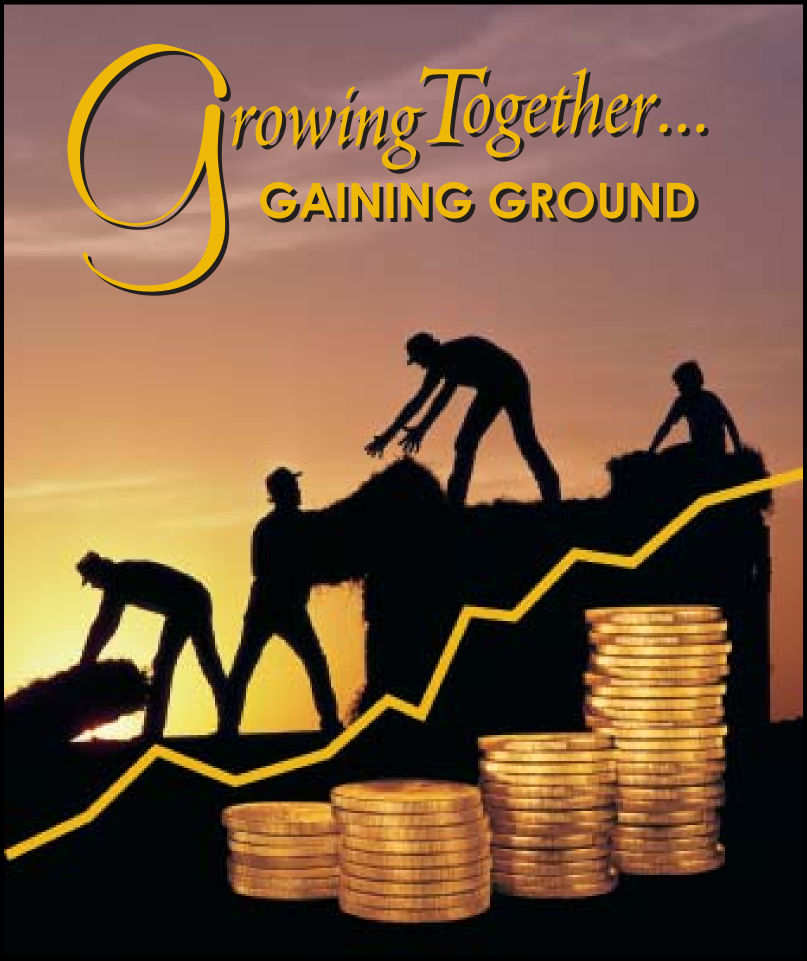


2003 ANNUAL REPORT

TENTH FARM CREDIT DISTRICT
December 31, 2003

Message to Stockholders

Whether you measure success by balance sheet growth, projects accomplished or the value we provide to our stockholders, the Tenth Farm Credit District was successful on all counts in 2003, as we enjoyed an outstanding year.

Thanks to a diverse agricultural economy, steady demand for rural real estate and a low interest-rate environment, the district set new records for both loan volume and earnings for the third consecutive year. Net income of $168.6 million for 2003, including a one-time gain of $30.5 million on the sale of the Farm Credit Bank of Texas' mineral rights holdings, represented a 31.7 percent increase from 2002. This resulted in an average return on equity of 12.53 percent. Gross loan volume at year-end 2003 was up 7 percent from a year earlier, and the credit quality of the district's loan portfolio remained high, despite sluggishness in the general economy and higher farm operating expenses.

In true cooperative spirit, district associations once again shared their earnings with their customers, distributing a total of $26.7 million in patronage refunds in 2003. These patronage payments, combined with relatively low interest rates, effectively created record-low borrowing costs for many customers.

Such outstanding financial results are the fruit of hard work by staff and directors, who truly care about their customers' success and are dedicated to the cooperative business model. These results are also the product of the bank's and associations' efforts to improve operating efficiency and increase the profitability of the entire district. In 2003, associations enhanced their marketing and customer-service efforts, providing new loan products and more convenient services for their borrowers. By year end, customers were taking advantage of new indexed loan options and a new electronic funds-transfer service known as *FastCa$h*.

A new year presents the opportunity to build on past accomplishments. In 2004, the Farm Credit Bank of Texas and Tenth District associations will continue to work together to streamline operations, improve loan products and cash-management tools, and further enhance risk-management procedures. As the associations' value-added partner, the bank is committed to further reducing their cost of borrowing and always providing them with the financial tools and lending systems they need to be successful.

The Tenth District is ripe with lending potential—perhaps the most potential of any Farm Credit district in the nation—and in 2003, we reorganized the bank and diversified our staff with the strategic goal of developing this potential. As we begin a new year, the bank is positioned to build capital and help associations pursue new lending opportunities, particularly in the agribusiness sector. Together, we can improve the Tenth District's profitability and gain new ground as the most trusted and reliable source of credit for agriculture and rural America.

We look forward to the opportunities and challenges that 2004 will bring as we strive to make it another outstanding year for our valued customers—the farmers, ranchers, agribusinesses, country homeowners and other rural landowners of the Tenth District.

Larry R. Doyle
Chief Executive Officer

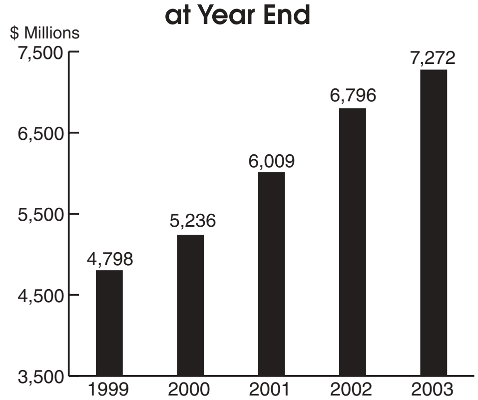
Key Result Areas

2003 Key Financial Highlights

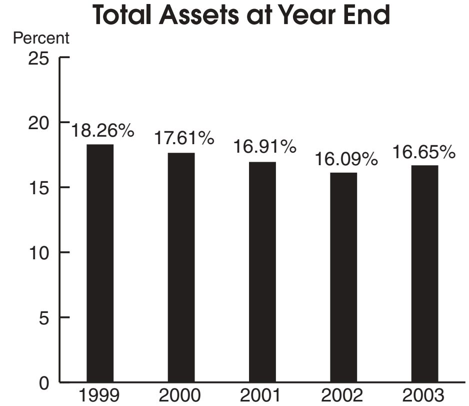
(Dollars in Thousands)

Total Loans	$7,272,314
Total Assets	$8,842,208
Net Income	$168,616
Return on Average Assets	2.07%
Return on Average Members' Equity	12.53%

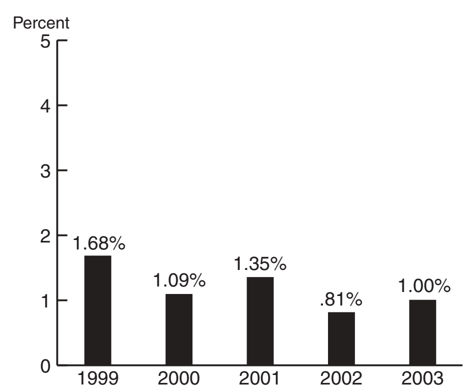
Total Loans Outstanding at Year End



Total Members' Equity to Total Assets at Year End



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



Five-Year Summary of Selected Combined Financial Data

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	**2003**	2002	2001	2000	1999
Balance Sheet Data					
Cash, federal funds sold and securities purchased under resale agreements	**$ 69,217**	$ 105,335	$ 91,054	$ 49,844	$ 97,005
Investment securities	**1,518,102**	785,071	503,978	551,124	486,871
Loans	**7,272,314**	6,796,092	6,009,348	5,235,959	4,798,131
Less allowance for loan losses	**173,980**	165,855	156,952	147,136	142,582
Net loans	**7,098,334**	6,630,237	5,852,396	5,088,823	4,655,549
Other property owned, net	**6,057**	6,192	3,319	2,752	2,661
Other assets	**150,498**	163,483	168,499	184,112	159,596
Total assets	**$8,842,208**	$ 7,690,318	$ 6,619,246	$ 5,876,655	$ 5,401,682
Obligations with maturities of one year or less	**$2,924,218**	$ 3,867,769	$ 4,039,044	$ 3,578,765	$ 3,099,617
Obligations with maturities greater than one year	**4,445,935**	2,585,463	1,461,130	1,262,924	1,315,633
Total liabilities	**7,370,153**	6,453,232	5,500,174	4,841,689	4,415,250
Preferred stock	**102,642**	2,909	2,102	1,701	4,087
Capital stock and participation certificates	**101,168**	103,836	94,023	100,402	111,535
Allocated retained earnings	**35,328**	34,743	29,915	27,044	21,401
Unallocated retained earnings	**1,237,366**	1,095,380	992,163	905,246	850,277
Accumulated other comprehensive (loss) income	**(4,449)**	218	869	573	(868)
Total members' equity	**1,472,055**	1,237,086	1,119,072	1,034,966	986,432
Total liabilities and members' equity	**$8,842,208**	$ 7,690,318	$ 6,619,246	$ 5,876,655	$ 5,401,682

Statement of Income Data					
Net interest income	**$ 265,051**	$ 237,010	$ 207,494	$ 191,110	$ 186,307
Provision for loan losses	**(11,602)**	(11,317)	(9,252)	(21,876)	(13,443)
Noninterest expense, net	**(84,509)**	(98,339)	(87,735)	(86,711)	(89,569)
(Provision for) benefit from income taxes	**(324)**	724	1,596	(2,296)	(1,515)
Net income	**$ 168,616**	$ 128,078	$ 112,103	$ 80,227	$ 81,780

Key Financial Ratios (unaudited)					
Net income to:					
Average assets	**2.07%**	1.80%	1.83%	1.48%	1.58%
Average members' equity	**12.53**	10.84	10.37	7.82	8.28
Net interest income to average earning assets	**3.29**	3.36	3.45	3.56	3.63
Net charge-offs (recoveries) to average loans	**.05**	.04	(.01)	.35	—
Total members' equity to total assets	**16.65**	16.09	16.91	17.61	18.26
Allowance for loan losses to total loans	**2.39**	2.44	2.61	2.81	2.97
Regulatory permanent capital ratio (bank only)	**23.71**	18.06	18.10	19.18	14.61
Total surplus ratio (bank only)	**19.15**	14.01	14.01	14.40	11.59
Core surplus ratio (bank only)	**14.44**	12.56	12.82	13.63	11.03
Net collateral ratio (bank only)	**106.62**	105.32	105.33	105.21	106.29

Other (unaudited)					
Net income distributions declared					
Cash dividends	**$ 2,044**	$ 2,905	$ 3,617	$ 3,466	$ 4,723
Patronage distributions					
Cash	**20,605**	16,165	16,680	17,121	27,046
Retained earnings	**4,143**	6,983	4,889	5,063	4,254

Combined Average Balances and Net Interest Earnings

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

	2003			2002			2001		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities, federal funds sold and securities purchased under resale agreements	**$ 1,130,819**	**$ 24,269**	**2.15%**	$ 620,548	$ 14,540	2.34%	$ 460,904	$ 21,487	4.66%
Long-term real estate loans	**6,089,291**	**326,978**	**5.37**	5,532,129	327,973	5.93	4,667,122	351,085	7.52
Short- and intermediate-term loans	**841,334**	**54,237**	**6.45**	902,661	58,315	6.46	920,136	72,049	7.83
Total loans	**6,930,625**	**381,215**	**5.50**	6,434,790	386,288	6.00	5,587,258	423,134	7.57
Total interest-earning assets	**8,061,444**	**405,484**	**5.03**	7,055,338	400,828	5.68	6,048,162	444,621	7.35
Cash	**43,736**			19,163			15,875		
Accrued interest receivable	**103,843**			108,060			128,011		
Allowance for loan losses	**(170,469)**			(160,496)			(150,083)		
Other noninterest-earning assets	**97,941**			78,191			67,638		
Total average assets	**$ 8,136,495**			$ 7,100,256			$ 6,109,603		
Liabilities and Members' Equity									
Bonds and medium-term notes, net	**$ 5,852,857**	**$ 129,157**	**2.21%**	$ 4,450,373	$ 140,298	3.15%	$ 3,653,613	$ 187,341	5.13%
Discount notes, net, and other	**824,685**	**11,276**	**1.37**	1,306,627	23,520	1.80	1,209,460	49,786	4.12
Total interest-bearing liabilities	**6,677,542**	**140,433**	**2.10**	5,757,000	163,818	2.85	4,863,073	237,127	4.88
Noninterest-bearing liabilities	**112,803**			162,019			165,712		
Total liabilities	**6,790,345**			5,919,019			5,028,785		
Members' equity and retained earnings	**1,346,150**			1,181,237			1,080,818		
Total average liabilities and members' equity	**$ 8,136,495**			$ 7,100,256			$ 6,109,603		
Net interest income/yield on interest-earning assets		**$ 265,051**	**3.29%**		$ 237,010	3.36%		$ 207,494	3.43%

Management's Discussion and Analysis

(dollars in thousands, except as noted)

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

The district, which serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico, is part of the federally chartered Farm Credit System (System). The bank provides funding to the associations, which, in turn, provide credit to their borrower/shareholders. As of December 31, 2003, the district comprised 10 FLCAs, 12 ACAs and certain Other Financing Institutions (OFIs).

Financial Highlights

- The aggregate principal amount of loans outstanding at December 31, 2003, was $7.3 billion, reflecting increases of 7 and 21 percent compared to December 31, 2002 and 2001, respectively.
- Net income totaled $168.6 million for the year ended December 31, 2003, reflecting increases of 31.7 and 50.4 percent compared to 2002 and 2001, respectively. 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 $265.1 million, reflecting 11.8 and 27.7 percent increases over the years ended December 31, 2002 and 2001, respectively.
- Return on average assets and return on average members' equity for the year ended December 31, 2003, were 2.07 and 12.53 percent, respectively, compared to 1.80 and 10.84 percent for 2002 and 1.83 and 10.37 percent for 2001, respectively.
- Patronage distributions declared totaled $26.7 million in 2003, compared to $26.1 and $25.2 million in 2002 and 2001, respectively.
- In November 2003, 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.

Projects Completed in 2003

- The bank entered into an arrangement with the Federal Agricultural Mortgage Corporation ("Farmer Mac") for use of the Long-Term Standby Commitment Program by district entities. The program provides additional assurances on loans in the program, allowing beneficial risk-weighting within the entities' loan portfolios.
- The bank implemented a new liquidity strategy by which it maintains 90 days (up from 15 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 district provided new loan products to its borrowers, and converted administered variable-rate loans to loans indexed to Prime and LIBOR.

Strategic Initiatives for 2004

- Credit classification system – The district will implement a new 14-point credit classification system by year-end, thereby expanding the district entities' risk-management practices.
- Economic capital model – The district will continue to assess and analyze loan performance data elements that will support an 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 in order 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, including the pursuit of a common 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 district is exposed are:

- **Credit risk** – Credit risk is the risk of loss due to borrower or counterparty default. Credit risk to borrowers is discussed in the "Financial Condition" section on page 7 of this commentary, in Note 4, "Loans and Allowance for Loan Losses" and in Note 14, "Financial Instruments With Off-Balance-Sheet Risk." Credit risk to counterparties is the possibility of default on the part of a counterparty of a derivative financial instrument that has a positive fair value, and is discussed in the "Asset/Liability Management" section on page 8 of this commentary and more fully in Note 16, "Derivative Instruments and Hedging Activity."
- **Interest rate risk and liquidity risk** – Interest rate risk is the exposure of the district's financial condition to adverse movements in interest rates. Liquidity risk is the risk that the district would be unable to fund increases in assets and meet obligations as they become due. These risks are discussed in the "Asset/Liability Management" section on page 9 of this commentary and in Note 16, "Derivative Instruments and Hedging Activity."
- **Operational and business risks** – Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. The bank maintains and monitors a business continuity plan, which includes safeguards and alternatives in the event of failures or damage that might affect the district's critical functions or systems infrastructure.

RESULTS OF OPERATIONS

Overview

Livestock operations 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.

Several of the district's major crops experienced improving prices during 2003. A great deal of the price improvement in cotton and grains has been due to reductions in world supply as a result of, among other factors, the impact of unfavorable weather in China.

For 2003, cotton production in the states that make up the Tenth District was mixed. Production in New Mexico and north Texas was below 2002 levels, but cotton production in south Texas, Louisiana, Alabama and Mississippi increased significantly and the price of cotton has improved from year-end 2002. Yields in both Louisiana and Mississippi were at record levels. Increased yields and improving prices have proved positive for the District's cotton producers.

Global wheat production was in its sixth year of decline and global ending inventories are at their lowest since the early 1980s, although U.S. inventories are greater than they were a year ago. Wheat production in Alabama and Texas increased 31 percent and 29 percent, respectively, during 2003. The low global stocks and the effect of a cheaper dollar on the world market should have a positive effect on future wheat prices, and the USDA recently increased the projection of wheat exports for 2004 to an eight-year high.

Feed grain production, including corn, sorghum and soybeans, was mixed in the district, but export projections have been increased, and the anticipation of reduced competition from China has resulted in increased corn prices. Rice production in Louisiana and Texas declined in 2003; however, global and U.S. ending stocks are down, resulting in an increase in prices.

Production expenses, as well as input costs and fuel prices, continued to be a concern for farmers through the end of 2003. Increases in the cost of labor, electricity, fertilizer and pesticide also continued to impact producer margins in 2003.

The district continued to realize loan volume growth, strong earnings and strong credit quality in 2003, despite the economic challenges previously mentioned. The availability of off-farm income sources and of Farm Service Agency guarantees have helped mitigate the impact of adverse agricultural economic conditions, allowing district entities to maintain the high credit quality of their loan portfolios during 2003. Overall district loan credit quality is expected to remain stable or decline modestly during 2004.

Most of the operators in the district will continue to benefit from the lower interest rate environment in the near term. Despite the continued sluggishness of the general economy through the end of 2003, farmers and ranchers continued to benefit from stable land values and the demand for farm and ranch land around larger metropolitan areas.

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

Net Income

The district's net income of $168.6 million for the year ended December 31, 2003, reflected an increase of 31.7 percent from net income of $128.1 million for the year ended December 31, 2002, and 50.4 percent from net income of $112.1 million for 2001. $30.5 million of the net income reported for 2003 resulted from the sale of the bank's mineral rights, as further described in the section, "Noninterest Income." Absent the effects of this one-time event, district net income would have totaled $138.1 million. The return on average assets increased to 2.07 percent for the year ended December 31, 2003, from 1.80 percent reported for the year ended December 31, 2002. Again, absent the net effect of the mineral rights sale, return on average assets for 2003 would have been 1.70 percent. The return on average assets was 1.83 percent for the year ended December 31, 2001. The table below provides an analysis of the major components of changes in net income for the current and preceding years.

Changes in Components of Net Income

(dollars in thousands)	2003 versus 2002	2002 versus 2001
Net income, prior period	$ 128,078	$ 112,103
Interest income	4,656	(43,793)
Interest expense	23,385	73,309
Net interest income	28,041	29,516
Provision for loan losses	(285)	(2,065)
Noninterest income	32,267	3,176
Noninterest expense	(18,437)	(13,780)
Provision for income taxes	(1,048)	(872)
Total increase in net income	40,538	15,975
Net income	$ 168,616	$ 128,078

Interest Income

Total interest income for the year ended December 31, 2003, was $405.5 million, an increase of $4.7 million, or 1.2 percent, compared to 2002. This increase was due to an increase in average interest-earning assets, offset by decreases in the interest rate on those assets.

Total interest income for 2002 was $400.8 million, a decrease of $43.8 million, or 9.8 percent, from 2001. This decrease was largely due to the effects of the decreasing interest rate environment during that time, partially offset by increases in average interest-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	$1,006,106	$1,007,176
Average yield, prior year	5.68%	7.35%
Interest income variance attributed to change in volume	57,147	74,027
Average earning assets, current year	8,061,444	7,055,338
Decrease in average yield	(0.65)%	(1.67)%
Interest income variance attributed to change in yield	(52,491)	(117,820)
Net change in interest income	$ 4,656	$ (43,793)

Figure 1

Analysis of Net Interest Income

	2003		2002		2001	
	Avg. Balance	**Interest**	**Avg. Balance**	**Interest**	**Avg. Balance**	**Interest**
Loans	**$ 6,930,625**	**$ 381,215**	$ 6,434,790	$ 386,288	$ 5,587,258	$ 423,134
Investments	**1,130,819**	**24,269**	620,548	14,540	460,904	21,487
Total earning assets	**8,061,444**	**405,484**	7,055,338	400,828	6,048,162	444,621
Interest-bearing liabilities	**6,677,542**	**140,433**	5,757,000	163,818	4,863,073	237,127
Impact of capital	**$ 1,383,902**		$ 1,298,338		$ 1,185,089	
NET INTEREST INCOME		**$ 265,051**		$ 237,010		$ 207,494

	2003 Average Yield	2002 Average Yield	2001 Average Yield
Yield on loans	**5.50%**	6.00%	7.57%
Yield on investments	**2.15**	2.34	4.66
Yield on earning assets	**5.03**	5.68	7.35
Cost of interest-bearing liabilities	**2.10**	2.85	4.88
Interest rate spread	**2.93**	2.83	2.47
Impact of capital	**0.36**	0.53	0.96
Net interest income/average earning assets	**3.29**	3.36	3.43

Interest Expense

Total interest expense for the year ended December 31, 2003, was $140.4 million, a decrease of $23.4 million, or 14.3 percent, from the prior year. Total interest expense for the year ended December 31, 2002, was $163.8 million, a decrease of $73.3 million, or 30.9 percent, from 2001. These decreases were attributable to declining interest rates, the effect of which was 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	Year Ended December 31, 2002 vs. 2001
Increase in average interest-bearing liabilities	$ 920,542	$ 893,927
Average rate, prior year	2.85%	4.88%
Interest expense variance attributed to change in volume	26,235	43,624
Average interest-bearing liabilities, current year	6,677,542	5,757,000
Decrease in average rate	(0.75)%	(2.03)%
Interest expense variance attributed to change in rate	(49,620)	(116,933)
Net change in interest expense	$ (23,385)	$ (73,309)

Net Interest Income

Net interest income increased by $28.0 million, or 11.8 percent, from 2002 to 2003 and increased by $29.5 million, or 14.2 percent, from 2001 to 2002. Factors responsible for these changes are illustrated in Figure 1.

Net interest income for 2003 increased from 2002 due to an increase in average-earning assets and to a 10-basis-point 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. The district's interest rate spread increased due to the fact that reductions in the average cost of debt outpaced reductions in the reductions in rates received on earning assets. The timing effect of these rate changes is expected to settle to more normal levels as assets and underlying funding mature or reprice in the ordinary course of business.

Net interest income for 2002 increased from 2001 due to a 36-basis-point increase in the spread and to volume increases in interest-earning assets. The interest rate spread improvement was due to the bank's ability to effect debt repricing during this period of declining interest rates, lowering the cost of funds on earning assets, which did not reprice as quickly.

Noninterest Income

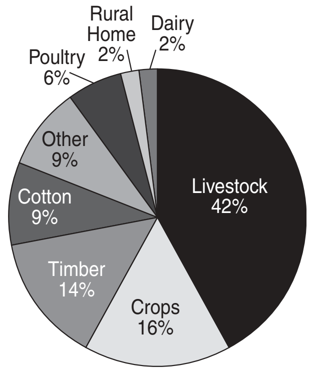
Noninterest income of $59.4 million reflected an increase of $32.3 million, or 118.5 percent, from 2002 to 2003. The increase is attributable to the bank's gain of $30.5 million on the sale of mineral rights that were retained by the bank when the surface rights on certain foreclosed properties were subsequently sold, prior to the amendment of the Farm Credit Act in 1987. These rights were recorded at zero value on the balance sheet. Annual income from these mineral rights was included in "Miscellaneous income (expense), net," and totaled $5.2 million, $3.8 million and $4.3 million in 2003, 2002 and 2001, respectively.

Noninterest income increased $3.2 million from 2001 to 2002, due primarily to a $2.1 million increase in fees for financially related services and a $1.8 million increase in surplus distributions recognized from a captive insurance provider.

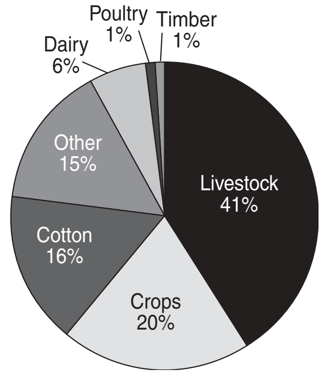
Figure 2

Analysis of Operating Margin to Average Earning Assets

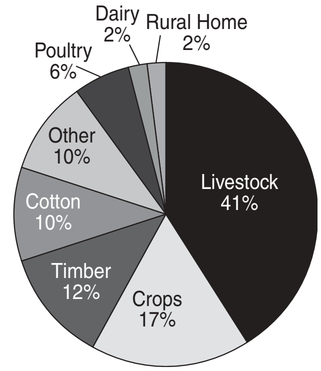
	For the Years Ended December 31, 2003	2002	2001
Net interest margin	**3.29%**	3.36%	3.43%
Operating expense	**1.70**	1.63	1.74
Operating margin	**1.59%**	1.73%	1.69%



Real Estate Mortgage Loans
87 Percent of Total Loans
Figure 3



Production Loans
13 Percent of Total Loans
Figure 4



Total Loans
Figure 5

Noninterest Expenses

Noninterest expenses for 2003 totaled $144.0 million, increasing $18.4 million, or 14.7 percent, from 2002. The increase was primarily due to an increase of $10.3 million in salaries and employment benefits and an increase of $6.2 million in premiums to the Farm Credit System Insurance Corporation (FCSIC). Salaries and benefits for the year increased over 2002 due to a $4.6 million increase in annual compensation, a $2.9 million increase in pension and retirement expenses, and a $2.4 million increase in employee benefits (including postretirement benefits). Costs for postretirement benefits rose due to the increase in the present value of future benefits payable attributable to rising medical costs and a 25-basis-point decrease in the discount rate used to calculate the present value effective January 1, 2003. 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 2002 increased $13.8 million, or 12.3 percent, from 2001, due to a $6.7 million increase in salaries and employment benefits, a $2.9 million increase in losses from the sale of investment securities, and a $2.0 million increase in premiums paid to the FCSIC. Salaries and benefits for 2002 increased over 2001 due to the net effect of increases in the number of employees at district associations, an increase of $1.4 million in the cost of postretirement benefits and a $1.1 million increase in retirement expenses. The increase in losses from the sale of investment securities was due to a sale during the fourth quarter of 2002 of asset-backed securities. These securities, which were backed by securitized consumer credit cards, were sold when they failed to meet the bank's and the Farm Credit Administration's (FCA) investment eligibility criteria due to a downgrade in the investment's credit rating. Premiums to the Farm Credit System Insurance Corporation increased due to reinstatement of rates effective 2002; there were no rates effective during 2001. Costs for postretirement benefits rose due to increases in the estimated present value of future benefits payable based on rising medical costs and a 25-basis-point decrease in the discount rate used to calculate the present value.

FINANCIAL CONDITION

Loan Portfolio

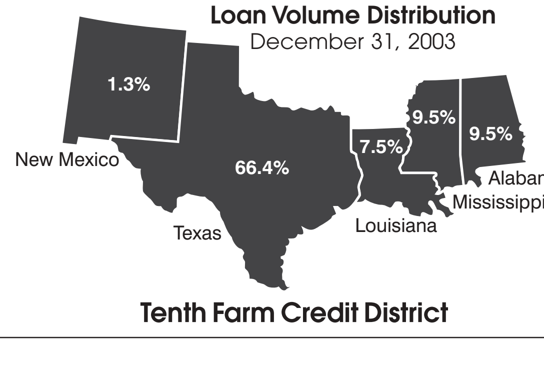
Gross loan volume of $7.272 billion at December 31, 2003, reflected an increase of $476 million, or 7.0 percent, from the $6.796 billion loan portfolio balance at December 31, 2002. Loans, net of the allowance for loan losses, represented 80.3 percent, 86.2 percent and 88.4 percent of total assets as of December 31, 2003, 2002 and 2001, respectively.

The short- and intermediate-term loan portfolio experienced a $105.1 million, or 11.1 percent, increase from $946.4 million at December 31, 2002, to $1.051 billion at December 31, 2003. The increase in the short- and intermediate-term loan volume was due to an increase in participations purchased by the bank. The long-term mortgage portfolio experienced a $371 million, or 6.3 percent, increase from $5.850 billion at December 31, 2002, to $6.221 billion at December 31, 2003. The factors contributing to the growth in the long-term portfolio included: competitive pricing offered by the bank and associations, continued solid demand for real estate in the district, continued marketing and customer service efforts and increased activity in district loan participations.

The composition of the district's loan portfolio at December 31, 2003, broken down by commodity between the real estate mortgage and production loan portfolios, may be found in Figures 3, 4 and 5. The geographic distribution of loan volume at December 31, 2003, is presented in Figure 6.

Acceptable loan volume of 97.4 percent at December 31, 2003, remains unchanged from December 31, 2002. The sustained high credit quality in the district's loan portfolio was previously discussed in the section titled "Overview."

Figure 6 **Top Five Geographic Regions Loan Volume Distribution**
December 31, 2003



Tenth Farm Credit District

High-Risk Assets

Total high-risk assets have increased by $11.6 million, or 17.1 percent, from $67.8 million at December 31, 2002, to $79.4 million at December 31, 2003. The increase is primarily attributable to a $17.8 million increase in nonaccrual loans, largely due to nonaccrual participation loans to a borrower totaling $16.6 million, held by both the bank and two district associations, and a nonaccrual participation loan held by the bank which totaled $1.7 million. The following table discloses the components of the district's high-risk assets at December 31,

(in millions)	**2003**	2002	2001
Nonaccrual loans	**$ 66.6**	$ 48.8	$ 78.0
Formally restructured loans	**4.8**	10.3	5.4
Loans past due 90 days or more and still accruing interest	**1.9**	2.5	3.4
Other property owned, net	**6.1**	6.2	3.3
Total	**$ 79.4**	$ 67.8	$ 90.1

At December 31, 2003, $43.0 million, or 64.5 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $30.3 million, or 62.1 percent, of nonaccrual loans at December 31, 2002, and $48.4 million, or 62.1 percent, at December 31, 2001.

Figures 7, 8 and 9 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members' equity at December 31, 2003, 2002 and 2001.

Allowance and Provision for Loan Losses

At December 31, 2003, the allowance for loan losses was $174 million, or 2.39 percent of total loans outstanding, compared to $165.9 million (2.44 percent) and $157.0 million (2.61 percent) at December 31, 2002 and 2001, respectively. Net charge-offs/ (recoveries) of $3.5 million, $2.4 million and $(0.6) million were recorded in 2003, 2002 and 2001, respectively. The district's net provision for loan losses of $11.6 million for 2003 reflected an increase of $285, or 2.5 percent, over the $11.3 million net provision recorded for 2002. The current year provision reflects the decision by bank and association managements to reduce provisions for loan losses based on loan growth, and reflects managements' evaluation that the allowance for loan losses is adequate to absorb the losses inherent in the current loan portfolio.

The bank and association managements plan to conduct studies to further refine their 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, which reductions may be significant.

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	**2.5%**	2.6%	2.8%
Loans at year end			
Total loans	**2.4**	2.4	2.6
Nonaccrual loans	**261.1**	340.2	201.3
Total impaired loans	**237.3**	269.2	180.9
Net charge-offs (recoveries) to average loans	**0.1**	0.0	0.0
Provision expense to average loans	**0.2**	0.2	0.2

ASSET/LIABILITY MANAGEMENT

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

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

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. Under the Farm Credit Act of 1971, as amended, a district association is obligated

Figure 7

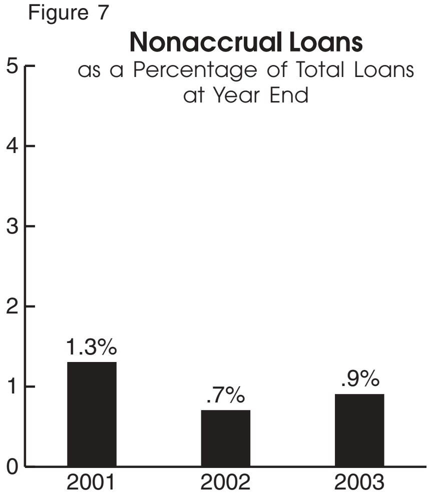


Figure 8

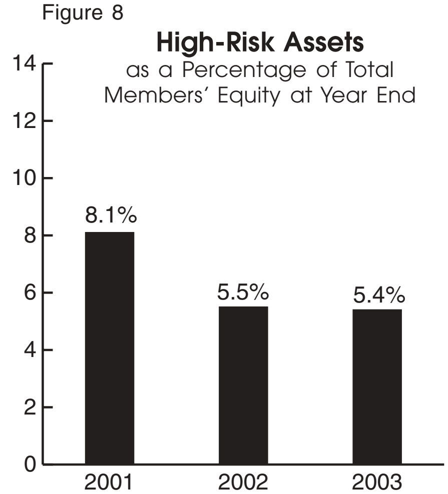


Figure 9

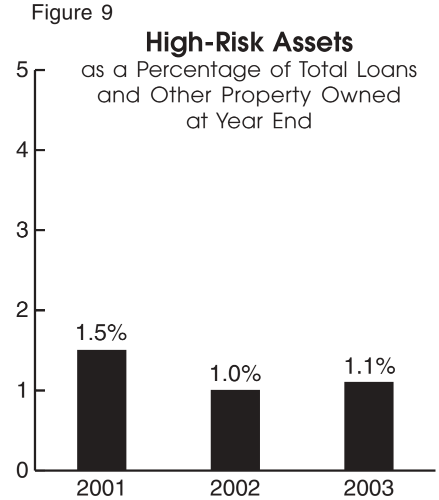


Figure 10

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**
Earning Assets							
Total loans	$ 4,458,109	$ 983,921	$ 275,241	**$ 5,717,271**	$ 1,113,801	$ 441,242	**$ 7,272,314**
Total investments	616,044	47,804	49,455	**713,303**	532,505	294,094	**1,539,902**
Total earning assets	5,074,153	1,031,725	324,696	**6,430,574**	1,646,306	735,336	**8,812,216**
Interest-Bearing Liabilities							
Total interest-bearing funds*	4,746,738	734,000	145,000	**5,625,738**	1,246,000	315,000	**7,186,738**
Excess of earning assets over interest-bearing liabilities	–	–	–	–	–	1,625,478	**1,625,478**
Total interest-bearing liabilities	4,746,738	734,000	145,000	**5,625,738**	1,246,000	1,940,478	**$ 8,812,216**
Interest rate sensitivity gap	$ 327,415	$ 297,725	$ 179,696	**$ 804,836**	$ 400,306	$ (1,205,142)	
Cumulative interest rate sensitivity gap	$ 327,415	$ 625,140	$ 804,836	**$ 804,836**	$ 1,205,142		

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

to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members.

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

The rate sensitivity gap analysis in Figure 10 sets forth the district's volume of interest-rate-sensitive assets and liabilities outstanding as of December 31, 2003, which are projected to mature or reprice in each of the future time periods shown. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the district has a positive gap position, indicating that the district has an exposure to declining interest rates. This occurs when maturing or repricing interest-rate-sensitive assets are replaced by loans and investments earning lower market interest rates, while corresponding funding costs decrease more slowly due to the lag in their maturity or repricing cycle.

To more appropriately reflect the cash flow and repricing characteristics of the district's balance sheet, an estimate of expected prepayments on loans is reflected in the maturities of the loans in the earning assets section of Figure 10. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the district's balance sheet.

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

At December 31, 2003, the bank had interest rate swaps outstanding that had 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. Figure 11 summarizes the district's activity in derivative financial instruments for 2003.

Interest rate risk exposure is measured by simulation modeling, which calculates the district's expected net interest income based upon projections of interest-rate-sensitive assets and liabilities,

Figure 11

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**

derivative financial instruments and interest rate scenarios. The bank monitors the district's financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. Due to the current low interest rate environment, the guidelines require the "200 basis points down" scenario to be replaced by a "down 46 basis points scenario." This represents one-half of the 3-month U.S. Treasury Bill rate as of year end. The bank's policy guideline for the maximum negative impact to the district's net interest income is 16 percent. The bank manages the district's interest rate risk exposure well within this guideline. As of December 31, 2003, projected district net interest income would increase by $9.7 million, or 3.4 percent, if interest rates were to increase by 200 basis points, and would decrease by $1.4 million, or 0.5 percent, if interest rates were to decrease by 47 basis points.

The primary source of funds for the district is the issuance of systemwide debt securities through the Federal Farm Credit Banks Funding Corporation. The types and characteristics of securities are described in Note 7, "Bonds and Notes." As a condition of the bank's participation in the issuance of systemwide debt securities, the bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the bank is liable. At December 31, 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 district *(dollars in millions)*:

	December 31,		
	2003	2002	2001
Bonds and term notes outstanding	**$ 6,657**	$ 5,512	$ 4,050
Average effective interest rate	**1.91%**	2.58%	3.85%
Average life (years)	**1.8**	1.6	1.6
Discount notes outstanding	**$ 230**	$ 773	$ 1,266
Average effective interest rate	**0.82%**	1.44%	2.06%
Average life (days)	**19**	68	50
Notes payable to other System banks	**$ 300**	$ –	$ –
Average effective interest rate	**1.64%**	–	–
Average life (years)	**1.0 or less**	–	–

	For the years ended December 31,		
	2003	2002	2001
Average interest-bearing liabilities outstanding	**$ 6,678**	$ 5,757	$ 4,863
Average interest rates on interest-bearing liabilities	**2.10%**	2.85%	4.88%

In November 2003, the bank sold, at par, $300 million of participations in five of its direct notes receivable from 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.

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

The bank is required by FCA regulations to maintain a liquidity reserve fund composed of cash and investment securities to provide the bank with a short-term source of funds to cover maturing debt and debt interest obligations in the event that temporary disruptions in normal funding sources would limit the bank's ability to borrow funds at cost-effective interest rates. The bank is in compliance with its liquidity reserve requirement as of December 31, 2003.

In 2003, the bank completed implementation of a liquidity strategy to restructure both the debt and investment portfolio to increase funding to approximately 90 days of maturing obligations. This strategy is part of the bank's active participation in a new System liquidity guideline to reduce the System's reliance on the short-term (one year or less) debt markets. The bank's implementation involved a major restructuring of the bank's debt portfolio and an increase in the investment securities portfolio. A significant portion of the bank's short-term debt was replaced at maturity by long-term debt, which is hedged with interest rate swaps to support the repricing characteristics of the district's loans. The bank's investment portfolio has increased to approximately $1.5 billion and the notional amount of interest rate swaps outstanding at December 31, 2003, is $1.7 billion.

Fair Value of Financial Instruments

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

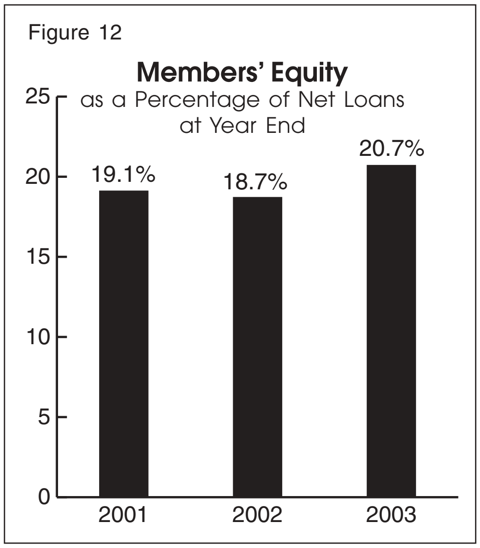
MEMBERS' EQUITY

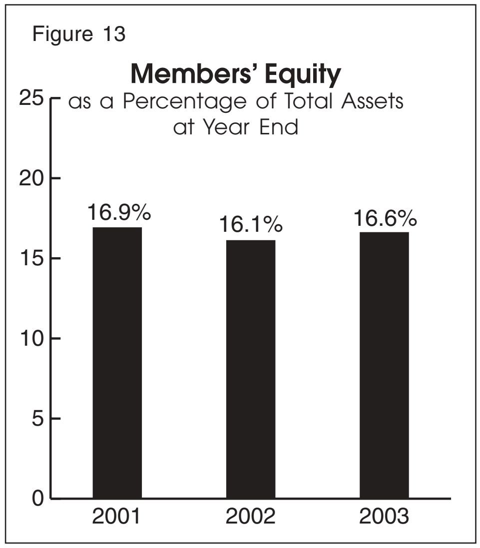
In November 2003, the bank issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98,644. The preferred stock is treated as equity and is not mandatorily redeemable. The preferred stock was issued to provide capital for the expansion of the bank's participations portfolio.

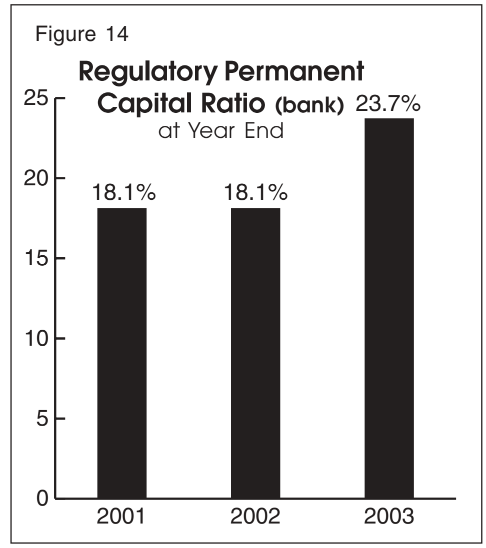
Borrower equity purchases required by association capitalization bylaws (see Note 8, "Members' Equity"), combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $1.5 billion capital position of the district at December 31, 2003, reflects an increase of 19.0 percent over the December 31, 2002, capital position of $1.2 billion. This increase is attributable to the $168.6 million of net income earned in 2003; net issuances of preferred stock, capital stock, participation certificates and allocated retained earnings issues of $94.5 million; and a reduction of the additional minimum pension liability adjustment of $980; reduced by cash patronage and dividend distributions of $22.6 million, which have either been paid or declared for payment to district stockholders; cash dividends on preferred stock of $798; and a $5.6 million increase in unrealized net losses on investment securities.

The return on average members' equity for the year ended December 31, 2003, was 12.5 percent, compared to 10.8 percent and 10.4 percent reported for the years ended December 31, 2002 and 2001, respectively. The return on average equity for 2003 excluding the gain on the bank's sale of its mineral interest holdings is 10.3 percent.

In addition to the $22.6 million of cash patronage and dividend distributions that have either been paid or declared for payment, allocated equities of $4.1 million also have been declared for future







distribution to stockholders, totaling $26.7 million in equity distributions.

FCA regulations require System institutions to compute a total surplus ratio, a core surplus ratio and a net collateral ratio (bank only) and maintain at least the minimum standard for each ratio. In those instances where an entity may not be in compliance, the regulations require the entity to submit a corrective plan to the FCA designed to move the institution into compliance. As of December 31, 2003, the bank and all district associations were in compliance with the regulations. Note 8, "Members' Equity," outlines the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 23.71 percent at December 31, 2003, is considered adequate, in accordance with the capital plan adopted by the bank's board of directors. An analysis of the trend in the district's capital ratios is presented in Figures 12, 13 and 14.

OTHER

Contractual Interbank Performance Agreement

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

Association Structural Changes

As of December 31, 2003, there were 12 ACAs and 10 FLCAs, totaling 22 associations within the district, reflecting no change from December 31, 2002. Effective January 1, 2004, two of the district's FLCAs merged, leaving 12 ACAs and 9 FLCAs, totaling 21 associations in the district.

These and other association structural changes are discussed in more detail in Note 1, "Organization and Operations."

Regulatory and Other Matters

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

Report of Management

The accompanying combined financial statements of the Farm Credit Bank of Texas (bank) and Tenth Farm Credit District Associations (district) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. The combined financial statements, in the opinion of management, present fairly the financial condition of the district. Other financial information included in the annual report is consistent with that in the combined financial statements.

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

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

The undersigned certify that the combined Farm Credit Bank of Texas and the Tenth Farm Credit District Associations' Annual Report has been prepared in accordance with applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Ralph W. Cortese
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Thomas W. Hill
Chief Financial Officer

February 24, 2004

PRICEWATERHOUSECOOPERS

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

Report of Independent Auditors

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

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

PricewaterhouseCoopers LLP

February 24, 2004

Combined Balance Sheets

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	December 31,		
(in thousands)	**2003**	2002	2001
Assets			
Cash	**$ 47,417**	$ 51,366	$ 52,054
Federal funds sold and securities purchased under resale agreements	**21,800**	53,969	39,000
Investment securities	**1,518,102**	785,071	503,978
Loans	**7,272,314**	6,796,092	6,009,348
Less allowance for loan losses	**173,980**	165,855	156,952
Net loans	**7,098,334**	6,630,237	5,852,396
Accrued interest receivable	**92,473**	99,401	106,316
Other property owned, net	**6,057**	6,192	3,319
Premises and equipment, net	**28,652**	31,590	44,567
Other assets	**29,373**	32,492	17,616
Total assets	**$ 8,842,208**	$ 7,690,318	$ 6,619,246
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	**$ 7,186,738**	$ 6,284,567	$ 5,316,214
Accrued interest payable	**33,129**	38,329	43,393
Intra-System financial assistance payable	**453**	4,334	4,739
Other liabilities	**149,833**	126,002	135,828
Total liabilities	**7,370,153**	6,453,232	5,500,174
Commitments and contingencies (Note 13)			
Members' equity			
Preferred stock	**102,642**	2,909	2,102
Common stock and participation certificates	**101,168**	103,836	94,023
Allocated retained earnings	**35,328**	34,743	29,915
Unallocated retained earnings	**1,237,366**	1,095,380	992,163
Accumulated other comprehensive (loss) income	**(4,449)**	218	869
Total members' equity	**1,472,055**	1,237,086	1,119,072
Total liabilities and members' equity	**$ 8,842,208**	$ 7,690,318	$ 6,619,246

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

Combined Statements of Income

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(*in thousands*)	**2003**	2002	2001
Investment securities, federal funds sold and securities purchased under resale agreements	**$ 24,269**	$ 14,540	$ 21,487
Loans	**381,215**	386,288	423,134
Total interest income	**405,484**	400,828	444,621
Bonds and notes	**139,447**	163,555	236,499
Notes payable and other	**986**	263	628
Total interest expense	**140,433**	163,818	237,127
Net interest income	**265,051**	237,010	207,494
Provision for loan losses	**11,602**	11,317	9,252
Net interest income after provision for loan losses	**253,449**	225,693	198,242
Fees for financially related services	**21,454**	19,691	17,543
Gain on sale of mineral rights	**30,494**	—	—
Miscellaneous income, net	**7,546**	7,536	6,508
Total noninterest income	**59,494**	27,227	24,051
Salaries and employee benefits	**85,334**	74,993	68,332
Occupancy and equipment expense	**11,150**	8,940	8,178
Insurance Fund premiums	**8,229**	2,008	—
Losses (gains) on other property owned, net	**425**	(28)	(173)
Intra-System financial assistance expenses	**6,794**	7,354	6,894
Loss from sale of investment securities	—	2,919	—
Other operating expenses	**32,071**	29,380	28,555
Total noninterest expense	**144,003**	125,566	111,786
Income before income taxes	**168,940**	127,354	110,507
Provision for (benefit from) income taxes	**324**	(724)	(1,596)
Net income	**$ 168,616**	$ 128,078	$ 112,103

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

Combined Statements of Changes in Members' Equity

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Retained Earnings Total	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2000	$ 1,701	$ 100,402	$ 27,044	$ 905,246	$ 932,290	$ 573	$1,034,966
Comprehensive income							
Net income	—	—	—	112,103	112,103	—	112,103
Unrealized net gains on investment securities	—	—	—	—	—	296	296
Total comprehensive income	—	—	—	112,103	112,103	296	112,399
Capital stock/participation certificates issued	—	26,448	—	—	—	—	26,448
Capital stock/participation certificates and allocated retained earnings retired	(29)	(32,827)	(1,588)	—	(1,588)	—	(34,444)
Patronage distributions							
Cash	—	—	—	(20,297)	(20,297)	—	(20,297)
Members' equity	430	—	4,459	(4,889)	(430)	—	—
Balance at December 31, 2001	2,102	94,023	29,915	992,163	1,022,078	869	1,119,072
Comprehensive income							
Net income	—	—	—	128,078	128,078	—	128,078
Unrealized net gains on investment securities	—	—	—	—	—	329	329
Minimum pension liability adjustment	—	—	—	—	—	(980)	(980)
Total comprehensive income	—	—	—	128,078	128,078	(651)	127,427
Capital stock/participation certificates issued	—	24,908	—	—	—	—	24,908
Capital stock/participation certificates and allocated retained earnings retired	(7)	(15,095)	(149)	—	(149)	—	(15,251)
Patronage distributions							
Cash	—	—	(1,192)	(17,878)	(19,070)	—	(19,070)
Members' equity	814	—	6,169	(6,983)	(814)	—	—
Balance at December 31, 2002	2,909	103,836	34,743	1,095,380	1,130,123	218	1,237,086
Comprehensive income							
Net income	—	—	—	168,616	168,616	—	168,616
Unrealized net losses on investment securities	—	—	—	—	—	(5,647)	(5,647)
Minimum pension liability adjustment	—	—	—	—	—	980	980
Total comprehensive income	—	—	—	168,616	168,616	(4,667)	163,949
Preferred stock issued	98,644	—	—	—	—	—	98,644
Capital stock/participation certificates issued	5	23,130	—	—	—	—	23,135
Capital stock/participation certificates and allocated retained earnings retired	(76)	(25,798)	(1,212)	(226)	(1,438)	—	(27,312)
Cash dividends on preferred stock	—	—	—	(798)	(798)	—	(798)
Patronage distributions							
Cash	—	—	(1,186)	(21,463)	(22,649)	—	(22,649)
Members' equity	1,160	—	2,983	(4,143)	(1,160)	—	—
Balance at December 31, 2003	**$ 102,642**	**$ 101,168**	**$ 35,328**	**$1,237,366**	**$1,272,694**	**$ (4,449)**	**$1,472,055**

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

Combined Statements of Cash Flows

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(*in thousands*)	**2003**	2002	2001
Operating Activities			
Net income	**$ 168,616**	$ 128,078	$ 112,103
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**11,602**	11,317	9,252
Provision for losses on other property owned	**272**	279	269
Depreciation and amortization on premises and equipment	**4,911**	5,884	5,582
Accretion of net discount on loans	**(3,167)**	(3,716)	(6,056)
Amortization 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	—
Gains on sales of mineral rights, net	**(30,494)**	—	—
(Losses) gains on sales of other property owned, net	**4**	(226)	(289)
Gains (losses) on sales of premises and equipment	**1,563**	(469)	(236)
Decrease in accrued interest receivable	**6,928**	6,915	17,990
Decrease (increase) in other assets, net	**843**	(1,172)	1,530
Decrease in accrued interest payable	**(5,200)**	(5,064)	(14,392)
Decrease in intra-System financial assistance payable	**(3,881)**	(405)	(475)
Increase in other liabilities, net	**18,341**	3,633	12,220
Net cash provided by operating activities	**155,669**	164,392	180,613
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	**(181,218)**	(789,282)	(768,251)
Proceeds from sales of mineral rights, net	**30,494**	—	—
Proceeds from sales of other property owned, net	**4,544**	914	935
Proceeds from sales of premises and equipment	**3,231**	17,871	590
Expenditures for premises and equipment	**(6,767)**	(10,309)	(9,184)
Net cash used in investing activities	**(848,562)**	(1,078,967)	(756,246)
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)
Increase (decrease) in advanced conditional payments	**5,680**	(15,572)	6,015
Preferred stock issued, net of expenses	**98,644**	—	—
Capital stock and participation certificates issued	**23,135**	24,908	26,448
Capital stock and participation certificates retired and allocated retained earnings distributed	**(27,312)**	(15,251)	(34,444)
Cash dividends on preferred stock	**(798)**	—	—
Cash dividends and patronage distributions paid	**(22,649)**	(19,965)	(24,049)
Net cash provided by financing activities	**688,944**	913,887	588,343
Net (decrease) increase in cash	**(3,949)**	(688)	12,710
Cash at beginning of year	**51,366**	52,054	39,344
Cash at end of year	**$ 47,417**	$ 51,366	$ 52,054
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 923**	$ 2,023	$ 2,242
Loans transferred to other property owned	**5,608**	5,863	3,724
Unrealized net gains on investment securities	**(5,647)**	329	296
Cash dividends or patronage distributions payable	**19,069**	13,845	14,740
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	**$ (3,067)**	$ 11,676	$ 688
Supplemental Information			
Cash paid during the year for:			
Interest	**$ 148,591**	$ 170,070	$ 257,593
Income taxes	**771**	681	2,726

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

Notes to Combined Financial Statements

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

Note 1 — Organization and Operations

A. Organization:

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

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

Each FCB and the ACB serve one or more Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs). 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. All district associations borrow funds from the bank. Funds for the FCBs and the ACB are principally raised through the sale of consolidated systemwide bonds and notes to the public.

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

B. Operations:

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

The associations also serve as intermediaries in offering credit life and multi-peril crop insurance and financial management services to their borrowers.

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

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

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

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

In addition, the Farm Credit Council acts as a full-service, federated trade association which represents the System before Congress, the executive branch and others, and provides support services to System institutions on a fee basis.

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

Each System bank is insured and is required to pay premiums to the Insurance Fund until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (systemwide debt obligations). When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. The premium is based on the average principal outstanding of accrual and nonaccrual loans of the district for the year. At December 31, 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 and remaining unpaid FAC debt approximated $310 million.

Note 2 — Summary of Significant Accounting Policies

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

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

A. Cash:

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

B. Investment Securities:

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

The district’s investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 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 members’ equity in the combined balance sheets. Purchased premiums and discounts are amortized or accreted using the straight-line method (which is not materially different from the effective interest method) over the term of the respective issues. Realized gains and losses are determined using the specific identification method and are recognized in current operations.

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:

Long-term real estate mortgage loans generally have maturities ranging from five to 40 years. Substantially all short-term and intermediate-term loans are made for agricultural production or operating purposes and have maturities of 10 years or less.

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

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

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

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

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

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

D. Other Property Owned:

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

E. Premises and Equipment:

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

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 and equity positions in land from which it received revenues from lease bonuses, rentals and royalties. These intangible assets were recorded at nominal or no value in the combined balance sheets. Income received from mineral and royalty holdings, net of related property taxes, in 2003, 2002 and 2001 was $5.2 million, $3.9 million and $4.3 million, respectively, and is included in miscellaneous income in the combined statements of income. These mineral interests were sold in November 2003 for proceeds of $30.5 million, which is included in "Gain on sale of mineral rights."

The bank and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2003, 2002 and 2001 were $227.7 million, $206.1 million and $245.2 million, respectively.

Beginning January 1, 2001, with the adoption of the Financial Accounting Standard Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities," derivative financial instruments are included on the balance sheet at fair value, as either other assets or other liabilities.

G. Employee Benefit Plans:

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

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

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

The bank and associations provide certain health care and life insurance benefits to eligible retired employees and directors. District employees' eligibility for these benefits upon retirement is dependent on conditions set by each district employer.

H. Income Taxes:

The bank, FLCAs and FLCA subsidiaries of ACA parent companies are exempt from federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for federal and certain other income taxes.

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

As of December 31, 2003, deferred income taxes have not been provided by the ACAs and their PCA subsidiaries on $25.6 million of pre-1993 patronage distributions from the bank because management's intent is to (1) permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) pass through any distributions related to pre-1993 earnings to borrowers through qualified patronage allocations. No deferred taxes have been provided on the bank's pre-1993 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances which, if distributions were made, would result in income taxes being paid at the association level.

I. Derivative Instruments and Hedging Activity:

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

In accordance with SFAS No. 133, for fair-value hedge transactions which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as fair value hedges to specific liabilities on the balance sheet. The bank uses interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of SFAS No. 133, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively when the bank determines that a derivative 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 available for sale 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%**
CMOs	**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%
CMOs	307,459	1,233	—	308,692	3.20%
Asset-backed securities	68,575	14	—	68,589	1.68%
Total	$503,109	$ 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%
CMOs	68,336	1,038	—	69,374	5.90
Asset-backed securities	61,751	—	(160)	61,591	2.20
Total	$503,109	$ 1,038	$ (169)	$503,978	2.69%

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

	Weighted 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 one year through ten years	171,189	171,467	3.40
Due after ten years	1,061,030	1,056,254	3.07
Total	$ 1,522,551	$ 1,518,102	2.72%

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 on the combined statements of income as part of total noninterest expense.

Note 4 — Loans and Allowance for Loan Losses

Loans comprised the following categories at December 31:

	2003	2002	2001
Long-term farm mortgage	**$ 6,153,887**	$ 5,691,555	$ 4,929,949
Rural home	**109,684**	111,557	103,813
Farm-related business	**91,114**	80,313	67,995
Production and intermediate-term	**887,639**	881,634	882,563
OFIs	**26,634**	26,704	19,833
Sales contracts	**3,356**	4,329	5,195
Total	**$ 7,272,314**	$ 6,796,092	$ 6,009,348

A significant source of liquidity for the district is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2003 and indicates that approximately 15 percent of loans had maturities of one year or less.

	Due in 1 year or less	Due after 1 through 5 years	Due after 5 years	Total
Long-term farm mortgage	$ 420,604	$1,314,423	$ 4,485,764	$ 6,220,791
Production and intermediate-term	689,835	308,021	53,667	1,051,523
Total	**$ 1,110,439**	**$1,622,444**	**$ 4,539,431**	**$ 7,272,314**

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

	2003		2002		2001	
Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 3,014**	**41**	$ 2,821	42	$ 2,522	42
Crops	**1,227**	**17**	1,271	19	1,201	20
Timber	**883**	**12**	752	11	539	9
Cotton	**707**	**10**	696	10	644	11
Poultry	**410**	**6**	372	5	366	6
Dairy	**163**	**2**	151	2	127	2
Rural home	**109**	**2**	112	2	104	2
Other	**759**	**10**	621	9	506	8
Total	**$ 7,272**	**100%**	$ 6,796	100%	$ 6,009	100%

While the amounts in the table above represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the district's lending activities is collateralized, and, accordingly, the actual credit risk associated with lending activities is considerably less than the recorded loan principal. An estimate of actual credit risk is considered in the combined financial statements in the allowance for loan losses. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loans. Interest income recognized and cash payments received on nonaccrual impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 2, "Summary of Significant Accounting Policies."

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

	December 31,		
	2003	2002	2001
Nonaccrual loans			
Current as to principal and interest	**$ 42,971**	$ 30,265	$ 48,412
Past due	**23,668**	18,494	29,568
Total nonaccrual loans	**66,639**	48,759	77,980
Accrual loans			
Restructured	**4,742**	10,350	5,407
90 days or more past due	**1,939**	2,512	3,369
Total impaired accrual loans	**6,681**	12,862	8,776
Total impaired loans	**$ 73,320**	$ 61,621	$ 86,756
Average impaired loans	**$ 68,964**	$ 81,571	$ 78,484

There were $3.7 million in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2003.

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	**$ 1,961**	$ 4,910	$ 2,631
Interest income on impaired accrual loans	**882**	690	936
Interest income recognized on impaired loans	**$ 2,843**	$ 5,600	$ 3,567

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

	2003	2002	2001
With related specific allowance	**$ 5,679**	$ 11,480	$ 26,501
With no related specific allowance	**67,641**	50,141	60,255
Total impaired loans	**$ 73,320**	$ 61,621	$ 86,756
Allowance on impaired loans	**$ 1,692**	$ 3,572	$ 6,234

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

Interest income which would have been recognized under the original loan terms	**$ 6,779**
Less: Interest income recognized	**2,843**
Foregone interest income	**$ 3,936**

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

	December 31,		
	2003	2002	2001
Balance at beginning of year	**$ 165,855**	$ 156,952	$ 147,136
Charge-offs:			
Long-term farm mortgage	**1,458**	1,190	146
Farm-related business	**—**	944	5
Production and intermediate-term	**2,614**	2,076	2,162
Other	**—**	54	—
Total charge-offs	**4,072**	4,264	2,313
Recoveries:			
Long-term farm mortgage	**24**	84	34
Farm-related business	**6**	—	44
Production and intermediate-term	**565**	1,766	2,799
Total recoveries	**595**	1,850	2,877
Net (charge-offs) recoveries	**(3,477)**	(2,414)	564
Provision for loan losses	**11,602**	11,317	9,252
Balance at end of year	**$ 173,980**	$ 165,855	$ 156,952
Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period	**0.05%**	(0.04)%	0.01%

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

	2003		2002		2001	
	Amount	**%**	Amount	%	Amount	%
Long-term farm mortgage	**$ 148.1**	**85%**	$ 139.4	84%	$ 130.8	83%
Production and intermediate-term	**25.9**	**15**	26.5	16	26.2	17
Total	**$ 174.0**	**100%**	$ 165.9	100%	$ 157.0	100%

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 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 totaled $72 for the year ended December 31, 2003, and are classified as noninterest expense.

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 facilitating its 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	**$ 6,270**	$ 6,275	$ 7,566
Buildings and improvements	**24,108**	23,534	44,893
Furniture and equipment	**31,153**	35,249	33,439
	61,531	65,058	85,898
Accumulated depreciation	**(32,879)**	(33,468)	(41,331)
Total	**$ 28,652**	$ 31,590	$ 44,567

In November 2002, the bank sold the district headquarters building and related land, with a net book value of $16.1 million, for net proceeds of $16.3 million. The $176 gain on the sale of this property is being amortized over a two-year leaseback period.

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
Deferred tax assets	**6,800**	7,154	7,161
Accounts receivable	**3,885**	5,271	3,755
Intangible assets related to pensions	**1,315**	3,375	—
Land investment	**877**	877	891
Other, net	**7,785**	4,827	5,150
Total	**$ 29,373**	$ 32,492	$ 17,616

Other liabilities comprised the following at December 31:

	2003	2002	2001
Postretirement benefits	**$ 40,551**	$ 35,151	$ 31,182
Advance conditional payments	**31,302**	25,622	41,194
Patronage distributions payable	**19,069**	13,845	14,740
Bank draft payable	**15,687**	11,153	14,078
Accrued pension cost	**14,364**	14,378	13,906
FCSIC premium payable	**8,229**	2,008	—
Accounts payable	**7,513**	4,692	4,464
Deferred tax liabilities	**4,158**	4,875	6,840
Additional minimum pension liability	**1,315**	4,355	—
Notes payable	**1,293**	1,983	539
Fair value of derivatives	**790**	—	1,347
Income taxes payable	**905**	1,721	1,408
Other, net	**4,657**	6,219	6,130
Total	**$ 149,833**	$ 126,002	$ 135,828

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 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 follows *(dollars in millions)*:

	Systemwide						Notes Payable to Other System Banks		Total	
	Bonds		Medium-Term Notes		Notes					
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2004	$ 2,091.8	1.43%	$ 119.1	5.44%	$ 229.8	0.82%	$ 300.0	1.64%	$ 2,740.7	1.58%
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	$ 300.0	1.64	$ 7,186.7	1.98

In the preceding table, the weighted average effective rate reflects the effects of interest rate swaps used to manage the interest rate risk on the bonds and notes issued by the bank. The bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies" and Note 16, "Derivative Instruments and Hedging Activity."

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

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2003:

Year of Maturity	Amount	Range of First Call Dates
2004	$ 15,000	12/10/03-12/29/03
2005	140,000	10/14/03-9/15/04
2006	270,000	10/10/03-12/15/04
2007	170,000	10/10/03-9/21/05
2008	75,000	10/10/03-10/29/05
Subsequent Years	85,000	10/14/03-3/8/04
Total	$ 755,000	10/10/03-10/29/05

Callable debt may be called on the first call date and every day 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.

In November 2003, the bank sold $300 million of participations in its direct notes from district associations to another System bank. Accordingly, this $300 million is included as a liability in "bonds and notes, net" on the district's balance sheet.

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

Note 8 — Members' Equity

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

A. Capitalization Requirements:

As a condition of borrowing, in accordance with the Farm Credit Act, each borrower is required to invest in common stock (in the case of mortgage or agricultural loans) or participation certificates (in the case of rural residence or farm-related business loans) of their respective association. Capitalization bylaws of the associations establish minimum and maximum stock purchase requirements for borrowers. The initial investment requirement varies by association and ranges from the statutory minimum of $1,000 or 2 percent of the loan amount, whichever is less, to a maximum of 4.76 percent of the loan amount. The capitalization bylaws also limit the capital contributions that an institution can require from its borrowers to 10 percent of defined borrowings for associations. If necessary, each association's board of directors may modify, within the range defined in their bylaws, the capitalization requirements to meet the association's capital needs.

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

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

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

B. Regulatory Capitalization Requirements and Restrictions:

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

The bank's permanent capital ratio at December 31, 2003, was 23.71 percent and exceeded FCA standards. All associations currently meet the minimum capital standard established by FCA regulations. All associations are able to retire stock or distribute earnings in accordance with the Farm Credit Act and FCA regulatory restrictions. Management knows of no reasons why the bank and associations would be prohibited from retiring stock or from making patronage distributions during 2004.

The following table sets forth the ranges of capital standards for the district at December 31, 2003:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	23.71	14.44	19.15
FLCAs	12.97 - 25.53	11.28 - 22.92	11.28 - 22.92
ACAs	13.43 - 18.45	10.14 - 16.61	11.09 - 17.94
Regulatory minimum standard	7.00	3.50	7.00

The bank is required by FCA regulations to achieve and maintain net collateral of 103 percent of total liabilities. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, and cash and cash equivalents. At December 31, 2003, the bank's net collateral ratio was 106.62 percent.

C. Description of Associations' Equities:

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

Stock and Participation Certificates	Par Value	Number of Shares at December 31, **2003**	2002	2001
Stock				
Common – voting (eligible for dividends, convertible)	$ 5.00	**19,482,205**	20,006,871	18,108,879
Common – nonvoting (eligible for dividends, convertible)	$ 5.00	**127,736**	129,719	112,255
Preferred – nonvoting (eligible for dividends, nonconvertible)	$ 5.00	**799,650**	581,877	420,415
Participation certificates, nonvoting (eligible for dividends, convertible)	$ 5.00	**521,885**	528,982	512,435

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

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

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

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

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

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

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

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

D. Description of Bank Equities:

According to the bank's bylaws, the minimum and maximum stock investments required of the ACAs and FLCAs are 2 percent and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock. These intercompany balances and transactions are eliminated in combination.

The bank requires OFIs to make cash purchases of common nonvoting stock in the bank based on the OFI's average borrowings from the bank. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. At December 31, 2003, the bank had $509 million of common stock outstanding to OFIs at a par value of $5.00 per share.

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 preferred stock was issued to provide capital for the expansion of the bank's participations portfolio. The dividend rate is 7.561 percent, payable semi-annually to December 31, 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. On December 15, 2003, dividends for the period from issuance of the preferred stock through December 15, totaling $798, were paid to preferred stockholders. Dividends on the stock are reported as declared. At December 31, 2003, accumulated dividends on the preferred stock totaled $357.

Note 9 — Income Taxes

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

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

	2003	2002	2001
Current			
Federal	**$ 667**	$ 1,149	$ 1,106
State	**20**	85	99
Total current	**687**	1,234	1,205
Deferred			
Federal	**(396)**	(1,935)	(2,747)
State	**33**	(23)	(54)
Total deferred	**(363)**	(1,958)	(2,801)
Total provision for (benefit from) income taxes	**$ 324**	$ (724)	$ (1,596)

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

	2003	2002	2001
Federal tax at statutory rate	**$ 30,948**	$ 19,385	$ 17,235
State tax, net	**20**	85	62
Effect of nontaxable entities	**(27,246)**	(15,509)	(13,056)
Patronage distributions	**(2,675)**	(3,234)	(3,609)
Allowance transfers from PCAs to FLCAs within ACA parent company structure	**—**	—	892
Capital download to associations	**322**	(1,937)	(3,240)
Other, net	**(1,045)**	486	120
Total provision for (benefit from) income taxes	**$ 324**	(724)	$ (1,596)

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

	2003	2002	2001
Allowance for loan losses	**$ 6,566**	$ 7,626	$ 7,564
U.S. Treasury advanced interest payable	**107**	79	89
Allowance for acquired property	**247**	242	239
Other	**647**	155	188
Gross deferred tax assets	**7,567**	8,102	8,080
Less valuation allowance	**(767)**	(948)	(919)
Adjusted gross deferred tax assets	**6,800**	7,154	7,161
FCBT stock redemption	**(4,078)**	(3,757)	(5,690)
Lease property	**—**	(1,118)	(1,150)
Other	**(80)**	—	—
Gross deferred tax liabilities	**(4,158)**	(4,875)	(6,840)
Net deferred tax assets	**$ 2,642**	$ 2,279	$ 321

Note 10 — Employee Benefit Plans

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

The DB plan is noncontributory and benefits are based on salary and years of service. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan in 1998 and beyond, to facilitate reorganization and/or restructuring. Losses attributable to prior service cost no longer expected to be rendered as a result of the reduction of active participants in the DB plan were $6, $9 and $40, for the years ended December 31, 2003, 2002 and 2001, respectively. Under SFAS No. 88, pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under a retention plan totaled $501, $347 and $1,197 during the years ended December 31, 2003, 2002 and 2001, respectively.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. DC plan participants direct the placement of their employers' contributions (4.0 percent of eligible compensation during 2003) made on their behalf into various investment alternatives. Employer contributions to the DC plan were $1.1 million, $847 and $605 for the years ended December 31, 2003, 2002 and 2001, respectively.

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. Thrift Plus Plan employer contributions were $1.8 million, $1.3 million and $1.1 million for the years ended December 31, 2003, 2002 and 2001, respectively. In 2003, the bank and associations 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.

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

The bank and associations also provide certain health care and life insurance benefits to eligible retired employees (retiree medical plan). District employees' eligibility for these benefits upon retirement is dependent on conditions set by their district employer.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) was signed into law. This act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Subsidies under the Medicare Act will reduce the current period measurements of benefits expected to be provided in future periods. These financial statements and disclosures do not reflect the effects of the Medicare Act. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require changes to previously reported information.

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

	Pension Benefits			Other Postretirement Benefits		
Change in benefit obligation	**2003**	2002	2001	**2003**	2002	2001
Benefit obligation at beginning of year	**$ 137,466**	$ 123,787	$ 110,434	**$ 46,234**	$ 45,706	29,670
Service cost	**3,259**	2,899	2,614	**1,662**	1,572	1,436
Interest cost	**9,108**	8,668	8,021	**3,175**	2,894	2,394
Actuarial loss (gain)	**10,293**	7,611	6,861	**4,595**	(116)	12,945
Plan amendments	**2,097**	—	112	**—**	(2,997)	—
Loss (gain) due to curtailments	**(505)**	—	66	**—**	—	—
Settlements	**—**	—	—	**—**	44	33
Special termination benefits	**501**	347	1,197	**—**	—	—
Benefits paid	**(7,521)**	(5,846)	(5,518)	**(1,353)**	(869)	(772)
Benefit obligation at end of year	**$ 154,698**	$ 137,466	$ 123,787	**$ 54,313**	$ 46,234	$ 45,706
Change in plan assets						
Fair value of plan assets at beginning of year	**$ 96,978**	$ 105,489	$ 110,375	**$ 465**	$ 601	688
Actual return on plan assets	**21,434**	(7,184)	(3,743)	**(25)**	(57)	(19)
Employer contribution	**8,422**	4,519	4,375	**1,441**	952	869
Settlements	—	—	—	**(166)**	(163)	(165)
Benefits paid	**(7,521)**	(5,846)	(5,518)	**(1,353)**	(869)	(772)
Fair value of plan assets at end of year	**$ 119,313**	$ 96,978	$ 105,489	**$ 362**	$ 464	601
(Unfunded) funded status	**$ (35,385)**	$ (40,488)	$ (18,298)	**$ (53,952)**	$ (45,770)	$ (45,105)
Unrecognized actuarial loss (gain)	**17,849**	22,735	383	**18,096**	14,384	15,202
Unrecognized prior service cost	**4,488**	3,375	4,009	**(3,255)**	(3,765)	(1,279)
Accrued benefit cost	**$ (13,048)**	$ (14,378)	$ (13,906)	**$ (39,111)**	$ (35,151)	$ (31,182)
Benefit obligation at end of year - pension plan	**$ 151,925**	$ 135,984	$ 122,655			
Benefit obligation at end of year - supplemental pension plan	**2,773**	1,482	1,132			
Total benefit obligation at end of year	**$ 154,698**	$ 137,466	$ 123,787			
Fair value of plan assets at end of year – pension plan	**$ 119,313**	$ 96,978	$ 105,489			
Fair value of plan assets at end of year – supplemental plan	—	**—**	—			
Total fair value of plan assets at end of year	**$ 119,313**	$ 96,978	$ 105,489			
(Unfunded) funded status - pension plan	**$ (32,612)**	$ (39,006)	$ (17,166)			
(Unfunded) funded status - supplemental plan	**(2,773)**	(1,482)	(1,132)			
Total (unfunded) funded status	**$ (35,385)**	$ (40,488)	$ (18,298)			
Amounts recognized in the combined balance sheets consist of:						
Accumulated benefit cost	**$ (13,048)**	$ (14,378)	$ (13,906)	**$ (39,111)**	$ (35,151)	$ (31,182)
Minimum pension liability adjustment	**(1,315)**	(4,355)	—	**—**	—	—
Intangible asset	**1,315**	3,375	—	**—**	—	—
Accumulated other comprehensive income	—	980	—	**—**	—	—
Accrued benefit cost	**$ (13,048)**	$ (14,378)	$ (13,906)	**$ (39,111)**	$ (35,151)	$ (31,182)
Accrued benefit obligation	**$ 130,433**	$ 115,459	$ 104,183	**$ 54,313**	$ 46,234	$ 45,706
Information for pension plans with an accumulated benefit obligation in excess of plan assets						
Projected benefit obligation	**$ 154,698**	$ 137,466	$ 123,787			
Accumulated benefit obligation	**130,433**	115,459	104,183			
Fair value of plan assets	**119,313**	96,978	105,489			

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	**2003**	2002	2001
Components of net periodic benefit cost						
Service cost	**$ 3,259**	$ 2,899	$ 2,614	**$ 1,662**	$ 1,572	$ 1,436
Interest cost	**9,108**	8,668	8,021	**3,175**	2,894	2,394
Expected return on plan assets	**(6,970)**	(7,541)	(6,923)	**(33)**	(42)	(48)
Amortization of prior service cost	**988**	634	671	**(511)**	(511)	(213)
Recognized actuarial (gain) loss	—	(16)	(24)	**1,107**	964	240
Total net periodic benefit cost	**$ 6,385**	$ 4,644	$ 4,359	**$ 5,400**	$ 4,877	$ 3,809
Additional information						
Increase in minimum liability included in other comprehensive income	**–**	980	–			
Weighted-average assumptions used to determine benefit obligations as of December 31,						
Discount rate	**6.25%**	6.75%	7.0%	**6.25%**	6.75%	7.00%
Rate of compensation increase	**4.50**	4.50	4.50			
Weighted-average income assumptions as of December 31,						
Discount rate	**7.25%**	7.25%	7.0%			
Expected return on plan assets*	**7.0**	7.0	7.0			

* The expected return on plan assets is based upon a review of historical rates of return experienced, combined with expected returns based upon the asset allocation strategy employed.

	Other Postretirement Benefits		
	2003	2002	2001
Assumed health care cost trend rates at December 31,			
Health care cost trend rate assumed for next year	**10.0% -11.5%**	12.0% - 14.0%	12.5% - 14.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0% - 5.5%**	5.0% - 5.5%	5.0% - 5.5%
Year that the rate reaches the ultimate trend rate	**2009**	2009	2008

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

Effect of changes in assumed health care cost trend rates	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 964.9	$ (755.3)
Effect on postretirement benefit obligation	8,611.1	$ (6,911.0)

Plan assets

Asset Category	Target	**2003**	2002	2001	Target	**2003**	2002	2001
Stocks	60%	**56%**	50%	50%	0%	**0%**	0%	0%
Bonds	40	**39**	45	45	0	**0**	0	0
Cash/other	0	**5**	5	5	100	**100**	100	100
Total	100%	**100%**	100%	100%	100%	**100%**	100%	100%

Over time, the investment policy mandates allocation of 60 percent of the plan assets to bonds. This strategy is expected to produce a reasonable rate of investment return over the long-term commensurate with and acceptable level of risk.

Cash Flows Contributions

The district expects to contribute $5.9 million to its pension plan in 2004.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Other Benefits
2004	$ 6,174.6	$ 1,678.6
2005	6,715.6	1,831.9
2006	6,830.1	2,008.4
2007	7,231.7	2,231.8
2008	11,088.6	2,388.4
2009-2013	47,938.6	15,243.3

Note 11 — Intra-System Financial Assistance

The FAC was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the FAC's issuance of $1.26 billion of 15-year U.S. Treasury–guaranteed debt. The interest rates on these issuances 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.

During the years 1998 through 2000, the System banks and the FAC called certain callable FAC debt totaling $486 million.

The district's financial assistance expense totaled $6.8 million, $7.4 million and $6.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 12 — Related Party Transactions

In the ordinary course of business, the bank and associations have entered into loan transactions with directors, officers and other employees of the bank or associations and other organizations with which such persons may be associated. Total loans to such persons at December 31, 2003, amounted to $115 million. In the opinion of management, such loans outstanding to directors, officers and other employees at December 31, 2003, did not involve more than a normal risk of collectibility and were subject to approval requirements contained in FCA regulations and were made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Disclosures on individual associations' officers and directors are found in the associations' individual annual reports.

Note 13 — Commitments and Contingencies

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

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

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

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

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

At any time, the bank and associations have outstanding a significant number of commitments to extend credit. The bank and associations also provide standby letters of credit to guarantee the performance of customers to third parties. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the combined balance sheets (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The district's commitments to extend credit totaled $727.3 million, $652.3 million and $698.4 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 15 — Disclosure About the Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the district's financial instruments at December 31, 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 district'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	**$ 1,587,319**	**$ 1,587,319**	$ 890,406	$ 890,406	$ 595,032	$ 595,032
Loans	**7,272,314**	**7,315,360**	6,796,092	6,876,086	6,009,348	5,987,520
Allowance for loan losses	**(173,980)**	**—**	(165,855)	—	(156,952)	—
Loans, net	**7,098,334**	**7,315,360**	6,630,237	6,876,086	5,852,396	5,987,520
Derivative assets	**8,711**	**8,711**	10,988	10,988	659	659
Financial liabilities						
Bonds and notes	**7,178,817**	**7,237,989**	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	**7,186,738**	**7,245,910**	6,284,567	6,396,898	5,316,214	5,366,612
Financial assistance related liabilities*	**453**	**1,211**	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.

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

A. Cash:

The carrying value is a reasonable estimate of fair value.

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

Fair value is based upon currently quoted market prices.

C. Loans:

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

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

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

D. Bonds and Notes:

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

E. Obligation to FAC:

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

F. Commitments to Extend Credit:

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

Note 16 — Derivative Instruments and Hedging Activity:

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

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

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

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

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 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
AA-	—	1.78	1.78	—	1.78	—	1.78
Total	$ 1.31	$ 10.85	$ 12.16	$ —	$ 12.16	$ —	$ 12.16

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

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

Maturities of 2003 Derivative Products and Other Financial Instruments

December 31, 2003 (*$ in millions*)	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	$ 1,830.0	$ 1,325.0	$ 125.0	$ —	$ —	$ —	$ 3,280.0	$ 3,279.3
Weighted average interest rate	1.15%	1.06%	1.06%	—	—	—	1.10%	
Total debt obligations	$ 2,740.7	$ 2,805.1	$ 835.4	$ 280.4	$ 180.1	$ 345.0	$ 7,186.7	$ 7,245.9
Weighted average interest rate	1.58%	1.53%	2.22%	3.34%	4.89%	5.61%	1.98%	
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 17 — 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	**$ 63,724**	**$ 65,705**	**$ 66,875**	**$ 68,747**	**$ 265,051**
Provision for loan losses	**3,934**	**3,935**	**3,579**	**154**	**11,602**
Noninterest expense, net	**28,088**	**21,869**	**24,464**	**3,618**	**78,039**
FAC expense	**2,051**	**2,628**	**1,008**	**1,107**	**6,794**
Net income	**$ 29,651**	**$ 37,273**	**$ 37,824**	**$ 63,868**	**$ 168,616**

2002	First	Second	Third	Fourth	Total
Net interest income	$ 53,580	$ 58,520	$ 60,462	$ 64,448	$ 237,010
Provision for loan losses	2,772	2,849	4,812	884	11,317
Noninterest expense, net	24,255	20,114	20,147	25,745	90,261
FAC expense	1,724	1,836	1,854	1,940	7,354
Net income	$ 24,829	$ 33,721	$ 33,649	$ 35,879	$ 128,078

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

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

Note 18 — Bank-Only Financial Data

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

	December 31,		
Balance Sheet Data	**2003**	2002	2001
Cash, federal funds sold and securities purchased under resale agreements	**$ 28,265**	$ 61,859	$ 48,804
Investment securities	**1,518,102**	785,071	503,978
Loans			
To associations	**5,341,875**	5,411,885	4,663,544
To others	**493,054**	415,066	447,649
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
Other assets	**19,639**	20,159	25,935
Total assets	**$ 7,410,824**	$ 6,706,026	$ 5,699,384
Bonds and notes	**$ 6,886,738**	$ 6,284,567	$ 5,316,214
Other liabilities	**46,457**	52,481	56,704
Total liabilities	**6,933,195**	6,337,048	5,372,918
Preferred stock	**98,644**	–	–
Capital stock and participation certificates	**109,787**	109,896	93,938
Retained earnings	**273,647**	257,884	231,659
Accumulated other comprehensive (loss) income	**(4,449)**	1,198	869
Total members' equity	**477,629**	368,978	326,466
Total liabilities and members' equity	**$ 7,410,824**	$ 6,706,026	$ 5,699,384

	Year Ended December 31,		
Statement of Income Data	**2003**	2002	2001
Interest income	**$ 189,306**	$ 208,675	$ 272,964
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	**49,788**	17,783	18,649
Intra-system financial assistance expense	**2,801**	3,206	3,106
Other expense	**31,649**	30,103	25,653
Net income	**$ 64,824**	$ 32,467	$ 24,878

As discussed in Note 11, "Intra-System Financial Assistance," the financial data presented above does not reflect a liability and a deduction from retained earnings of $1.2 million and $1.6 million as of December 31, 2002 and 2001, respectively, related to the present value of FAC obligations. The obligation was paid in July 2003.

Disclosure Information and Index

Disclosures Required by Farm Credit Administration Regulations

Description of Business

The Farm Credit Bank of Texas (FCBT or bank), Agricultural Credit Associations (ACAs) and the Federal Land Credit Associations (FLCAs) of the Tenth Farm Credit District (district) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. The district's ACA parent associations, which each contain two wholly-owned FLCA and Production Credit Association (PCA) subsidiaries, and FLCAs are collectively referred to as associations. A further description of territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference to Note 1, "Organization and Operations," to the accompanying combined financial statements.

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

Directors and Senior Officers

The following represents certain information regarding the directors and senior officers of the bank as of February 1, 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 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, 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,*	9 years	Senior Vice President, Chief Financial Officer, FCBT
Chief Operations Officer	Less than one year	
Steven H. Fowlkes, *Senior Vice President,*	6 years	Senior management and management positions, FCBT
Chief Credit Officer	Less than one year	
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

Name of Individual or Group	Year	Annual Salary (a)	Annual 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 combined financial statements.

Legal Proceedings

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 13, "Commitments and Contingencies," to the accompanying combined financial statements outlines the bank's position with regard to possible contingencies at December 31, 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, "Members' Equity," to the accompanying combined financial statements, and in the "Management's Discussion and Analysis" of the district included in this annual report to stockholders.

Description of Liabilities

The bank's debt outstanding is described in Note 7, "Bonds and Notes," to the accompanying combined financial statements. The bank's contingent liabilities and intra-system financial assistance rights and obligations are described in Note 13, "Commitments and Contingencies," and Note 11, "Intra-System Financial Assistance," to the accompanying combined financial statements.

Selected Financial Data

The selected financial data for the five years ended December 31, 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 combined financial statements in this annual report, is incorporated herein by reference.

Transactions With Senior Officers and Directors

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

Relationship With Public Accountants

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

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 24, 2004, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

Tenth District Associations

as of March 31, 2004

AGRICULTURAL CREDIT ASSOCIATIONS

Texas

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

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

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

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

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

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

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

Lone Star Land Bank, ACA .... (817) 341-4000
1111 Santa Fe Drive, Weatherford, TX 76086

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

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

Louisiana

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

New Mexico

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

FEDERAL LAND CREDIT ASSOCIATIONS

Alabama

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

Federal Land Bank Association
of South Alabama, FLCA .... (334) 270-8686
7602 Halcyon Summit Drive, Montgomery, AL 36117

Louisiana

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

Mississippi

Land Bank of North Mississippi, FLCA .... (662) 562-9664
5509 Highway 51 North, Senatobia, MS 38668

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

Texas

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

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

Federal Land Bank Association
of Texas, FLCA .... (325) 625-2165
215 West Elm Street, Coleman, TX 76834

Texas Land Bank, FLCA .... (254) 772-9343
13525 Sandalwood, Waco, TX 76712

OTHER FINANCIAL INSTITUTIONS

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

Producers Ag Finance, Inc. .... (512) 892-8999
2579 Western Trails Blvd., Suite 210, Austin, TX 78745

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

For additional copies of this publication, contact:
The Ag Agency, Farm Credit Bank of Texas
P.O. Box 15919, Austin, TX 78761
(512) 483-9260 or farmcreditbank.com.