 9,695**	$ 13,643	$ 12,189
Provision for loan losses	**340**	(2,902)	1,439
Loans charged off	**(201)**	(1,046)	(5)
Recoveries	**—**	—	20
Balance at end of year	**$ 9,834**	$ 9,695	$ 13,643

In December of 2002, the Bank sold its remaining portion of a loan which had been in nonaccrual status to another System bank, and recorded a negative provision of $3,332 to reverse the specific allowance on that loan.

To mitigate risk of loan losses, District Associations have entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation ("Farmer Mac") through an arrangement with the Bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Associations the right to sell the loans identified in the agreements to the Bank, who can, in turn, sell them to Farmer Mac in the event of default, subject to certain conditions. The balance of loans under long-term standby commitments to purchase was $40.6 million at December 31, 2003. Fees paid to Farmer Mac for such commitments are paid by the Associations.

In November 2003 the Bank sold, at par, $300 million of participations in five of its direct notes with District Associations to another System bank. The purpose of the sale was to diversify the credit exposure of the Bank by allowing the acquisition of mortgage-type investment securities and interests in other capital market loan participations.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31, 2003	2002	2001
Land	$ —	$ —	$ 1,749
Buildings and leasehold improvements	**22**	—	24,269
Furniture and equipment	**10,098**	10,665	10,420
	10,120	10,665	36,438
Accumulated depreciation	**(9,163)**	(9,736)	(18,799)
Total	**$ 957**	929	$ 17,639

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

On September 30, 2003, the Bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease is effective September 30, 2003, and its term is from September 1, 2003, to August 31, 2013. Under the terms of the lease, the Bank will not be obligated to pay base rental or its share of basic costs during the first twelve months of the lease. Thereafter, the Bank will pay annual base rental ranging from $11 per square foot in the second year to $19 per square foot in the tenth year. The Bank expects to move to the new facilities during the second quarter of 2004.

Following is a schedule of the minimum lease payments on the lease:

	Minimum Lease Payments
2004	$ 376
2005	1,161
2006	1,264
2007	1,366
2008	1,503
Subsequent years	8,573
Total minimum lease payments	$ 14,243

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2003	2002	2001
Fair value of derivatives	**$ 8,711**	$ 10,988	$ 659
Accounts receivable	**2,809**	3,182	2,881
Unamortized debt issue costs	**2,743**	1,874	1,561
Land investment	**793**	793	793
Other, net	**3,626**	2,393	2,402
Total	**$ 18,682**	$ 19,230	$ 8,296

Other liabilities comprised the following at December 31:

	2003	2002	2001
Accounts payable	**$ 4,058**	$ 2,730	$ 2,450
Notes payable	**3,112**	2,432	834
Supplemental pension	**2,296**	1,649	1,438
Mortgage life additional reserve	**1,912**	1,887	1,722
Fair value of derivatives	**790**	—	1,347
FCSIC premium payable	**510**	170	—
Other, net	**799**	950	781
Total	**$ 13,477**	$ 9,818	$ 8,572

Note 7 — Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Certain conditions must be met before the Bank can participate in the issuance of Systemwide debt securities. The Bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2003, the Bank had such specified eligible assets totaling $7.4 billion and obligations and accrued interest payable totaling $6.9 billion, resulting in excess eligible assets of $473.6 million.

In 1994, the System banks and the Funding Corporation entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2003, the Bank was, and currently remains, in compliance with the conditions and requirements of the System banks' and the Funding Corporation's MAA.

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

The Bank's participation in Systemwide debt securities at December 31, 2003, follows *(dollars in millions)*:

	Systemwide							
	Bonds		Medium-Term Notes		Discount Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2004	$ 2,091.8	1.43%	$ 119.1	5.44%	$ 229.8	0.82%	$ 2,440.7	1.57%
2005	2,702.4	1.45	102.7	3.54	—	—	2,805.1	1.53
2006	773.3	1.99	62.1	5.12	—	—	835.4	2.22
2007	280.4	3.34	—	—	—	—	280.4	3.34
2008	160.1	4.81	20.0	5.57	—	—	180.1	4.89
Subsequent years	345.0	5.61	—	—	—	—	345.0	5.61
Total	$ 6,353.0	1.91%	$ 303.9	4.74%	$ 229.8	0.82%	$ 6,886.7	1.99%

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

Systemwide bonds, medium-term notes, master notes, discount notes (Systemwide debt securities) and bank bonds are the joint and several obligations of all System banks. Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2003, was 19 days.

The Bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2003 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2004	$ 15,000	12/10/03-12/29/03
2005	140,000	10/14/03-09/15/04
2006	270,000	10/10/03-12/15/04
2007	170,000	10/10/03-09/21/05
2008	75,000	10/10/03-10/29/05
Subsequent years	85,000	10/14/03-03/08/04
Total	$ 755,000	10/10/03-10/29/05

Callable debt may be called on the first call date and, generally, everyday thereafter with seven days' notice.

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

The Bank had no outstanding commercial bank lines of credit at December 31, 2003.

Note 8 — Shareholders' Equity

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

A. Description of Bank Equities:

On November 7, 2003, the Bank issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate is 7.561 percent, payable semi-annually to December 15, 2013, after which dividends are payable quarterly at a rate equal to 3-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. Dividends on preferred stock are recorded as declared. The preferred stock ranks, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the Bank. On December 15, 2003, preferred stock dividends of $798 were paid. At December 31, 2003, accumulated dividends on the preferred stock totaled $357.

According to the Bank's bylaws, the minimum and maximum stock investments required of the ACAs and FLCAs are 2 percent and 5 percent, respectively, of each Association's average borrowings from the Bank. The investments in the Bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the Associations is 2 percent of their average borrowings from the Bank. There were 21,856 shares, 21,878 shares and 18,717 shares of Class A voting common stock issued and outstanding at December 31, 2003, 2002 and 2001, respectively.

The Bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the Bank based on 2 percent of the OFIs' average borrowings from the Bank. The Bank has a first lien on these equities for the repayment of any indebtedness to the Bank. There were 102 shares, 102 shares and 71 shares of Class A nonvoting common stock issued and outstanding at December 31, 2003, 2002 and 2001, respectively.

Allocated retained earnings of $14,237 at December 31, 2003, consisted of $2,573 allocated to certain participating Associations from earnings generated by the Bank's participation loans and $11,664 of patronage refunds allocated to certain PCAs prior to January 1, 1993. The $2,573 is to be used to absorb any net losses in future years from operations of the participations pool and is to be revolved out to participating Associations in no less than seven years, so long as the Bank is in compliance with regulatory capital requirements for redemption of capital and standards established under a capital plan approved by the Bank's board of directors. The $11,664 in patronage refunds is used to satisfy all or part of the 2 percent Bank stock requirement by certain of the PCAs, all of which are now subsidiaries of ACA parent companies. Bank management's intent is to permanently invest these undistributed earnings in the Bank and to indefinitely postpone their conversion to cash.

Allocated retained earnings of $11,711 at December 31, 2002, consisted of $928 allocated to certain participating Associations from earnings generated by the Bank's participation loans and $10,783 of patronage refunds allocated to certain PCAs, as previously described. Allocated of retained earnings of $13,410 at December 31, 2001, were comprised solely of patronage refunds allocated to certain PCAs, as previously described.

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

	2003	2002	2001
Class A voting common stock	**$ 109,278**	$ 109,388	$ 93,583
Class A nonvoting common stock	**509**	508	355
Total capital stock	**109,787**	109,896	93,938
Allocated retained earnings	**14,237**	11,711	13,410
Total capital stock and allocated retained earnings	**$ 124,024**	$ 121,607	$107,348

Patronage may be paid to the holders of Class A voting common stock and allocated retained earnings of the Bank, as the board of directors may determine by resolution, subject to the capitalization requirements defined by the FCA. During 2003, $49,144 in cash patronages were paid to District Associations and OFIs, compared to $3,615 in 2002 and $3,102 in 2001.

B. Regulatory Capitalization Requirements and Restrictions:

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

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

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

	2003	2002	2001	Regulatory Minimum
Permanent capital ratio	**23.71%**	18.06%	18.10%	7.00%
Total surplus ratio	**19.15**	14.01	14.01	7.00
Core surplus ratio	**14.44**	12.56	12.82	3.50
Collateral ratio	**106.62**	105.32	105.33	103.00

Note 9 — Employee Benefit Plans

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

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

The DB plan is noncontributory and benefits are based on salary and years of service. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan in 1998 and beyond, to facilitate reorganization and/or restructuring. Additionally, certain qualified individuals in the Bank may participate in a separate, defined benefit supplemental pension plan. The Bank accrues the cost and liability of the supplemental pension plan as incurred, and not as contributions are required. Actuarial information regarding the DB and supplemental pension plan accumulated benefit obligations and plan assets are calculated for the District as a whole and is presented in the District's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligations exceeded the net assets of both plans as a whole as of December 31, 2003. The Bank recorded an additional minimum pension liability and an intangible asset of $1,315 related to the supplemental pension plan at December 31, 2003.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. DC plan participants direct the placement of their employers' contributions (4.0 percent of eligible compensation during 2003) made on their behalf into various investment alternatives.

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

The Bank provides certain health care and life insurance benefits to eligible retired employees and directors.

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

	2003	2002	2001
Pension	**$ 3,018**	$ 1,052	$ 838
Thrift plan	**383**	277	248
Other postretirement benefits	**291**	1,662	248
Total	**$ 3,692**	$ 2,991	$ 1,334

Note 10 — Intra-System Financial Assistance

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

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

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

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

The FAC assumed certain payables previously accrued by the Bank under the System's Capital Preservation Agreements and funded payment of such accruals by the issuance of 15-year U.S. Treasury–guaranteed debt. Under the Farm Credit Act, the System banks were required to fund the bonds upon maturity. Although GAAP required 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 should not be considered a liability of any System bank until the maturity of such debt. The obligation was paid in July 2003. The Bank's unrecorded liability and related unrecorded reduction in retained earnings at December 31, 2002 and 2001 was estimated to be $1.2 million and $1.6 million, respectively. There was a statutorily mandated repayment plan, which effectively spread the financial assistance payments and expenses over a number of years and, accordingly, gradually reduced the effect of the unrecorded liability.

The Bank's financial assistance expense totaled $2.8 million, $3.2 million and $3.1 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 11 — Related Party Transactions

As discussed in Note 1, "Organization and Operations," the Bank lends funds to the District Associations to fund their loan portfolios. Interest income recognized on direct notes receivable from District Associations was $142,375, $167,820 and $220,670 for 2003, 2002 and 2001, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Allowances for Loan Losses," and Note 8, "Shareholders' Equity."

In addition to providing loan funds to District Associations, the Bank also provides banking and support services to them, such as accounting, information systems, loan processing, marketing and other services. Income derived by the Bank from these activities was $10,624, $11,065 and $11,608 for 2003, 2002 and 2001, respectively, and was included in the Bank's noninterest income.

Note 12 — Commitments and Contingencies

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

The Bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the Bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total Bank and consolidated Systemwide debt obligations of the System at December 31, 2003, were approximately $94.2 billion.

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

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

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

At any time, the Bank has outstanding a significant number of commitments to extend credit. The Bank also provides standby letters of credit to guarantee the performance of customers to third parties. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the balance sheet (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Bank's commitments to extend credit totaled $107.2 million, $45.4 million and $98.4 million at December 31, 2003, 2002 and 2001, respectively.

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

Note 14 — Disclosure About the Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2003, 2002 and 2001. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for System financial instruments. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

	December 31, 2003		December 31, 2002		December 31, 2001	
	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	**$ 1,546,367**	**$ 1,546,367**	$ 846,930	$ 846,930	$ 552,782	$ 552,782
Loans	**5,834,929**	**5,835,743**	5,826,951	5,866,556	5,111,193	5,106,690
Allowance for loan losses	**(9,834)**	**—**	(9,695)	—	(13,643)	—
Loans, net	**5,825,095**	**5,835,743**	5,817,256	5,866,556	5,097,550	5,106,690
Derivative assets	**8,711**	**8,711**	10,988	10,988	659	659
Financial liabilities						
Bonds and notes	**6,878,817**	**6,937,980**	6,273,579	6,385,910	5,316,902	5,367,300
Fair value adjustment of derivatives	**7,921**	**7,921**	10,988	10,988	(688)	(688)
Total bonds and notes	**6,886,738**	**6,945,901**	6,284,567	6,396,898	5,316,214	5,366,612
Financial assistance related liabilities*	**280**	**748**	4,334	5,472	4,739	6,119
Derivative liabilities	**790**	**790**	—	—	1,347	1,347

* These amounts exclude the assumption of Third Quarter 1986 Capital Preservation Agreement obligations with carrying amounts of $1.2 million and $1.6 million and estimated fair values of $2.7 million and $3.9 million at December 31, 2002 and 2001, respectively. The obligation was paid in July 2003.

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

A. Cash:

The carrying value is a reasonable estimate of fair value.

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

Fair value is based upon currently quoted market prices.

C. Loans:

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

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

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

D. Bonds and Notes:

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

E. Obligation to FAC:

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

F. Commitments to Extend Credit:

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

Note 15 — Derivative Instruments and Hedging Activity

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

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

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

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

To minimize the risk of credit losses, the Bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. Transactions with three counterparties represent approximately 85 percent of the total receivable amount of interest rate swaps. The Bank does not anticipate nonperformance by any of these counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

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

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

($ in millions)	Remaining Years to Maturity: Less than 1 year	Remaining Years to Maturity: 1 to 5 Years	Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
Standard & Poors Credit Rating							
A++	$ (0.13)	$ 5.55	$ 5.42	$ —	$ 5.42	$ —	$ 5.42
A+	1.44	3.52	4.96	—	4.96	—	4.96
A-	—	1.78	1.78	—	1.78	—	1.78
Total	$ 1.31	$ 10.85	$ 12.16	$ —	$ 12.16	$ —	$ 12.16

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

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

December 31, 2003 ($ in millions)	Maturities of 2003 Derivative Products and Other Financial Instruments: 2004	2005	2006	2007	2008	Subsequent Years	Total	Fair Value
Total debt obligations:								
Fixed rate	$ 910.7	$ 1,480.1	$ 710.4	$ 280.4	$ 180.1	$ 345.0	$ 3,906.7	$ 3,966.6
Weighted average interest rate	3.11%	2.92%	3.07%	3.57%	4.91%	5.64%	3.37%	
Variable rate	$ 1,530.0	$ 1,325.0	$ 125.0	$ —	$ —	$ —	$ 2,980.0	$ 2,984.6
Weighted average interest rate	1.05%	1.06%	1.06%	—	—	—	1.05%	
Total debt obligations	$ 2,440.7	$ 2,805.1	$ 835.4	$ 280.4	$ 180.1	$ 345.0	$ 6,886.7	$ 6,951.2
Weighted average interest rate	1.57%	1.53%	2.22%	3.34%	4.89%	5.61%	1.99%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ 325.0	$ 995.0	$ 325.0	$ 25.0	$ —	$ —	$ 1,670.0	$ 12.0
Weighted average receive rate	2.03%	2.28%	2.64%	3.18%	—	—	2.32%	
Weighted average pay rate	1.10%	1.11%	1.11%	1.00%	—	—	1.11%	

Note 16 — Selected Quarterly Financial Information (Unaudited)

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

	2003				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 12,245**	**$ 12,682**	**$ 12,232**	**$ 12,667**	**$ 49,826**
Provision for loan losses	**340**	**—**	**—**	**—**	**340**
Noninterest expense (income), net	**3,682**	**1,987**	**2,733**	**(26,541)**	**(18,139)**
FAC expense	**1,163**	**1,695**	**80**	**(137)**	**2,801**
Net income	**$ 7,060**	**$ 9,000**	**$ 9,419**	**$ 39,345**	**$ 64,824**

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

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

As discussed in Note 2, "Summary of Significant Accounting Policies," the Bank's mineral interests were sold in November 2003 for proceeds of $30.5 million, which is included in "Noninterest expense, net."

Note 17 — Combined Association Financial Data (Unaudited)

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

	December 31,		
Balance Sheet Data	**2003**	2002	2001
Cash	**$ 40,952**	$ 43,476	$ 42,250
Loans	**6,789,215**	6,393,934	5,577,587
Less allowance for loan losses	**166,652**	159,045	146,577
Net loans	**6,622,563**	6,234,889	5,431,010
Accrued interest receivable	**84,323**	93,503	98,678
Other property owned, net	**5,528**	3,577	2,946
Other assets	**159,623**	159,773	142,052
Total assets	**$ 6,912,989**	$ 6,535,218	$ 5,716,936
Bonds and notes	**$ 5,641,875**	$ 5,411,885	$ 4,663,544
Other liabilities	**96,573**	79,528	99,666
Total liabilities	**5,738,448**	5,491,413	4,763,210
Capital stock and participation certificates	**104,657**	106,237	95,770
Retained earnings	**1,069,884**	937,568	857,956
Total shareholders' equity	**1,174,541**	1,043,805	953,726
Total liabilities and shareholders' equity	**$ 6,912,989**	$ 6,535,218	$ 5,716,936

	Year Ended December 31,		
Statement of Income Data	**2003**	2002	2001
Interest income	**$ 355,600**	$ 356,059	$ 385,928
Interest expense	**143,328**	167,120	220,770
Net interest income	**212,272**	188,939	165,158
Provision for loan losses	**10,883**	13,836	7,507
Net interest income after provision for loan losses	**201,389**	175,103	157,651
Noninterest income	**69,329**	24,124	20,116
Intra-System financial assistance expense	**3,993**	4,148	3,788
Other expense	**109,416**	95,939	86,857
Provision (negative provision) for income taxes	**324**	(724)	(1,596)
Net income	**$ 156,985**	$ 99,864	$ 88,718

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

Description of Business

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

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

Directors and Senior Officers

The following represents certain information regarding the directors and senior officers of the Bank as of February 1, 2004:

DIRECTORS

Ralph W. Cortese joined the board in 1995, and his current term expires December 31, 2004. Cortese has served as chairman since 2000. Prior to joining the Bank board, Cortese was chairman of the PCA of Eastern New Mexico Board of Directors. Early in his career, he was vice president of Roswell PCA. He is a farmer and rancher from Fort Sumner, New Mexico. In 2001, he joined the American Land Foundation Board. He is a member of the Bank's Audit Committee. In June 2003, he was appointed to the Farmer Mac board.

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

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

Joe R. Crawford began his first term on the board in 1998 and is currently elected to a three-year term that expires December 31, 2006. Previously, he was a member of the FLBA of North Alabama Board of Directors. He also served on the Tenth District FLBA Legislative Advisory Committee. Currently, he is the Tenth District's representative on the board of directors of the Federal Farm Credit Banks Funding Corporation and is a member of the Bank's Audit Committee. Crawford, who lives near Baileyton, Alabama, has owned and operated a cattle business since 1968.

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

William F. Staats joined the board in 1997, and his current term will expire December 31, 2005. Staats is Louisiana Bankers Association Chair Emeritus of Banking and Professor Emeritus, Department of Finance, at Louisiana State University, where he held the Hermann Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. Staats also serves on the boards of the Money Management International Education Foundation, Money Management International and SevenOaks Capital Corporation. He is chairman of the Bank's Audit Committee.

SENIOR OFFICERS

Name and Title	Time in Position	Experience — Past Five Years
Larry R. Doyle, *Chief Executive Officer*	Appointed March 2003	Executive Vice President and Chief Operating Officer, AgFirst Farm Credit Bank
Thomas W. Hill, *Senior Vice President, Chief Financial Officer, Chief Operations Officer*	9 years Less than one year	Senior Vice President, Chief Financial Officer, FCBT
Steven H. Fowlkes, *Senior Vice President, Chief Credit Officer*	6 years Less than one year	Senior management and management positions, FCBT
David N. Clinton, *Senior Vice President, Chief Information Officer*	5 years	Senior management position, FCBT; prior to FCBT, senior management position in information technology at RTW, Inc., in Minneapolis, Minnesota
William E. Zimmerman, *Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	16 years	Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary, FCBT

Compensation of Directors and Senior Officers

Directors of the Bank are compensated for service on the Bank's board. Compensation for 2003 was paid at the rate of $2,147 per month, the maximum allowed under the Farm Credit Administration's (FCA) "Annual Adjustment of Maximum Director Compensation for 2003." In addition to days served at board meetings, directors may serve additional days on other official assignments, and under exceptional circumstances the board may approve additional compensation, not to exceed 30 percent of the annual maximum. Information for each director for the year ended December 31, 2003, is provided below:

Board Member	Days Served at Board Meetings	Days Served on Other Official Assignments	Total Compensation Paid
Ralph W. Cortese	36.5	48.0	$ 33,500
Jon M. Garnett	30.0	48.0	33,500
C. Kenneth Andrews	31.5	52.5	33,500
Joe R. Crawford	28.5	44.0	32,269
James F. Dodson	29.0	28.5	32,019
William F. Staats	29.0	35.5	33,500
			$ 198,288

The following table summarizes the compensation paid to all senior officers of the bank during 2003, 2002 and 2001:

Summary Compensation Table

		Annual			
Name of Individual or Group	Year	Salary (a)	Bonus (b)	Other (c)	Total
Larry R. Doyle, Chief Executive Officer	2003	$ 316,666	$ —	$ 92,400	$ 409,066
Arnold Henson, Chief Executive Officer, retired	2003	51,667	55,000	64,099	170,766
Arnold Henson, Chief Executive Officer	2002	310,000	50,000	—	360,000
Arnold Henson, Chief Executive Officer	2001	295,000	40,500	—	335,500
Aggregate number of senior officers: (includes Chief Executive Officer)					
8	2003	1,362,683	201,513	255,095	1,819,291
6	2002	1,116,775	168,451	—	1,285,226
6	2001	1,096,087	75,969	—	1,172,056

(a) Gross salary
(b) Incentive pay
(c) Other includes relocation benefits, retirement gifts and unused annual leave paid in conjunction with retirement.

Disclosure of the compensation paid during 2003 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 2003, 2002 and 2001 totaled $71,001, $47,407 and $65,207, 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. The plan is based upon the achievement of predetermined Bank performance standards, which are approved by the board of directors annually.

Description of Property

In November of 2002, the Bank sold the District headquarters building and 8.4 acres of land on which it was situated on the northeast side of Austin, Texas. As a part of the sale agreement, the Bank is leasing space in the building for a 24-month period. The Bank retained ownership of 3.6 acres of adjacent lots. On September 30, 2003, the Bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and the term is from September 1, 2003 to August 31, 2013. The Bank expects to move into the new facilities during the second quarter of 2004. The District Associations own 18 headquarter locations and lease four. There are 99 owned and 62 leased Association branch locations. The Bank's and Associations' investment in property is further detailed in Note 5, "Premises and Equipment," to the accompanying 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 financial statements outlines the bank's position with regard to possible contingencies at December 31, 2003.

Description of Capital Structure

The bank and associations are authorized to issue and retire certain classes of capital stock and retained earnings in the management of their capital structures. Details of the capital structures are described in Note 8, "Shareholders' Equity," to the accompanying 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 financial statements. The Bank's contingent liabilities and intra-System financial assistance rights and obligations are described in Note 12, "Commitments and Contingencies," and Note 10, "Intra-System Financial Assistance," to the accompanying financial statements.

Selected Financial Data

The selected financial data for the five years ended December 31, 2003, 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 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 11, "Related Party Transactions," to the accompanying 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 24, 2004, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

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