HERE FOR AGRICULTURE

EVERY DAY

2009 ANNUAL REPORT

FARM CREDIT BANK OF TEXAS

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FARM CREDIT BANK OF TEXAS
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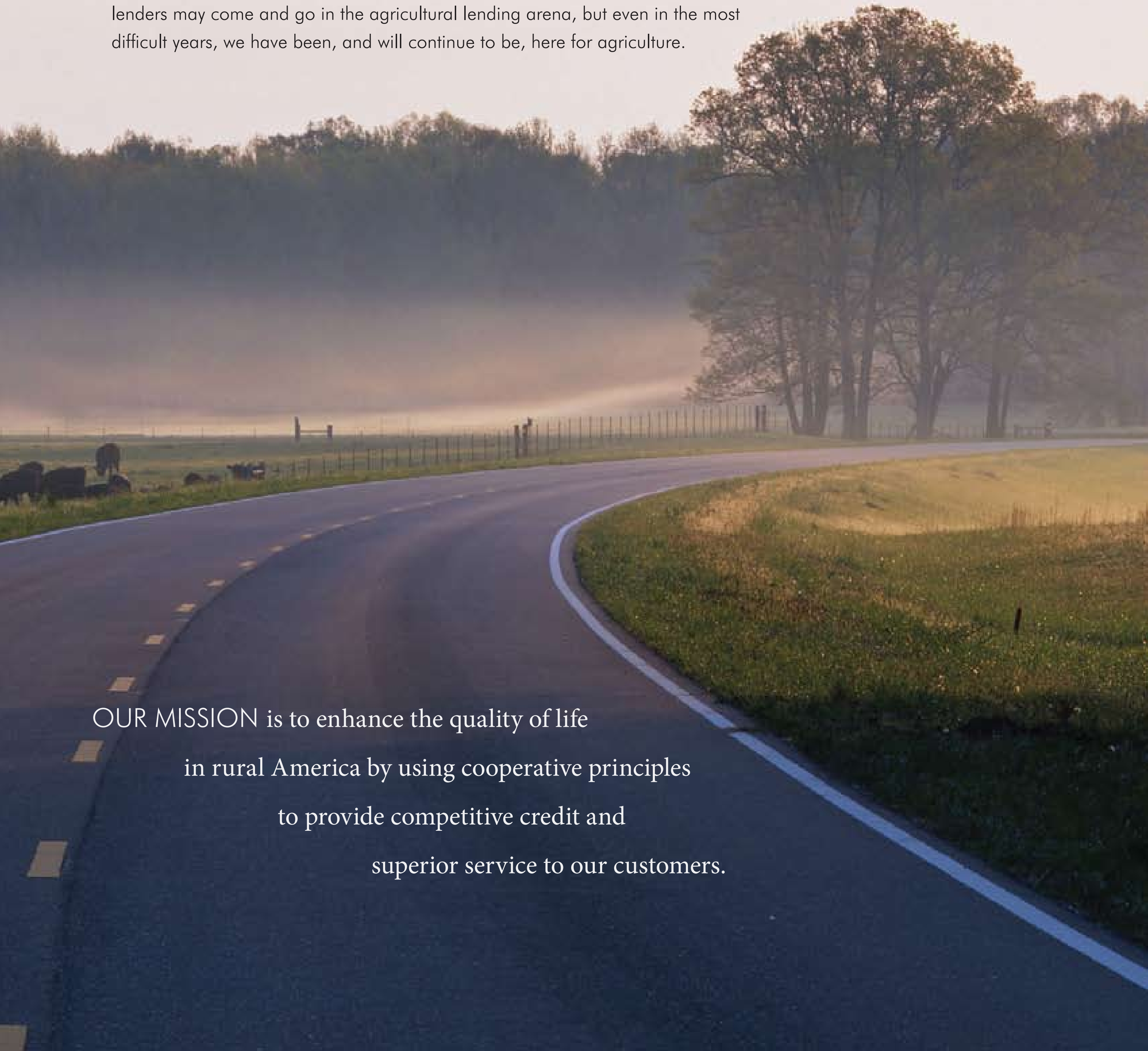
HERE FOR AGRICULTURE
93 YEARS AND COUNTING

"Farmers … have occupied, hitherto, a singular position of disadvantage. They have not had the same freedom to get credit on their real estate as others have had … and, while they have sustained our life, they did not in the same degree with others, share in the benefits of that life."

Those words, spoken by President Woodrow Wilson when he signed the Federal Farm Loan Act in 1916, summarize the need and purpose of the Farm Credit System. For 93 years and counting, Farm Credit Bank of Texas has focused on providing farmers, ranchers and agribusinesses with access to credit. Other lenders may come and go in the agricultural lending arena, but even in the most difficult years, we have been, and will continue to be, here for agriculture.



OUR MISSION is to enhance the quality of life in rural America by using cooperative principles to provide competitive credit and superior service to our customers.

Larry R. Doyle   Ralph W. "Buddy" Cortese

" ... Farm Credit Bank of Texas was able to outperform many other financial institutions last year and continue providing funding to our customers at rates comparable to the implied marginal cost of funds."

TO OUR STOCKHOLDERS

Farm Credit Bank of Texas is a strong, dependable and successful rural lender. Even in difficult times, we have continued to support agriculture and rural America. Last year — one of the most difficult years in memory — was no exception, as our strong 2009 financial results attest.

2009 challenged every sector of the economy, including the nation's banking and agricultural sectors. The global financial crisis changed the lending rules for many financial institutions, restricted the supply of money, and resulted in economic recession, which reined in consumer spending in virtually every category. In the south-central and southwestern states, the worst drought in the last half-century overlapped with weak livestock, dairy and poultry markets, and placed severe pressure on many agricultural producers.

Those trying conditions made 2009 one of the most challenging years faced by the current generation of Farm Credit employees and customers. Fortunately, we entered the financial crisis with strong capital, consistent earnings, a sound credit portfolio and a reputation for conservative management and transparent financial disclosures to our stockholders and outside investors. Because of this, Farm Credit Bank of Texas was able to outperform many other financial institutions last year and continue providing funding to our customers at rates comparable to the implied marginal cost of funds.

Financial Highlights

Farm Credit Bank of Texas is pleased to report solid financial results for 2009. After several consecutive years of loan volume growth, our loan portfolio remained relatively flat in 2009, ending the year at $11 billion, a 3 percent decrease from year-end 2008. The quality of the portfolio, while still strong, experienced a modest decline, as expected, given the challenges facing certain sectors of the agricultural industry.

In 2009, the bank generated record net income of $106.6 million — up 38.9 percent from 2008 and more than we projected. This increase was driven by a $35 million, or 41.7 percent, rise in net interest income over 2008, achieved largely through careful debt management. We exercised our ability to call options on debt and reissue that debt at significantly lower interest rates. As a result of these higher earnings, bank capital increased in 2009 and favorably impacted our regulatory capital ratios. In addition, our returns on average assets and average shareholders' equity also increased.

We are most proud, however, that our strong earnings allowed us to pay a record patronage of 40 basis points on average direct-note volume to the 19 local lending cooperatives and four Other Financing Institutions that are both our owners and our customers. Total patronage distributions and earnings allocated to our customers amounted to $65 million in 2009, compared to $53.4 million in 2008. With this patronage distribution, we met one of our key objectives as a federated cooperative — to provide our customers with funding for lending activities at effectively the same rate it cost us to borrow those funds in the marketplace. The fact that we accomplished this goal at a time when many financial institutions did not pay dividends underscores the strength of our cooperative business model and our dedication to our customers.

Meeting Our Goals

Managing through an economic downturn can challenge the most seasoned lender. Familiar problems can require new strategies. Customer relationships may need to be strengthened. Staff may require new skills. Farm Credit Bank of Texas responded to the challenges presented in 2009 by implementing a new liquidity strategy that provided us with liquidity equal to 144 days of maturing debt coverage. We reviewed our risk management procedures and established new standards to help our affiliated lending cooperatives better manage their risk. In the end, we took advantage of the past year to look for weaknesses in our lending practices and shore up our processes.

One of our key goals for the year was to maintain our favorable public ratings. Thus, we were very pleased when the Fitch Ratings agency reaffirmed the bank's favorable ratings on its long- and short-term portfolios. During these turbulent times in the financial sector, these ratings will send a positive signal to our investors.

In addition, we continued our ongoing effort to improve operating efficiencies, invest in our people and build relationships with our communities.

We made exceptional progress on the development of a new credit delivery, analysis and loan accounting system, drawing together staff from multiple departments to complete the first phase of this multi-year project.

Recognizing that the bank's success is dependent on having a highly trained staff, we offered new credit and risk management training to both bank and association employees, as well as to the directors of our affiliated associations. We also invested in a new leadership program, which took bank and association employees to Wall Street and the nation's capital for an inside look at government and the Farm Credit funding network. In addition, we continued our ongoing efforts to make the bank an attractive place to work, introducing additional non-salary benefits that recognize our employees' importance to our success.

At Farm Credit Bank of Texas, we take our corporate citizenship seriously. We are pleased to support the communities and organizations in which our customers and employees are involved. While some companies have been forced to cut back on corporate giving programs during these recessionary times, we actually increased several of our sponsorships, scholarships and other philanthropic endeavors in 2009.

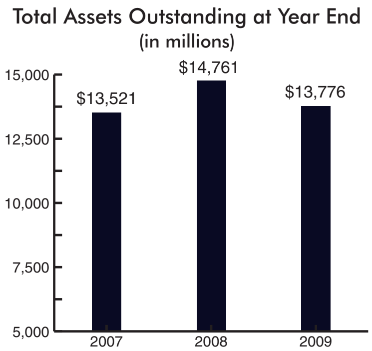
Looking Ahead

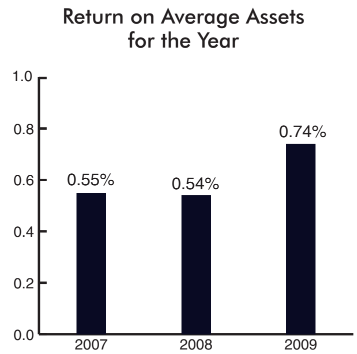
Farm Credit Bank of Texas began 2010 focused on enhancing earnings and credit quality, conserving capital, increasing liquidity, diversifying our portfolio and managing through this difficult time. Although we expect the effects of the 2008-09 financial crisis to linger, the economy has stabilized and the markets for many agricultural products, particularly those related to feed conversion, are hinting at signs of improvement in 2010. If those positive projections are realized, we anticipate that 2010 will be a better year for our customers and thus for Farm Credit Bank of Texas.

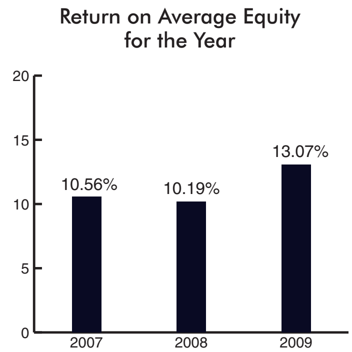
Our No. 1 job is, and always has been, to meet our customers' funding needs, so that they in turn can provide sound, constructive credit to creditworthy customers. We relish the responsibility, and we are proud to serve agriculture and rural America.

Ralph W. Cortese
Chairman

Larry R. Doyle
Chief Executive Officer







2009 FINANCIAL HIGHLIGHTS

For the Year (in thousands)	**2009**	2008	2007
Net interest income	**$169,212**	$ 119,396	$ 99,565
Provision for loan losses	**(33,648)**	(20,529)	(1,043)
Noninterest expense, net	**(28,956)**	(22,134)	(24,518)
Net income	**$106,608**	$ 76,733	$ 74,004
Rate of return on:			
Average assets	**0.74%**	0.54%	0.55%
Average shareholders' equity	**13.07**	10.19	10.56
Cash patronage declared and paid	**$ 62,959**	$ 51,618	$ 46,174

At Year End (in millions)			
Total loans	**$ 11,033**	$ 11,403	$ 10,866
Total assets	**13,776**	14,761	13,521
Total liabilities	**12,955**	14,016	12,792
Total shareholders' equity	**821**	745	729
Permanent capital ratio	**15.98%**	14.03%	13.43%
Total surplus ratio	**12.47**	11.25	11.15
Core surplus ratio	**7.11**	6.40	6.70
Net collateral ratio	**105.83**	105.40	105.18

Farm Credit Bank of Texas has been supporting agriculture and rural America for 93 years. With each key milestone in our history, we have become stronger, more innovative, more customer-focused and better positioned to meet our customers' financing needs.

10s Congress established the Farm Credit System, a network of lending cooperatives — including Farm Credit Bank of Texas (then known as the Federal Land Bank of Houston) — as the most reliable system of long-term credit delivery to farmers.

20s The Federal Intermediate Credit Bank of Houston (later part of the Farm Credit Bank of Texas) was one of 12 regional banks authorized by Congress to address farmers' need for operating funds.

30s Following the stock market crash of 1929 and the ensuing Great Depression, there was a dire shortage of short-term funds to lend to farmers, which led to the establishment of local Production Credit Associations to deliver short-term credit to farmers.

40s The Federal Land Banks, including the Texas bank, paid off the federal government's capital investment in them.

50s The Farm Credit Act provided plans under which the entire Farm Credit System would become owned by its users, a goal achieved a decade later.

60s Hundreds of Farm Credit cooperatives across the nation consolidated in an effort to improve efficiency and to continue providing affordable credit to agriculture.

70s The range of Farm Credit services was expanded to include rural home mortgages, leasing services and rural utility financing.

80s Congress responded to the agricultural crisis with measures that revised the structure of the Farm Credit System and provided financial assistance. In addition, two key institutions were set up — the Federal Farm Credit Banks Funding Corporation, which manages the sale of System securities, and the Farm Credit System Insurance Fund, which is financed by System banks to provide a backstop in the event of another financial crisis.

90s After purchasing assets of the former Federal Land Bank of Jackson, the Farm Credit Bank of Texas began funding lending associations in Alabama, Louisiana and Mississippi. Also in the '90s, Farm Credit System repaid the federal financial assistance it received in the '80s — with interest.

00s Farm Credit Bank of Texas earned investment grade ratings and completed its first-ever private placement of preferred stock with outside investors, which provided additional capital for lending purposes. In addition, the bank issued subordinated debt in a private placement, improving its capital structure.

Today By staying diligent and focused on our mission and by demonstrating best lending practices, Farm Credit Bank of Texas will successfully manage through today's volatile and challenging economic times and continue to serve as a competitive and reliable source of funding for generations to come.

OUR PROFILE

Our Structure

Farm Credit Bank of Texas, headquartered in Austin, Texas, is a $13.8 billion cooperatively owned wholesale bank, which has been financing agriculture and rural America for 93 years. We are part of the nationwide Farm Credit System, established by Congress in 1916. Together with our affiliated lending cooperatives, we comprise the Texas Farm Credit District, the single largest rural lending network serving Alabama, Louisiana, Mississippi, New Mexico and Texas.

Our Customers

Our customers are our owners — 18 Agricultural Credit Associations, which provide agricultural, agribusiness and rural mortgage financing; one Federal Land Credit Association, which makes rural real estate loans; and four Other Financing Institutions, which finance agricultural production. The 19 lending cooperatives in turn extend credit and financial services to their customer-stockholders — farmers, ranchers, agribusiness firms, country homeowners and other rural landowners — as well as to capital markets customers.

Our Purpose and Role

Our primary role is to provide funding to our customers at the lowest possible effective rate. But we are more than a funding source; we also are an arm's-length partner to our affiliated cooperatives, offering a full range of financial and business solutions. These services include credit expertise, market development assistance, cash management products, information technology development, employee recruiting, compensation programs, marketing help and operational support.

Through our Capital Markets Group, we play another role — to provide capital and liquidity for national and multinational food, energy, agribusiness and rural telecommunications companies. Businesses that partner with Farm Credit Bank of Texas benefit from our expertise in these focused segments, our deep industry knowledge, our track record and the financial solutions we offer.

Our Funding Source

We benefit from having a dependable source of competitively priced capital. Our funds come from the Federal Farm Credit Banks Funding Corporation, which sells Farm Credit System bonds and notes to investors in the nation's money markets. As part of the $215.5 billion Farm Credit System, we enjoy an AAA rating on Farm Credit System debt.

Our Regulator

The federal Farm Credit Administration (FCA) regulates the entire Farm Credit System, including Farm Credit Bank of Texas. The three-member FCA Board of Directors is appointed by the President of the United States.

OUR LEADERSHIP

Our seven board members understand our business, because they come from agricultural, banking or finance backgrounds. Five directors are farmers or ranchers, elected by the customers of the 19 lending cooperatives that own the bank, while two directors are appointed by the elected board members.

BOARD OF DIRECTORS
FARM CREDIT BANK OF TEXAS

Seated: Ralph W. "Buddy" Cortese, Chairman, (left) and Jimmy Dodson, Vice Chairman
Standing (left to right): Lester Little, Elizabeth "Betty" Flores, William Staats, Joe Crawford, Jon "Mike" Garnett

Our team of senior management veterans is accountable to the board of directors and works with the board to set and implement the bank's direction, goals and strategies.

Larry Doyle, Chief Executive Officer (center)
Tom Hill, Senior Vice President/Chief Financial Officer/Chief Operations Officer (left)
Steve Fowlkes, Senior Vice President/Chief Credit Officer

SENIOR MANAGEMENT TEAM

REPORT OF MANAGEMENT

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

To meet its responsibility for reliable financial information, management depends on the bank's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. To monitor compliance, the internal audit staff of the Farm Credit Bank of Texas audits the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP (PwC), independent auditors, who also conduct a review of internal accounting controls to establish a basis for reliance thereon in determining the nature, extent and timing of the audit tests applied in the examination of the financial statements. In addition, the bank is examined annually by the Farm Credit Administration.

In the opinion of management, the financial statements are true and correct and fairly state the financial position of the Farm Credit Bank of Texas at December 31, 2009, 2008 and 2007. The independent auditors have direct access to the board, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that we have reviewed the December 31, 2009, annual report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included 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
Senior Vice President, Chief Financial Officer,
Chief Operations Officer

March 1, 2010

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's Web site at www.farmcreditbank.com. In 2009, four committee meetings were held. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as independent auditors for 2009.

Management is responsible for the bank's internal controls and for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the bank's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the bank's audited financial statements for the year ended December 31, 2009 with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communications With Those Charged With Governance), and both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

The committee discussed with appropriate representatives of PwC the firm's independence from the bank. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the accountant's independence. Furthermore, throughout 2009 the committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate.

William F. Staats, Chairman
Lester Little, Vice Chairman
Ralph W. Cortese
Joe R. Crawford
James F. Dodson
Elizabeth G. Flores
Jon M. Garnett

Audit Committee Members

March 1, 2010

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Farm Credit Bank of Texas' (bank's) principal executive and principal financial officer are responsible for establishing and maintaining adequate internal control over financial reporting for the bank's financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the bank's principal executive and principal financial officer, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the bank's assets that could have a material effect on its financial statements.

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the bank concluded that as of December 31, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the bank determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2009.

Larry R. Doyle
Chief Executive Officer

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

March 1, 2010

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
300 West Sixth Street
Suite 1800
Austin TX 78701
Telephone (512) 477 1300
Facsimile (512) 477 8681
www.pwc.com

Report of Independent Auditors

To the Board of Directors and Shareholders
of the Farm Credit Bank of Texas:

In our opinion, the accompanying balance sheets and the related statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit Bank of Texas (Bank) at December 31, 2009, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards 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

March 1, 2010

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	**2009**	2008	2007	2006	2005
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 490,915**	$ 189,791	$ 142,102	$ 103,394	$ 46,836
Investment securities	**2,143,485**	3,028,468	2,410,999	2,672,242	2,697,876
Loans	**11,033,114**	11,403,113	10,865,991	10,055,428	8,481,501
Less allowance for loan losses	**31,602**	12,549	1,065	142	142
Net loans	**11,001,512**	11,390,564	10,864,926	10,055,286	8,481,359
Other assets	**140,590**	151,678	102,751	84,838	58,717
Total assets	**$ 13,776,502**	$ 14,760,501	$ 13,520,778	$ 12,915,760	$ 11,284,788
Obligations with maturities of one year or less	**$ 4,943,514**	$ 6,099,922	$ 4,797,803	$ 4,835,886	$ 5,371,770
Obligations with maturities greater than one year	**8,011,696**	7,916,037	7,994,374	7,415,653	5,288,711
Total liabilities	**12,955,210**	14,015,959	12,792,177	12,251,539	10,660,481
Preferred stock	**200,000**	200,000	200,000	200,000	200,000
Capital stock	**237,361**	227,212	198,864	161,421	135,390
Retained earnings	**373,060**	343,113	334,394	324,270	315,047
Accumulated other comprehensive income (loss)	**10,871**	(25,783)	(4,657)	(21,470)	(26,130)
Total shareholders' equity	**821,292**	744,542	728,601	664,221	624,307
Total liabilities and shareholders' equity	**$ 13,776,502**	$ 14,760,501	$ 13,520,778	$ 12,915,760	$ 11,284,788
Statement of Income Data					
Net interest income	**$ 169,212**	$ 119,396	$ 99,565	$ 90,341	$ 75,960
(Provision) negative provision for loan losses	**(33,648)**	(20,529)	(1,043)	(2,578)	344
Noninterest expense, net	**(28,956)**	(22,134)	(24,518)	(22,769)	(18,688)
Net income	**$ 106,608**	$ 76,733	$ 74,004	$ 64,994	$ 57,616
Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**0.74%**	0.54%	0.55%	0.53%	0.60%
Average shareholders' equity	**13.07%**	10.19%	10.56%	10.07%	10.57%
Net interest income to average earning assets	**1.22%**	0.85%	0.74%	0.74%	0.80%
Net charge-offs to average loans	**0.12%**	0.08%	<.01%	0.03%	—
Total shareholders' equity to total assets	**5.96%**	5.04%	5.39%	5.14%	5.53%
Debt to shareholders' equity (:1)	**15.77**	18.82	17.56	18.44	17.08
Allowance for loan losses to total loans	**0.29%**	0.11%	0.01%	—	—
Permanent capital ratio	**15.98%**	14.03%	13.43%	13.67%	17.36%
Total surplus ratio	**12.47%**	11.25%	11.15%	11.61%	14.97%
Core surplus ratio	**7.11%**	6.40%	6.70%	6.93%	8.82%
Net collateral ratio	**105.83%**	105.40%	105.18%	105.35%	105.90%
Net Income Distributions					
Net income distributions declared					
Preferred stock dividends	**$ 15,122**	$ 15,122	$ 15,122	$ 15,122	$ 11,342
Patronage distributions declared					
Cash	**$ 62,959**	$ 51,618	$ 46,174	$ 37,043	$ 28,713
Allocated earnings	**2,022**	1,786	1,586	1,058	837

AVERAGE BALANCES AND NET INTEREST EARNINGS

Farm Credit Bank of Texas
(unaudited)
December 31,

	2009			2008			2007		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities and federal funds sold	**$ 2,505,456**	**$ 88,122**	**3.52%**	$ 2,697,953	$ 110,966	4.11%	$ 2,598,854	$ 131,768	5.07%
Loans	**11,388,895**	**477,262**	**4.19**	11,317,022	549,724	4.86	10,780,754	621,773	5.77
Total interest-earning assets	**13,894,351**	**565,384**	**4.07**	14,014,975	660,690	4.71	13,379,608	753,541	5.63
Cash	**291,296**			10,353			4,745		
Accrued interest receivable	**40,300**			47,643			52,584		
Allowance for loan losses	**(23,133)**			(5,669)			(271)		
Other noninterest-earning assets	**112,769**			66,970			52,152		
Total average assets	**$ 14,315,583**			$ 14,134,272			$ 13,488,818		
Liabilities and Shareholders' Equity									
Bonds, medium-term notes and subordinated debt, net	**$ 11,634,484**	**$ 376,176**	**3.23%**	$ 11,541,763	$ 502,377	4.35%	$ 11,718,042	$ 608,067	5.19%
Discount notes, net, and other	**1,696,384**	**19,996**	**1.18**	1,656,806	38,917	2.35	920,095	45,909	4.99
Total interest-bearing liabilities	**13,330,868**	**396,172**	**2.97**	13,198,569	541,294	4.10	12,638,137	653,976	5.17
Noninterest-bearing liabilities	**169,067**			182,582			149,720		
Total liabilities	**13,499,935**			13,381,151			12,787,857		
Shareholders' equity and retained earnings	**815,648**			753,121			700,961		
Total average liabilities and shareholders' equity	**$ 14,315,583**			$ 14,134,272			$ 13,488,818		
Net interest rate spread		**$ 169,212**	**1.10%**		$ 119,396	0.61%		$ 99,565	0.46%
Net interest margin			**1.22%**			0.85%			0.74%

MANAGEMENT'S DISCUSSION & ANALYSIS

(DOLLARS IN THOUSANDS, EXCEPT AS OTHERWISE NOTED)

The following commentary is a discussion and analysis of the financial position and the results of operations of the Farm Credit Bank of Texas (the bank or FCBT) for the years ended December 31, 2009, 2008 and 2007. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (notes) and additional sections of this annual report. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank is part of the Farm Credit Bank of Texas and affiliated associations (district), which is part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2009, the bank served five Federal Land Credit Associations (FLCAs), 14 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs). FLCAs and ACAs are collectively referred to as associations. See Note 1, "Organization and Operations," for an expanded description of the structure and operations of the bank. In January, 2010, four FLCAs restructured to form ACA structures with operating FLCA and Production Credit Association subsidiaries.

Forward-Looking Information

This annual report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," to the accompanying financial statements. The following is a summary of certain critical policies.

- **Reserves for credit losses** — The bank records reserves for credit losses, consisting of an allowance for loan losses, reported as a reduction of loans on the bank's balance sheet, and a reserve for losses on stand-by letters of credit, which is reported as a liability on the bank's balance sheet. These reserves are management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio and letters of credit. The allowance for loan losses and reserves for credit losses are increased through provisions for loan losses and loan recoveries and are decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired. Each of these individual loans is evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. If the present value of expected future cash flows (or, alternatively, the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by making an addition to the allowance for loan losses with a corresponding charge to the provision for loan losses or by similarly adjusting an existing valuation allowance. In addition to these specific allowances, in 2009 the bank recorded a general allowance for loan losses, which reflects expected credit deterioration and inherent losses in that portion of the bank's participation loans that are not individually evaluated. The reserve for losses on stand-by letters of credit reflects the bank's estimated potential losses related to existing stand-by letters of credit.

- **Valuation methodologies** — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued.

Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, certain mortgage-related securities, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the bank's results of operations.

- Pensions — The bank and its related associations participate in the district's defined benefit (DB) retirement plan. The plan is noncontributory, and benefits are based on salary and years of service. In addition, the bank and its related associations also participate in defined contribution retirement savings plans, and certain qualified individuals in the bank are eligible for participation in a separate nonqualified supplemental defined benefit pension plan or a separate nonqualified 401(k) plan. Pension expense for all plans is recorded as part of salaries and employee benefits.

  The structure of the district's DB plan 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. Participating employers are jointly and severally liable for their plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets) and associated costs of withdrawal. As a result, participating employers of the plan 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. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year.

  The supplemental defined benefit pension plan is not considered a multi-employer plan and is therefore recorded in these financial statements. For more information, see Note 9, "Employee Benefit Plans." Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Hewitt Associates' Hewitt Top Quartile Curve, actuarial analyses and industry norms. The Hewitt yield curves are determined based on actual corporate bond yields for AA or better rated bonds as of the measurement date.

OVERVIEW

General

The bank's loan portfolio totaled $11.0 billion at December 31, 2009, a 3.2 percent decrease from the prior year. The bank's $29.9 million increase in net income for 2009 was driven by a 41.7 percent increase in net interest income. The net interest rate spread and net interest margin have improved, as well as the bank's efficiency, gauged by operating expenses as a percentage of net interest income and noninterest income. Continued federal support of agriculture has partially mitigated the effects of stress in the general economy. However, adverse conditions in the agricultural and general economy have impacted the bank's financial condition and results of operations for 2009, resulting in a $2.2 million increase in impaired loans, and a $13.1 million increase in provisions for loan losses as compared to 2008.

Funding

During 2009, the severe stress in the financial markets began to dissipate and certain sectors of the capital markets began to improve. Corporate debt issuance improved and borrowing rates, particularly short-term rates, trended lower. More importantly, investor demand for Systemwide Debt Securities with short-term maturities remained strong, although demand for longer-term maturities, particularly those with maturities over five years, remained moderate, and long-term funding costs, while declining, remained volatile.

Throughout this period of financial market turbulence, the System has been able to access the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. We expect to be able to continue to issue Systemwide Debt Securities, even though the market for issuing longer-term debt with maturities greater than five years may continue to be less liquid. Moreover, district institutions are responding to these funding challenges with appropriate actions, including adjusting loan structures and payment terms, and, in appropriate cases, increasing pricing to customers.

Agricultural Outlook

General and agricultural economic conditions have been difficult for farming and for livestock production. The effects of higher commodity prices and economic stress of consumers have increased volatility in many agricultural sectors. In addition, some local conditions, such as drought in the western part of the district and harvest-time flooding in the eastern part of the district, produced additional hurdles to profitability.

In the beef and cattle sector, which constitutes approximately 38 percent of the district's loan portfolio, production in 2010 may see continued volatility resulting from placements of cattle on feed, lower pasture growth conditions, and other factors. During 2009, the recession, high unemployment, and abundant supplies of poultry and pork softened prices in the beef market. Beef supply was also abundant due to dairy-herd buyouts resulting from low dairy prices. Weak U.S. prices during 2009 resulted in declines in beef imports, and while American producers may benefit from improved U.S. prices in 2010, those gains are expected to attract foreign imports.

In the dairy sector, increased global demand and lower dairy production in 2009 are expected to bolster prices in 2010. Prices for all major dairy products are expected to improve. Poultry production in the fourth quarter of 2009 showed the first increase over the prior year since 2007. Production in 2010 is expected to increase slightly due to lack of growth in disposable income and continued high unemployment.

Corn exports in 2010 are expected to face greater competition from foreign producers. Although global cotton use is expected to increase in 2010, fewer supplies in the U.S. and abundant supplies in India indicate reduced exports of U.S. cotton.

Although geographical and commodity diversity, as well as continued governmental support programs, are an advantage to the district's agricultural portfolio, stress in the general economy has also been reflected in bank and district credit quality. The tightened credit standards and heightened monitoring that the bank and district lenders have utilized will be a continued requirement during 2010.

Financial Highlights

- The aggregate principal amount of loans outstanding at December 31, 2009, was $11.0 billion, compared to $11.4 billion at December 31, 2008, reflecting a decrease of 3.2 percent over December 31, 2008.
- Net income totaled $106.6 million for the year ended December 31, 2009, an increase of 38.9 percent compared to 2008.
- Net interest income for the year ended December 31, 2009, was $169.2 million, a 41.7 percent increase over the year ended December 31, 2008.
- Return on average assets and return on average shareholders' equity for the year ended December 31, 2009, were 0.74 and 13.07 percent, respectively, compared to 0.54 and 10.19 percent for 2008, respectively.
- Patronage distributions declared and earnings allocated totaled $65.0 million in 2009, compared to $53.4 million in 2008.

RESULTS OF OPERATIONS

Net Income

The bank's net income of $106,608 for the year ended December 31, 2009, reflects an increase of 38.9 percent over 2008, while 2008 income of $76,733 increased by 3.7 percent from 2007. The return on average assets was 0.74 percent for the year ended December 31, 2009, up from 0.54 percent reported for the year ended December 31, 2008. The return on average assets was 0.55 percent for the year ended December 31, 2007. Changes in the major components of net income for the referenced periods are outlined in the table below and discussion on the following page.

	2009 vs. 2008	2008 vs. 2007
Net income (prior period)	$ 76,733	$ 74,004
Increase (decrease) due to:		
Decrease in interest income	(95,306)	(92,851)
Decrease in interest expense	145,122	112,682
Net interest income	49,816	19,831
Provision for loan losses	(13,119)	(19,486)
Noninterest income	4,412	11,784
Noninterest expense	(11,234)	(9,400)
Total change in net income	29,875	2,729
Net income	$ 106,608	$ 76,733

Discussion of the changes in components of net income is included in the following narrative.

Interest Income

Total interest income for the year ended December 31, 2009, was $565,384, a decrease of $95,306, or 14.4 percent, compared to 2008. Total interest income for 2008 was $660,690, a decrease of $92,851, or 12.3 percent, from 2007. The decrease for both periods was due primarily to the decreasing interest rate environment during 2008 and 2009.

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

	Year Ended December 31,	
	2009 vs. 2008	2008 vs. 2007
(Decrease) increase in average earning assets	$ (120,624)	$ 635,367
Average yield (prior year)	4.71%	5.63%
Interest income variance attributed to change in volume	(5,681)	35,771
Average earning assets (current year)	13,894,351	14,014,975
Decrease in average yield	(0.64)%	(0.92)%
Interest income variance attributed to change in yield	(89,625)	(128,622)
Net change in interest income	$ (95,306)	$ (92,851)

Interest Expense

Total interest expense for the year ended December 31, 2009, was $396,172, a decrease of $145,122, or 26.8 percent, compared to the same period of 2008. Total interest expense for 2008 was $541,294, a decrease of $112,682, or 17.2 percent, from 2007. The decrease for both periods was due primarily to the effects of the decreasing interest rate environment during 2008 and 2009. In addition, during 2009, the bank was able to reduce its interest expense by calling $10.326 billion in debt and replacing it with debt that had lower interest rates and shorter maturities that match earning assets, which resulted in a reduction in interest expense of approximately $42.5 million, net of related concession expenses.

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

	Year Ended December 31, 2009 vs. 2008	2008 vs. 2007
Increase in average interest-bearing liabilities	$ 132,299	$ 560,432
Average rate (prior year)	4.10%	5.17%
Interest expense variance attributed to change in volume	5,424	28,974
Average interest-bearing liabilities (current year)	13,330,868	13,198,569
Decrease in average rate	(1.13)%	(1.07)%
Interest expense variance attributed to change in rate	(150,546)	(141,656)
Net change in interest expense	$ (145,122)	$ (112,682)

Net Interest Income

Net interest income, the excess of interest income over interest expense, increased by $49,816 from 2008 to 2009, and increased by $19,831 from 2007 to 2008. The increase in 2009 was due to the effects of a 49-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, slightly offset by a $120,624 decrease in average interest-earning assets. Although there was considerable volatility in the financial markets during 2008 and 2009, the bank was able to improve its net interest rate spread and margin. As described above, during 2009 the bank called $10.326 billion in debt, replacing it with debt that had more favorable terms, which should continue to benefit the bank's net interest spread in 2010 and beyond. Also, the bank was able to increase its net interest rate spread on its participation loan portfolio and liquidity investment portfolio. The bank's ability to increase the interest rate spread by taking advantage of callable debt features was related primarily to market conditions that existed during 2009. Conditions are not expected to be the same in 2010, and thus these spread increases are not expected to be sustained in the future.

Net interest income in 2008 was $19,831 greater than 2007. The increase in 2008 was due to a $635.4 million increase in average interest-earning assets and a 15-basis-point increase in the interest rate spread. During 2008 the bank called and replaced $6.087 billion in debt, securing more favorable terms.

ANALYSIS OF NET INTEREST INCOME

	2009		2008		2007	
	Avg. Balance	**Interest**	Avg. Balance	Interest	Avg. Balance	Interest
Loans	**$ 11,388,895**	**$ 477,262**	$ 11,317,022	$ 549,724	$ 10,780,754	$ 621,773
Investments	**2,505,456**	**88,122**	2,697,953	110,966	2,598,854	131,768
Total earning assets	**13,894,351**	**565,384**	14,014,975	660,690	13,379,608	753,541
Interest-bearing liabilities	**13,330,868**	**396,172**	13,198,569	541,294	12,638,137	653,976
Impact of capital	**$ 563,483**		$ 816,406		$ 741,471	
Net Interest Income		**$ 169,212**		$ 119,396		$ 99,565

	2009 Average Yield	2008 Average Yield	2007 Average Yield
Yield on loans	**4.19%**	4.86%	5.77%
Yield on investments	**3.52%**	4.11%	5.07%
Yield on earning assets	**4.07%**	4.71%	5.63%
Cost of interest-bearing liabilities	**2.97%**	4.10%	5.17%
Interest rate spread	**1.10%**	0.61%	0.46%
Impact of capital	**0.12%**	0.24%	0.28%
Net interest income/average earning assets	**1.22%**	0.85%	0.74%

Provision for Credit Losses

The bank's provision for credit losses for 2009, including provisions for loan losses and provision for losses on stand-by letters of credit, totaled $33,648, an increase of $13,119 from the provision for 2008. The increase is primarily due to an $8.4 million increase of specific provisions related to certain specific impaired loans, a $3.5 million increase in the general allowance for loan losses, and an $870 provision for credit losses on stand-by letters of credit. The specific provision reflects credit deterioration primarily in those agricultural sectors that continue to be impacted by volatility in commodity prices, such as the ethanol, livestock and poultry sectors, as well as those borrowers impacted by the overall downturn in the general economy, primarily telecommunications and land in transition. Land in transition is property in close proximity to an urban area where high per acre land values are driven by the land's future development value rather than its agricultural value. The general provision reflects expected credit deterioration in existing non-impaired loans in the bank's participation loan portfolio. The $870 reserve for losses on unfunded commitments is primarily related to expected losses on certain letters of credit outstanding on December 31, 2009. The provision for 2008 was a $19,486 increase from the $1,043 provision for loan losses recorded in 2007. The provision for 2008 was related to participation loans to seven borrowers. No provisions were recorded on the bank's direct notes receivable from district associations and OFIs for the years presented. While the bank does expect to have provisions for credit losses in the future, it does not anticipate the same level of provisions it sustained in 2009 due to tightened underwriting credit standards.

Noninterest Income

Noninterest income for the year ended December 31, 2009, was $38,312, an increase of $4,412, or 13.0 percent, compared to 2008. The increase is primarily attributable to a $5.1 million increase in gains on sale of investments and a $2.7 million increase in fees for loan-related services, offset by a $3.1 million increase in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," and a $259 decrease in all other noninterest items, collectively. During 2009, the bank realized gains of $5.5 million on the sale of six agency mortgage-backed securities that had an amortized cost of $106.0 million. The bank also realized a gain of $2.1 million on the sale of five rural home loan mortgage-backed securities with an amortized cost of $39.4 million, which had comprised the bank's held-to-maturity investment portfolio. These sales were made in order to enhance the bank's liquidity position, which entails the conversion of certain assets into cash. The bank's current liquidity posture is such that it is not likely for the bank to have sales of investment securities in 2010.

Noninterest income for the year ended December 31, 2008, was $33,900, an increase of $11,784, or 53.3 percent, compared to 2007. The increase is primarily attributable to a $10.5 million increase in patronage income from another System bank, a $2.1 million increase in gains on sale of investments, a $903 increase in fees for loan-related services, and a $517 increase in services billed to associations, offset by a $2.2 million loss recognized due to an other-than-temporary impairment on an investment security.

Noninterest Expenses

Noninterest expenses totaled $67,268 for 2009, an increase of $11,234, or 20.0 percent, from 2008. This increase was primarily due to a $4,658 increase in salaries and employee benefits, a $2,995 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), a $2,831 increase in other operating expenses, a $718 increase in occupancy and equipment expenses, and a $32 increase in losses and expenses related to other property owned.

The $4.7 million increase in salaries and employee benefits was primarily due to a $5.7 million increase in compensation and related payroll expenses and a $127 increase in other benefits, offset by a $1.2 million increase in capitalized salaries and benefits related to the bank's development of new lending systems. Depreciation on these systems will commence when the specific system is implemented. Compensation increased due to a $3.9 million accrual of deferred compensation for the bank's chief executive officer (see CEO compensation discussion in the Disclosure Information and Index section), increases in the number of employees and increases in compensation rates. The increase in pension and retirement benefits was primarily the result of increased contributions to the district's multi-employer defined benefit pension plan. Contributions from the plan's various employers were increased in response to declines in market values of the plan's investments during 2008 and to a reduction in the discount rate used to determine plan liabilities. As previously discussed, the bank records contributions to the district DB plan as an expense.

The increase in premiums to the Insurance Fund is primarily due to the change to the FCSIC's new premium structure, assessed primarily on outstanding Systemwide debt effective July 1, 2008 and to an increase in premium rates in 2009. Premiums were previously assessed on loan volume.

The increase in other operating expenses included a $1,832 increase in professional and contract services and a $1,126 increase in Funding Corporation assessment fees, offset by a $127 decrease in all other operating expenses, collectively. The increase in professional and contract services reflects increased fees for monitoring association credit functions and consultant fees related to the bank's loan accounting systems development. Assessments from the Funding Corporation increased primarily due to a $687 special assessment in January 2009 to address the Funding

Corporation's pension obligation shortfalls, a $365 increase in the assessment for the Contingency Funding Plan, and an increase of $74 in allocated System expenses.

Non-interest expenses are expected to decline in 2010 primarily due to decreases in compensation and FCSIC premiums. As indicated in the CEO compensation discussion in the Disclosure Information and Index, CEO compensation is expected to decrease in 2010. Also, due to a premium rate reduction from 20 basis points to 10 basis points, premiums paid to the FCSIC are expected to be lower in 2010.

Noninterest expenses totaled $56,034 for 2008, an increase of $9,400, or 20.2 percent, from 2007. This increase was primarily due to a $6,068 increase in salaries and employee benefits, a $2,168 increase in premiums to the FCSIC, a $216 increase in occupancy and equipment expenses, and a $953 increase in other operating expenses. The increase in salaries and employee benefits was due to a $3.1 million expense related to the settlement upon discontinuation of the bank's chief executive officer's participation in the Supplemental Pension Plan (see CEO compensation discussion in the Disclosure Information and Index section), a $1.4 million increase in compensation and related payroll taxes, a $1.5 million increase in other pension and retirement expenses and an $81 increase in all other benefits. Compensation increased due to an increase in the number of employees and increases in compensation rates, as well as the costs associated with a retention plan. Insurance Fund premiums increased due to the change to the FCSIC's new premium structure, assessed primarily on outstanding Systemwide debt effective July 1, 2008. Premiums were previously assessed on loan volume. The increase in other operating expenses included a $309 increase in communication expenses, a $306 increase in Funding Corporation assessment fees, a $167 increase in allocated committee expenses, a $156 increase in supervisory and examination expenses, an $82 increase in travel expenses and a $78 increase in all other expenses, collectively, offset by a $145 decrease in advertising and member relations expenses.

Operating expense (salaries and employee benefits, occupancy and equipment, Insurance Fund premiums and other operating expenses) statistics are set forth below for each of the three years ended December 31,

	2009	2008	2007
Excess of net interest income over operating expense	**$ 101,956**	$63,342	$52,916
Operating expense as a percentage of net interest income	**39.7%**	46.9%	46.9%
Operating expense as a percentage of net interest income and noninterest income	**32.4**	36.6	38.3
Operating expense as a percentage of average loans	**0.59**	0.50	0.43
Operating expense as a percentage of average earning assets	**0.48**	0.40	0.35

The bank's net interest income has increased 41.7 percent and 19.9 percent for the years ended December 31, 2009 and 2008, respectively, while operating expenses increased 20.0 percent for 2009 and 20.2 percent in 2008. Average loans increased 0.6 percent and 5.0 percent in 2009 and 2008, respectively. Average investments decreased 7.1 percent in 2009 and increased 3.8 percent in 2008. Average earning assets decreased 0.9 percent in 2009 and increased 4.7 percent in 2008.

CORPORATE RISK PROFILE

Overview

The bank is in the business of making agricultural and other loans that requires us to take certain risks in exchange for compensation for the risks undertaken. Management of risks inherent in our business is essential for our current and long-term financial performance. Our goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities.

The major types of risk to which we have exposure are:

- **structural risk** — risk inherent in our business and related to our structure (an interdependent network of lending institutions);
- **credit risk** — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed;
- **interest rate risk** — risk that changes in interest rates may adversely affect our operating results and financial condition;
- **liquidity risk** — risk of loss arising from the inability to meet obligations when they come due without incurring unacceptable losses;
- **operational risk** — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events; and
- **political risk** — risk of loss of support for the System and agriculture by the federal and state governments.

Structural Risk Management

Structural risk results from the fact that the bank, along with its related associations, is part of the Farm Credit System (System), which is composed of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the banks are jointly and severally liable for the payments of Systemwide debt securities. Although capital at the association level reduces a bank's credit exposure with respect to its direct loans to its affiliated associations, this capital may not be available to support the payment of principal and interest on Systemwide debt securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each district using various ratios that take into account the district's and bank's capital, asset quality, earnings, interest-rate risk and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain.

Periodically, the ratios in the CIPA model are reviewed, with the assistance of an independent party, to take into consideration current performance standards in the financial services industry. In connection with the most recent review, effective January 1, 2005, certain ratios were revised to better reflect improved financial condition and performance in the financial services industry. In addition, the agreed-upon financial condition and performance standard was revised to conform to the trigger points in the MAA. The CIPA also establishes economic incentives whereby monetary penalties are applied if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the banks — which are jointly and severally liable for the payment of Systemwide debt securities — that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA promotes the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions of participation for each bank's participation in each issuance of Systemwide debt securities.

Under the MAA, if certain financial criteria are not met, a bank may be placed in one of three categories, each of which imposes certain requirements and/or restrictions on the affected bank. The criteria under the MAA are the CIPA scores, the net collateral ratio and the permanent capital ratio of a bank. The bank net collateral ratio is net collateral (primarily earning assets) divided by total liabilities less subordinated debt, subject to certain limits, and the bank permanent capital ratio is primarily the bank's common, preferred stock, subordinated debt, subject to certain limits, and surplus divided by risk-adjusted assets. The criteria for the net collateral ratio and the permanent capital ratio are:

	Net Collateral Ratio	Permanent Capital Ratio
Category I	<104%	<8.0%
Category II	<103%	<7.0%
Category III	<102%	<5.0%

The categories are progressively more restrictive: a "Category I" bank is subject to additional monitoring and reporting requirements; with very limited exceptions, a bank in "Category II" will be allowed market access only to the extent necessary to roll over principal (net of any original issue discount) on maturing debt obligations; and a "Category III" bank may not be permitted to participate in issuances of Systemwide debt securities.

During the three years ended December 31, 2009, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2009, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2009, the banks met the defined CIPA score required by the MAA, except for the Farm Credit Bank of Texas which fell below a defined CIPA score as of September 30, 2009 and, effective November 9, 2009, was placed in "Category I." As of December 31, 2009, the Farm Credit Bank of Texas met the defined CIPA score required by the MAA and effective February 27, 2010, exited "Category I." The Farm Credit Bank of Texas was able to return to compliance with the defined CIPA score under MAA primarily due to reductions in the district's substandard assets, including high-risk assets due to improvements in borrowers' repayment capacities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolio and derivative counterparty credit exposures. We manage credit risk associated with our lending activities through an assessment of the credit risk profile of an individual borrower. We set our own underwriting standards and lending policies, approved by the board of directors, that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- **character** — borrower integrity and credit history;
- **capacity** — repayment capacity of the borrower based on cash flows from operations or other sources of income;
- **collateral** — protects the lender in the event of default and represents a potential secondary source of loan repayment;
- **capital** — ability of the operation to survive unanticipated risks; and
- **conditions** — requirements that govern intended use of loan funds.

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including non-farm income. In addition, each loan is assigned a credit risk rating based on the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

This credit risk rating process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate 4-point scale addressing loss given default. The 14-point risk rating scale provides for nine "acceptable" categories, one "other assets especially mentioned" category, two "substandard" categories, one "doubtful" category and one "loss" category. The loss given default scale establishes ranges of anticipated economic loss if the loan defaults. The calculation of economic loss includes principal and interest as well as collections costs, legal fees and staff costs.

By buying and selling loans or interests in loans to or from other institutions within the System or outside the System, we limit our exposure to either a borrower or commodity concentration. This also allows us to manage growth and capital, and to improve geographic diversification.

Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Loans

The bank's loan portfolio consists of direct notes receivable from district associations, loan participations purchased, loans to qualifying financial institutions serving agriculture and other loans. See Note 1, "Organization and Operations," and Note 4, "Loans and Reserves for Credit Losses," for further discussions.

Gross loan volume of $11.033 billion at December 31, 2009, reflected a decrease of $370.0 million, or 3.2 percent, from December 31, 2008. The balance of $11.403 billion at December 31, 2008, reflected an increase of $537.1 million, or 4.9 percent, from the $10.866 billion balance at December 31, 2007.

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

	December 31,		
	2009	2008	2007
Direct notes receivable from district associations and OFIs	**75.3%**	73.7%	75.1%
Participations purchased	**24.6**	26.2	24.7
Other loans	**0.1**	0.1	0.2
Total	**100.0%**	100.0%	100.0%

The following table discloses the credit quality of the bank's loan portfolio at December 31,

	2009	2008	2007
Acceptable	**88.0%**	97.2%	98.2%
Special mention	**6.9**	1.7	1.5
Substandard	**5.1**	1.1	0.3
Total	**100.0%**	100.0%	100.0%

Bank credit quality has remained relatively strong despite the downturn in the general economy, with association and OFI direct notes rated (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" being 95.8, 100.0 and 100.0 percent of total direct notes at December 31, 2009, 2008 and 2007, respectively. The district had two associations that were rated substandard at December 31, 2009. During 2009, the bank purchased $100.0 million of district association direct notes that had previously sold to another System bank, leaving net association direct notes sold at $3.4 billion at December 31, 2009. Credit quality for all loans other than direct notes to associations and OFIs classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable was 92.2, 95.8 and 98.7 percent at December 31, 2009, 2008 and 2007, respectively. The bank anticipates some stabilization in its overall credit quality due to improved expectations about the general economy and the return to profitability of certain commodity producers.

Association Direct Notes

As the preceding table illustrates, 75.3 percent of the bank's portfolio consisted of direct notes from associations and OFIs at December 31, 2009. Terms of loans to associations and OFIs are specified in a separate general financing agreement between each association and OFI and the bank, and all assets of each association secure the direct notes to the bank. Each association is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). See Note 1, "Organization and Operations," for further discussion of the Farm Credit System.

The credit exposure of the bank's loans to associations, which are evidenced by direct notes with full recourse, is dependent on the associations' creditworthiness and the ability of their borrowers to repay loans made to them. The credit risk to the bank is mitigated by diversity in the associations' loan portfolios in terms of underlying collateral and income sources, geography, and range of individual loan amounts. In addition, the risk-bearing capacities of the associations are assessed quarterly by the bank and are currently deemed adequate to absorb most interest-related shocks. Each association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area. Associations are subject to FCA regulations concerning minimum capital, loan underwriting and portfolio management, and are audited annually by independent accountants. In addition, associations are required by condition of the general financing agreement with the bank to provide copies of their risk-based internal credit review reports. The associations are required to maintain a risk-based internal credit review program including procedures addressing: reviewer qualification and independence, review frequency, accuracy of risk ratings, credit administration, regulatory compliance, scope selection and documentation of Audit Committee approval of reviewers and Audit Committee review of the internal control reports.

As of December 31, 2009, the bank had nine associations that triggered non-monetary defaults within the general financing agreement between the bank and the associations. The non-monetary defaults were primarily triggered by an increase in substandard loans at these associations and a corresponding increase in their provision for loan losses resulting in a default of the return on assets and adverse assets to risk funds covenants for these respective associations for 2009. The bank has issued limited waivers for these covenant defaults subject to the associations taking certain actions to correct the defaults. The non-monetary defaults are not anticipated to continue throughout 2010 as the associations tighten underwriting standards and pursue other remedies to improve their financial positions.

District association loans totaled $13.317 billion at December 31, 2009, a decrease of 1.1 percent from loan volume at December 31, 2008. This leveling of loan volume is primarily related to general economic conditions and a tightening of credit standards. In 2008 and 2007, association loan volume increased by $1.168 billion and $1.635 billion, respectively. The growth in 2008 and 2007 was attributed to increased focus on market share and opportunities within the territory, competitive pricing offered by the bank and associations, increased marketing and customer service efforts by the associations, and continued activity in loan participations with district and outside entities. Loan volume in the associations is funded substantially by, and therefore results in, association direct note growth at the bank. Although government support of agriculture, the availability of off-farm income sources and utilization of guarantees have helped to diminish the effects of adverse economic conditions for the district's associations, current economic conditions have affected association credit quality and high-risk loan volume.

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

	Percentage of Portfolio		
Commodity Group	**2009**	2008	2007
Livestock	**38%**	38%	40%
Crops	**14**	14	14
Timber	**11**	11	12
Cotton	**5**	5	5
Poultry	**4**	4	4
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**24**	24	21
Total	**100%**	100%	100%

The diversity of states underlying the district's loan portfolio is reflected in the following table:

	December 31,		
	2009	2008	2007
Texas	**60%**	59%	62%
Alabama	**7**	7	6
Mississippi	**6**	6	6
Louisiana	**4**	4	4
Florida	**2**	3	3
All other states	**21**	21	19
Total	**100%**	100%	100%

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

The district's loans by size are shown in the following table at December 31:

Size (thousands)	**2009**	2008	2007
< $250	**27%**	27%	29%
$250-$500	**13**	12	12
$500-$1,000	**13**	13	12
$1,000-$5,000	**27**	27	26
$5,000-$25,000	**17**	17	17
$25,000-$100,000	**3**	4	4
Total	**100%**	100%	100%

Credit quality at the district's associations at December 31, 2009, 2008 and 2007 experienced some deterioration but remained solid, with greater than 94 percent classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans for each of the three year ends. Association non-earning assets as a percentage of total loans at December 31, 2009, were 3.7 percent, compared to 1.8 percent and 0.7 percent at December 31, 2008 and 2007, respectively. The increase in association non-earning assets is reflective of the adverse conditions in the agricultural and general economy and to volatility in the agricultural commodity market which has resulted in higher risk profiles for dairy, livestock, grain producers and borrowers who use corn and other grains in their products, primarily ethanol.

High-Risk Assets

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

	2009	2008	2007
Nonaccrual loans	**$ 111,915**	$ 109,662	$ 23,923
Formally restructured loans	**647**	690	715
Loans past due 90 days or more and still accruing interest	**—**	—	9,999
Other property owned, net	**639**	—	—
Total	**$ 113,201**	$ 110,352	$ 34,637

High-risk assets increased by $2,849 from December 31, 2008, to $113,201 at December 31, 2009. The increase in nonaccrual loans is attributable to increases in the ethanol, livestock, telecommunications and land-in-transition sectors. The increase is net of the effect of repayments on other nonaccrual loans and the reinstatement to accrual status of two loans totaling $10.5 million related to a beef processor and loans totaling $50.9 million to a large poultry processor. At December 31, 2009, $66,608, or 59.5 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $93,333 (85.1 percent) and $23,923 (100.0 percent) at December 31, 2008 and 2007, respectively. Volatility in the agricultural commodity market and increases in farm input costs resulted in higher risk profiles for livestock, grain producers, and borrowers who use corn and other grains in their products during 2009. Due to expected improvements related to these higher risk profiles and in the general economic environment, the bank anticipates credit quality of the loan portfolio will stabilize in 2010.

Allowance and Reserve for Credit Losses

The allowance for loan losses at December 31, 2009, was $31,602, compared to $12,549 at December 31, 2008 and $1,065 at December 31, 2007. The reserve for credit losses on stand-by letters of credit and unfunded commitments was $870, $121 and $0 at December 31, 2009, 2008 and 2007, respectively. Because analysis indicates that an allowance on the association direct notes is not warranted, the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participations and other loan portfolios.

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

	2009	2008	2007
Allowance and reserve for credit losses as a percentage of:			
Average loans	**0.29%**	0.11%	0.01%
Loans at year end			
Total loans	**0.29**	0.11	0.01
Participations	**1.20**	0.42	0.04
Nonaccrual loans	**29.01**	11.44	4.45
Total high-risk loans	**28.85**	11.37	3.07
Net charge-offs to average loans	**0.12**	0.08	<0.01
Provision expense to average loans	**0.30**	0.18	0.01

The activity in the reserves for credit losses is discussed further in Note 4, "Loans and Reserves for Credit Losses."

Interest Rate Risk Management

Asset/liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the bank's and district's interest-rate-sensitive assets and liabilities. The bank is able to manage the balance sheet composition by using various debt issuance strategies and hedging transactions to match its asset structure. 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 its 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 district interest rate risk through its direct loan pricing and funding processes. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members.

The bank'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, discount notes and subordinated debt. The bank'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 bank'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 bank maintains a loan pricing philosophy that loan rates should be based on competitive market rates of interest. The district associations offer a wide variety of products, including LIBOR- and prime-indexed variable-rate loans and loans with fixed-rate terms ranging from under one year to 30 years. The interest rates on these loans are directly related to the bank's cost to issue debt in the capital markets and a credit spread added for borrower risk.

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

FCBT uses complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities, including gap and simulation analyses. The following interest rate gap analysis sets forth the bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2009, which are expected to mature or reprice in each of the future time periods shown:

INTEREST RATE GAP ANALYSIS

as of December 31, 2009

	Interest-Sensitive Period						
	One Month or Less	More Than One Through Six Months	More Than Six Through Twelve Months	**Total Twelve Months or Less**	More Than One Year but Less Than Five Years	More Than Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 2,271,037	$ 2,092,939	$ 1,324,494	**$ 5,688,470**	$ 4,540,891	$ 803,753	**$ 11,033,114**
Total investments	682,367	214,930	236,278	**1,133,575**	802,581	227,819	**2,163,975**
Total interest-earning assets	2,953,404	2,307,869	1,560,772	**6,822,045**	5,343,472	1,031,572	**13,197,089**
Interest-Bearing Liabilities							
Total interest-bearing funds*	3,540,949	2,483,052	2,600,290	**8,624,291**	3,385,642	809,546	**12,819,479**
Excess of interest-earning assets over interest-bearing liabilities	—	—	—	**—**	—	377,610	**377,610**
Total interest-bearing liabilities	3,540,949	2,483,052	2,600,290	**8,624,291**	3,385,642	1,187,156	**$ 13,197,089**
Interest rate sensitivity gap	$ (587,545)	$ (175,183)	$ (1,039,518)	**$ (1,802,246)**	$ 1,957,830	$ (155,584)	
Cumulative interest rate sensitivity gap	$ (587,545)	$ (762,728)	$ (1,802,246)	**$ (1,802,246)**	$ 155,584		

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

The amount of assets or liabilities shown in each of the time periods was determined based on the earlier of repricing date, contractual maturity or anticipated loan payments. Additionally, adjustments have been made to reflect the characteristics of callable debt instruments and the impact of derivative transactions. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the bank has a negative gap position, indicating that the bank has an exposure to increasing interest rates. This would occur when interest expense on interest-bearing liabilities increases due to their maturing or repricing cycle sooner than maturing or repricing assets. The cumulative gap, which is a static measure, does not take into consideration the changing value of options available to the bank in order to manage this exposure, specifically the ability to exercise or not exercise options on callable debt. These options are considered when projecting the effects of interest rate changes on net income and on the market value of equity in the following tables.

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

Interest rate risk exposure as measured by simulation modeling calculates the bank's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments, and interest rate scenarios. The bank monitors its financial exposure to multiple interest rate scenarios. The bank's policy guideline for the maximum negative impact as a result of a 200-basis-point change in interest rates is 16 percent for net interest income and 20 percent for market value of equity. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. The bank manages its interest rate risk exposure well within these guidelines. As of December 31, 2009, projected annual net interest income would increase by $30,315, or 15.81 percent, if interest rates were to increase by 100 basis points, and would decrease by $812, or 0.42 percent, if interest rates were to decrease by 3 basis points. This favorable performance is due to the bank's ability to exercise call options on debt currently outstanding and considerably lower interest rates. Market value of equity is projected to decline by 3.57 percent as a result of a 100-basis-point increase in interest rates and increase by 0.07 percent if interest rates were to decline by 3 basis points as of December 31, 2009.

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2009, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2009.

Net Interest Income

Scenario	Net Interest Income	% Change
+ 200 BP Shock	$222,500	16.04%
+ 100 BP Shock	222,057	15.81
0 BP	191,742	—
– 3 BP Shock*	190,930	(0.42)

Market Value of Equity

Scenario	Assets	Liabilities	Equity	% Change
Book value	$13,776,502	$12,955,210	$821,292	(4.61)%
+ 200 BP Shock	13,304,502	12,526,597	777,905	(9.65)
+ 100 BP Shock	13,623,547	12,793,374	830,173	(3.57)
0 BP Shock	13,920,202	13,059,257	860,945	—
– 3 BP Shock*	13,928,431	13,066,856	861,575	0.07

*When the 3-month Treasury bill is below 4.00%, the shock-down 200 scenario is replaced with a shock down equal to half of the 3-month Treasury bill.

The bank uses derivative financial instruments to manage its interest rate risk and liquidity position. Fair value and cash flow 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, 2009, the bank had two fair value interest rate swap contracts with a total notional amount of $125.0 million. The interest rate swap contracts had a net fair value of $891. In addition, at December 31, 2009, the bank held interest rate caps with a notional amount of $130.0 million and a fair value of $1.6 million. See Note 15, "Derivative Instruments and Hedging Activity," for further discussion. Unrealized losses on interest rate caps, the difference between their amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument, and the counterparty is exposed to the credit risk of the bank. 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 its counterparties and has bilateral collateral agreements with counterparties. At December 31, 2009, the bank had credit risk to three counterparties on derivative contracts totaling $2.5 million. The bank's activity in derivative financial instruments for 2009 is summarized in the table below:

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance, December 31, 2008	$ 800
Additions	255
Maturities/calls	(800)
Balance, December 31, 2009	**$ 255**

Liquidity Risk Management

The bank's liquidity risk management practices ensure the district's ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets.

The bank's primary source of liquidity is the ability to issue Systemwide debt securities, which are the general unsecured joint and several obligations of the System banks as discussed below. As a secondary source of liquidity, the bank maintains an investment portfolio composed primarily of high-quality liquid securities. The securities provide a stable source of income for the bank, and their high quality ensures the portfolio can quickly be converted to cash should the need arise.

FCA regulations require each bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing Systemwide debt securities and other bonds with the total amount of cash, investments and other liquid assets maintained by the bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale. At December 31, 2009, the bank had 144 days of liquidity coverage, as compared with 134 days at December 31, 2008.

The System banks have worked together to enhance liquidity within the Farm Credit System. As of December 31, 2009, the bank implemented new internal liquidity guidelines to maintain a minimum of 120 days of liquidity with the first 15 days of liquidity comprised of cash and Treasury securities, and an additional 30 days comprised of high-quality government guaranteed securities, resulting in a total of 45 days of high-quality liquidity. These guidelines were designed to allow the bank to continue normal operations should a market disruption occur that would prevent the bank from accessing the Systemwide debt market. As of December 31, 2009, the bank had 27 days of liquidity coverage from cash and an additional 63 days of liquidity coverage from government guaranteed securities. In total the bank maintained 144 days of liquidity coverage at December 31, 2009.

In addition, the bank maintains a $150.0 million commercial bank committed line of credit.

Funding Sources

The bank continually raises funds to support its mission to provide credit and related services to the rural and agricultural sectors, repay maturing Systemwide debt securities, and meet other obligations. As a government-sponsored enterprise, the bank has had access to the nation's and world's capital markets. This access has provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the rural and agricultural sectors. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AAA, and our short-term debt as P-1 and A-1+. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's government-sponsored enterprise status. Material changes to the factors considered could result in a different debt rating. However, as a result of the System's financial performance, credit quality and standing in the capital markets, we anticipate continued access to funding necessary to support System needs. The U.S. government does not guarantee, directly or indirectly, Systemwide debt securities.

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, 2009, the bank had excess collateral of $808.1 million. Management expects the bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

In September 2008, the bank issued $50.0 million in subordinated debt in a private placement to one investor. The debt is a 10-year instrument with a coupon rate of 8.406 percent. The bank confirmed its determination that the subordinated debt will receive preferential regulatory capital and collateral treatment, being includible in permanent capital and total surplus and being excludible from total liabilities for purposes of net collateral ratio calculation. These preferential treatments will be ratably removed 20.0 percent per year during years six to 10 of the debt's term.

The bank receives ratings from two rating agencies. In August 2008, Moody's Investors Service upgraded the bank's issuer rating to Aa2 from the Aa3 rating it had issued in July 2008. In addition, the bank's A2 preferred stock rating was affirmed and the bank received an A1 subordinated debt rating. On October 5, 2009, Fitch Ratings affirmed the long-term and short-term issuer default ratings of Farm Credit Bank of Texas at "AA-" and "F1+," respectively. The rating action "reflects continued stable operating performance, a manageable increase in loan delinquency, and conservative liquidity and capital management."

The following table provides a summary of the period-end balances of the debt obligations of the bank:

	December 31,		
(dollars in millions)	**2009**	2008	2007
Bonds and term notes outstanding	**$ 11,847**	$ 11,335	$ 11,464
Average effective interest rates	**2.46%**	3.89%	4.98%
Average remaining life (years)	**2.8**	3.4	3.2
Subordinated debt outstanding	**$ 50**	$ 50	$ —
Average effective interest rates	**8.41%**	8.50%	—
Average remaining life (years)	**8.8**	9.8	—
Discount notes outstanding	**$ 922**	$ 2,467	$ 1,160
Average effective interest rates	**0.29%**	1.37%	4.10%
Average remaining life (days)	**76**	107	39

The following table provides a summary of the average balances of the debt obligations of the bank:

	For the years ended December 31,		
	2009	2008	2007
Average interest-bearing liabilities outstanding	**$ 13,331**	$ 13,199	$ 12,638
Average interest rates on interest-bearing liabilities	**2.97%**	4.10%	5.17%

Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds and managing interest rate risk. During 2005, the FCA approved a rule that increased the amount of eligible investments a bank is authorized to hold to an amount not to exceed 35.0 percent of loans outstanding from the previous percentage of 30.0 percent.

FCA regulations also define eligible investments by specifying credit rating criteria, final maturity limit and percentage of investment portfolio limit for each investment type. Generally, the banks' investments must be highly rated by a Nationally Recognized Statistical Rating Organization, such as Moody's Investors (Moody's) Service or Standard & Poor's. A bank must dispose of an investment that becomes ineligible within six months, unless the FCA grants permission to divest the instrument over a longer period of time.

The bank's available-for-sale investment portfolio consisted of the following at December 31:

	2009 Amortized Cost	2009 Fair Value	2008 Amortized Cost	2008 Fair Value
Agency debt	$ —	$ —	$ 500,000	$ 500,957
Corporate debt	**131,815**	**133,733**	536,970	536,316
Federal agency collateralized mortgage obligations	**1,843,894**	**1,871,339**	1,660,429	1,681,033
Other collateralized mortgage obligations	**123,315**	**110,106**	228,059	192,581
Asset-backed securities	**31,658**	**28,307**	73,499	67,041
Total available-for-sale investments	**$ 2,130,682**	**$ 2,143,485**	$ 2,998,957	$ 2,977,928

The bank's available-for-sale investments are reflected at fair value. In 2009, the bank sold six federal agency mortgage-backed securities that had an amortized cost of $106.0 million for a gain of $5.5 million. The bank also sold its held-to-maturity portfolio, consisting of five rural home loan mortgage-backed securities with an amortized cost of $39.4 million, for a gain of $2.1 million. These sales were part of the bank's efforts to enhance its liquidity involving the conversion of certain assets into cash. In addition to these sales, maturities on investments in commercial paper, master notes and agency debt instruments were used to increase the bank's cash position by $457.3 million during 2009.

At December 31, 2009, the bank had 10 investments which were ineligible for liquidity purposes as a result of credit downgradings. These investments had credit ratings at December 31, 2009 that were below AAA by both Moody's Investors Service and Standard & Poor's. These investments had an amortized cost of $66.2 million and a fair value of $55.3 million, with an unrealized loss of $10.9 million at December 31, 2009. The downgrading of the investment securities requires a submission of a plan of divestiture to the FCA and their formal approval. While these investments do not meet the FCA's standards for liquidity, they are included in the net collateral calculation, albeit at their lower market value rather than the normal book value for qualifying investments. During 2009, the bank recognized credit losses on five other-than-temporarily impaired investment securities totaling $5.3 million. Noncredit losses on these investments, totaling $8.0 million, are included as a charge against accumulated other comprehensive income at December 31, 2009. Due to the continued deterioration in the mortgage markets, the bank may incur additional other-than-temporary impairments on non-guaranteed mortgage- and asset-backed securities.

The following table sets forth investments available-for-sale at fair value by credit rating:

	Eligible				**Ineligible**						
December 31, 2009	**AAA/Aaa**	**AA/Aa**	**A1/P1/F1**	**Split Rated**	**AA/BBB Split Rated**	**A-/BB- Split Rated**	**B3/BBB/B Split Rated**	**BBB/Baa**	**BB/Ba**	**CCC/Caa**	**Total**
Corporate debt	**$ 103,733**	**$ 30,000**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 133,733**
Federal agency collateralized mortgage obligations	**1,871,339**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,871,339**
Other collateralized mortgage obligations	**32,753**	**—**	**—**	**25,698**	**5,792**	**2,400**	**8,203**	**—**	**10,909**	**24,351**	**110,106**
Asset-backed securities	**19,655**	**—**	**—**	**4,958**	**—**	**—**	**—**	**2,014**	**1,680**	**—**	**28,307**
Total	**$ 2,027,480**	**$ 30,000**	**$ —**	**$ 30,656**	**$ 5,792**	**$ 2,400**	**$ 8,203**	**$ 2,014**	**$ 12,589**	**$ 24,351**	**$ 2,143,485**

	Eligible				Ineligible						
December 31, 2008	AAA/Aaa	AA/Aa	A1/P1/F1	Split Rated	AA/BBB Split Rated	A-/BB- Split Rated	B3/BBB/B Split Rated	BBB/Baa	BB/Ba	CCC/Caa	Total
Agency debt	$ 500,957	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 500,957
Corporate debt	282,069	—	194,993	59,254	—	—	—	—	—	—	536,316
Federal agency collateralized mortgage obligations	1,681,033	—	—	—	—	—	—	—	—	—	1,681,033
Other collateralized mortgage obligations	135,153	—	—	44,744	—	—	—	12,684	—	—	192,581
Asset-backed securities	56,060	—	—	8,733	—	—	—	2,248	—	—	67,041
Total	$ 2,655,272	$ —	$ 194,993	$ 112,731	$ —	$ —	$ —	$ 14,932	$ —	$ —	$ 2,977,928

Capital Adequacy

Total shareholders' equity at December 31, 2009, was $821,292, compared to $744,542 and $728,601 at December 31, 2008 and 2007, respectively. The increase during 2009 was due primarily to net income of $106.6 million, a decrease in unrealized net losses on investment securities totaling $33.8 million, $10.5 million in capital stock issued, a $2.8 million unrealized gain on cash flow derivatives, an adjustment to retained earnings of $1.5 million resulting from the effects of the noncredit portion of the previous other-than-temporary impairment losses recorded in the first quarter of 2009, and a $55 amortization related to retirement benefits, offset by patronage of $63.0 million, dividends paid on preferred stock totaling $15.1 million, and the retirement of $419 of capital stock and allocated retained earnings. The bank's $63.0 million in declared patronage included $47.6 million in direct loan patronage, $11.8 million patronage on certain participations and $5.6 million patronage based on the associations' and OFIs' stock investment in the bank. The bank does not anticipate paying direct loan patronage to its affiliated associations and OFIs in 2010 and future years at the same basis point level as paid in 2009, which was 40 basis points of average direct note volume.

Accumulated other comprehensive income increased $36.7 million, or 142.2 percent, to $10.9 million at December 31, 2009, from a $25.8 million loss at December 31, 2008, due to an increase of $33.8 million in unrealized net gains on the bank's investments, and a charge to accumulated other comprehensive income of $55 related to unamortized balances related to retirement benefits, net of an increase of $2.8 million in unrealized gains on the bank's cash flow hedges. The increase in unrealized net gains on investments was primarily attributable to the effects of lower market interest rates on the bank's agency fixed-rate mortgage-backed securities' portfolio and reductions in holdings of non-agency collateral mortgage-backed securities. The $2.8 million decrease of unrealized losses on cash flow hedges is the result of maturities and unwinding of cash flow interest rate swaps and the purchase of the interest rate caps the bank held at December 31, 2009.

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

	2009	2008	2007	Regulatory Minimum
Permanent capital ratio	**15.98%**	14.03%	13.43%	7.00%
Total surplus ratio	**12.47**	11.25	11.15	7.00
Core surplus ratio	**7.11**	6.40	6.70	3.50
Collateral ratio	**105.83**	105.40	105.18	103.00

The regulatory minimum for the collateral ratio is 103.00 or, if there is outstanding subordinated debt, 104.00. The required minimum for the bank in 2009 and 2008 was 104.00 and for 2007 was 103.00. For additional information about the bank's capital, see Note 8, "Shareholders' Equity."

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. The board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution;
- adoption of internal audit and control procedures;
- direction for the operation of a program to review and assess its assets;
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;
- adoption of asset quality classification standards;
- adoption of standards for assessing credit administration, including the appraisal of collateral; and
- adoption of standards for the training required to initiate a program.

In general, we address operational risk through the organization's internal framework under the supervision of the internal auditors. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more review. The board of directors is responsible for defining the role of the audit committee in providing oversight and review of the institution's internal controls.

Political Risk Management

We, as part of the System, are an instrumentality of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council (Council), which is a full-service, federal trade association representing the System before Congress, the executive branch and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, we take an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to The Farm Credit Council, each district has its own council, which is a member of the Council. The district councils represent the interests of their members on a local and state level, as well as on a federal level.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This Statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The impact of adoption does not have an impact on our financial condition or results of operation.

In May 2009, the FASB issued guidance on "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Non-recognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009. The bank adopted this standard in the second quarter and the required disclosures are included in Note 18, "Subsequent Events."

In April 2009, the FASB issued guidance on "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. It further indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It was effective for interim periods ending after June 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The adoption of this guidance did not have a material impact on the bank and its related associations.

In April 2009, the FASB issued guidance on "Recognition and Presentation of Other-Than-Temporary Impairments," which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changed existing impairment guidance on "Accounting for Certain Investments in Debt and Equity Securities" by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectibility of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment, if any, not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities were expanded and are now required quarterly, as well as annually. This guidance was effective for interim and annual periods ending after June 15, 2009.

For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The impact of adoption resulted in a $1.5 million adjustment to increase beginning retained earnings with a corresponding charge to other comprehensive income.

In addition, in April 2009, the FASB issued guidance on "Interim Disclosures about Fair Value of Financial Instruments." This requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The guidance was effective for interim periods ending after June 15, 2009. The bank adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 14, "Fair Value of Financial Instruments."

In December 2008, the FASB issued new guidance that expands the disclosures required in an employer's financial statements about pension and other postretirement benefits plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was effective for fiscal years ending after December 15, 2009. The bank adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 9, "Employee Benefit Plans."

Regulatory Matters

During the year ended December 31, 2009, the Farm Credit Administration brought enforcement actions against three associations in the district, which are not expected to have a significant impact on the bank.

On April 16, 2009, FCA published a notice of proposed rulemaking in the Federal Register to amend its rules on Farm Credit System ("FCS") bank and association director nominations and elections, voting procedures, floor nominations, and stockholder meetings with the intent to increase stockholder participation in the director election process and to enhance impartiality and disclosure in director elections. The comment period for these proposed regulations expired on August 14, 2009. On June 9, 2009, FCA published joint notice of proposed rulemaking in the Federal Register along with the other federal banking regulators to implement the requirement of the Secure and Fair Enforcement for Mortgage Licensing Act (S.A.F.E. Act) for employees of certain financial institutions who act as residential mortgage loan originators to register with the Nationwide Mortgage Licensing System and Registry. The comment period for this proposed regulation expired August 10, 2009. On June 17, 2009, FCA published a final rule in the Federal Register amending its regulations related to disclosure and reporting practices of FCS institutions, including requirements for the content of the annual report to shareholders, requirements for filing quarterly reports to shareholders, and requirements for maintaining an allowance for loan losses. This regulation became effective August 5, 2009. On December 22, 2009, FCA published a final rule in the Federal Register amending the content and timing of initial and subsequent disclosures to borrowers when the borrower's interest rate is directly tied to a widely publicized external index.

In addition to the above regulations, FCA also issued five booklet-ters during 2009: BL-057 dated April 2, 2009, on the use of state-chartered business entities to hold acquired property; BL-058 dated May 28, 2009, on financing agricultural land in transition (in the path of development) — eligibility and scope of financing considerations; BL-059 dated July 9, 2009, on determining the eligibility and scope of financing for limited liability companies; BL-060 dated July 9, 2009, on the responsibilities of compensation committees; and BL-061 dated November 12, 2009, on holding rural housing mortgage-back securities as mission-related investments.

On April 15, 2009, the Farm Credit System Insurance Corporation published a final rule in the Federal Register implementing the amendments made by the Food, Conservation, and Energy Act of 2008 to the Farm Credit Act of 1971, as amended, to change the basis for the assessment of insurance premiums paid by FCS institutions into the Farm Credit Insurance Fund from an assessment based on loan volume to an assessment based on a bank's pro rata share of insured oustanding debt obligations. This regulation became effective June 9, 2009.

Other

On September 30, 2009, amendments to the bank's bylaws were approved by the bank's stockholders. The amendments allow for the creation of a Capitalized Participation Pool and authorization for the attribution of the bank's unallocated retained earnings in memorandum accounts to district associations and other financing institutions based on their average direct loan balances with the bank on a cooperative basis. Also, there was an omnibus approval of a $500.0 million preferred stock revolver, allowing the bank to issue, in aggregate, up to $500.0 million of preferred stock outstanding at any one time during a 10-year period, subject to the approval of the terms by the bank's board of directors and prior notification and approval of the FCA.

As of December 31, 2009, there were 14 ACAs and five FLCAs, totaling 19 associations within the district. In January, 2010, four FLCAs restructured to form ACA structures with operating FLCA and Production Credit Association subsidiaries.

FINANCIAL STATEMENTS

BALANCE SHEETS

Farm Credit Bank of Texas

(dollars in thousands)	December 31, 2009	2008	2007
Assets			
Cash	**$ 470,425**	$ 13,093	$ 16,600
Federal funds sold and overnight investments	**20,490**	176,698	125,502
Investment securities	**2,143,485**	3,028,468	2,410,999
Loans	**11,033,114**	11,403,113	10,865,991
Less allowance for loan losses	**31,602**	12,549	1,065
Net loans	**11,001,512**	11,390,564	10,864,926
Accrued interest receivable	**48,709**	63,632	66,789
Other property owned, net	**639**	—	—
Premises and equipment, net	**12,348**	6,772	2,719
Other assets	**78,894**	81,274	33,243
Total assets	**$ 13,776,502**	$ 14,760,501	$ 13,520,778
Liabilities and Shareholders' Equity			
Liabilities			
Bonds and notes, net	**$ 12,769,479**	$ 13,802,205	$ 12,624,015
Subordinated debt	**50,000**	50,000	—
Accrued interest payable	**68,106**	96,847	110,188
Other liabilities	**67,625**	66,907	57,974
Total liabilities	**12,955,210**	14,015,959	12,792,177
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Preferred stock	**200,000**	200,000	200,000
Capital stock	**237,361**	227,212	198,864
Allocated retained earnings	**8,029**	6,114	5,196
Unallocated retained earnings	**365,031**	336,999	329,198
Accumulated other comprehensive income (loss)	**10,871**	(25,783)	(4,657)
Total shareholders' equity	**821,292**	744,542	728,601
Total liabilities and shareholders' equity	**$ 13,776,502**	$ 14,760,501	$ 13,520,778

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

STATEMENTS OF INCOME

Farm Credit Bank of Texas

(dollars in thousands)	2009	Year Ended December 31, 2008	2007
Interest Income			
Investment securities	**$ 88,122**	$ 110,966	$ 131,768
Loans	**477,262**	549,724	621,773
Total interest income	**565,384**	660,690	753,541
Interest Expense			
Bonds, notes and subordinated debt	**396,172**	541,294	653,976
Net Interest Income	**169,212**	119,396	99,565
Provision for loan losses	**33,648**	20,529	1,043
Net interest income after provision for loan losses	**135,564**	98,867	98,522
Noninterest Income			
Patronage income	**17,136**	17,471	7,003
Fees for services to associations	**9,039**	9,435	8,918
Fees for loan-related services	**8,725**	6,051	5,148
Gain from sale of investment securities	**7,607**	2,556	503
Miscellaneous income, net	**1,098**	625	544
Impairment losses on investments			
Total other-than-temporary impairment losses	**(11,804)**	(2,238)	—
Less: portion of loss recognized in other comprehensive income	**6,511**	—	—
Net impairment loss recognized in earnings	**(5,293)**	(2,238)	—
Total noninterest income	**38,312**	33,900	22,116
Noninterest Expenses			
Salaries and employee benefits	**33,613**	28,955	22,887
Occupancy and equipment	**5,857**	5,139	4,923
Insurance Fund premiums	**8,963**	5,968	3,800
Loss (gains) on other property owned	**12**	(20)	(15)
Other operating expenses	**18,823**	15,992	15,039
Total noninterest expenses	**67,268**	56,034	46,634
Net Income	**$ 106,608**	$ 76,733	$ 74,004

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Farm Credit Bank of Texas

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2006	$ 200,000	$ 161,421	$ 6,194	$ 318,076	$ (21,470)	$ 664,221
Comprehensive income						
Net income	—	—	—	74,004	—	74,004
Net change in unrealized net losses on investment securities	—	—	—	—	16,513	16,513
Net change in unrealized net gains on cash flow hedge derivatives	—	—	—	—	1,047	1,047
Total comprehensive income	—	—	—	74,004	17,560	91,564
Adjustment to recognize unfunded retirement obligations	—	—	—	—	(747)	(747)
Capital stock issued	—	37,444	—	—	—	37,444
Capital stock and allocated retained earnings retired	—	(1)	(2,584)	—	—	(2,585)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(46,174)	—	(46,174)
Shareholders' equity	—	—	1,586	(1,586)	—	—
Balance at December 31, 2007	200,000	198,864	5,196	329,198	(4,657)	728,601
Adjustment for accounting changes:						
Change in benefits measurement date	—	—	—	(406)	—	(406)
Balance at January 1, 2008	200,000	198,864	5,196	328,792	(4,657)	728,195
Comprehensive income						
Net income	—	—	—	76,733	—	76,733
Change in pension and postretirement benefit plans	—	—	—	—	(934)	(934)
Net change in unrealized net losses on investment securities	—	—	—	—	(16,071)	(16,071)
Net change in unrealized net gains on cash flow hedge derivatives	—	—	—	—	(4,121)	(4,121)
Total comprehensive income	—	—	—	76,733	(21,126)	55,607
Capital stock issued	—	28,420	—	—	—	28,420
Capital stock and allocated retained earnings retired	—	(72)	(868)	—	—	(940)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(51,618)	—	(51,618)
Shareholders' equity	—	—	1,786	(1,786)	—	—
Balance at December 31, 2008	200,000	227,212	6,114	336,999	(25,783)	744,542
Noncredit portion of previous other-than-temporary impairment losses	—	—	—	1,527	(1,527)	—
Balance at January 1, 2009	200,000	227,212	6,114	338,526	(27,310)	744,542
Comprehensive income						
Net income	—	—	—	106,608	—	106,608
Change in pension and postretirement benefit plans	—	—	—	—	55	55
Net change in unrealized net gains on investment securities	—	—	—	—	41,868	41,868
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	(6,511)	(6,511)
Net change in unrealized net gains on cash flow hedge derivatives	—	—	—	—	2,769	2,769
Total comprehensive income	—	—	—	106,608	38,181	144,789
Capital stock issued	—	10,461	—	—	—	10,461
Capital stock and allocated retained earnings retired	—	(312)	(107)	—	—	(419)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(62,959)	—	(62,959)
Shareholders' equity	—	—	2,022	(2,022)	—	—
Balance at December 31, 2009	**$ 200,000**	**$ 237,361**	**$ 8,029**	**$ 365,031**	**$ 10,871**	**$ 821,292**

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

STATEMENTS OF CASH FLOWS

Farm Credit Bank of Texas

(dollars in thousands)	Year Ended December 31, **2009**	2008	2007
Cash Flows From Operating Activities			
Net income	**$ 106,608**	$ 76,733	$ 74,004
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**33,648**	20,529	1,043
Depreciation on premises and equipment	**1,485**	1,153	904
Accretion of net discount on loans	**(337)**	(348)	(464)
Amortization and accretion on debt instruments	**(4,045)**	(2,240)	(1,759)
Accretion of net premium (discount) on investments	**4,343**	(1,405)	(3,004)
Gain on sale of investment securities	**(7,607)**	(2,556)	(503)
Loss on impairment of available-for-sale investments	**5,293**	2,238	—
Allocated equity patronage from System bank	**(11,762)**	(6,408)	(1,972)
Gain on sales of other property owned, net	**(14)**	(20)	(15)
(Gain) loss from sales of premises and equipment	**—**	(2)	2
Decrease (increase) in accrued interest receivable	**14,923**	3,157	(2,822)
Increase in other assets, net	**(3,708)**	(9,675)	(7,494)
(Decrease) increase in accrued interest payable	**(28,741)**	(13,341)	13,638
Increase in other liabilities, net	**9,143**	3,181	12,590
Net cash provided by operating activities	**119,229**	70,996	84,148
Cash Flows From Investing Activities			
Net decrease (increase) in federal funds sold	**156,208**	(51,196)	(36,273)
Investment securities			
Purchases	**(1,391,158)**	(4,319,450)	(3,971,804)
Proceeds from maturities, calls and prepayments	**2,195,367**	3,570,847	4,159,943
Proceeds from sales	**106,331**	116,785	93,123
Investment in Farmer Mac preferred stock	**—**	(7,000)	—
Decrease (increase) in loans, net	**444,925**	(1,346,476)	(2,098,658)
(Expenditures) proceeds from (purchase) sale of loans	**(100,000)**	800,000	1,300,000
Proceeds from sales of other property owned, net	**9**	—	—
Proceeds from sales of premises and equipment	**—**	2	108
Expenditures for premises and equipment	**(7,061)**	(5,206)	(1,447)
Net cash provided by (used in) investing activities	**1,404,621**	(1,241,694)	(555,008)
Cash Flows From Financing Activities			
Bonds and notes issued	**42,684,817**	57,398,132	31,248,805
Subordinated debt issued, net of cost	**—**	49,458	—
Bonds and notes retired	**(43,682,950)**	(56,243,332)	(30,751,324)
Capital stock issued	**10,461**	28,420	37,444
Capital stock retired and allocated retained earnings distributed	**(419)**	(940)	(2,585)
Cash dividends on preferred stock	**(15,122)**	(15,122)	(15,122)
Cash patronage distributions paid	**(63,305)**	(49,425)	(43,923)
Net cash (used in) provided by financing activities	**(1,066,518)**	1,167,191	473,295
Net increase (decrease) in cash	**457,332**	(3,507)	2,435
Cash at beginning of year	**13,093**	16,600	14,165
Cash at End of Year	**$ 470,425**	$ 13,093	$ 16,600
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 8,109**	$ —	$ —
Loans transferred to other property owned	**648**	—	—
Net decrease (increase) in unrealized losses on investment securities	**33,830**	(16,071)	16,513
Declared participations patronage payable	**9,649**	9,994	7,802
Traded but not settled participation loan sales	**12,973**	—	—
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	**$ (30,548)**	$ 25,630	$ 7,510
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 424,913**	$ 554,635	$ 640,338

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

NOTES TO FINANCIAL STATEMENTS

Farm Credit Bank of Texas

(dollars in thousands, except per share amounts and as otherwise noted)

Note 1 — Organization and Operations

A. Organization:

The Farm Credit Bank of Texas (FCBT or bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is currently subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

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), (collectively, the "System banks") which has nationwide lending authority for lending to cooperatives. The ACB also has the lending authorities of an FCB within its chartered territories. The bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district's five FLCAs, 14 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, 2009. FLCAs and ACAs collectively are referred to as associations. In January, 2010, four FLCAs restructured to form ACA structures with operating FLCA and Production Credit Association subsidiaries.

Each FCB and the ACB provides funding for its district associations and is responsible for supervising the activities of the associations within its district. The FCBs and/or associations make loans to or for the benefit of eligible borrower-stockholders for qualified agricultural and rural purposes. District associations borrow the majority of their funds from their related bank. The System banks obtain a substantial majority of funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings, from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

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

B. Operations:

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

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

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

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

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

- 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.

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used to (1) insure the timely payment of principal and interest on Systemwide debt obligations (insured debt), (2) ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses, by the Insurance Corporation, of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the associations, into the Insurance Fund based on its annual average adjusted outstanding insured debt until the assets 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 (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

Note 2 — Summary of Significant Accounting Policies

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

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

A. Cash:

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

B. Investment Securities and Federal Funds:

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. Most of the bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2009, 2008 and 2007. These investments are reported at fair value and unrealized holding gains and losses on investments are netted and reported as a separate component of members' equity in the balance sheet. Changes in the fair value of investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired. 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 other-than-temporary. If an investment is deemed to be other-than-temporarily impaired, the carrying value of the security is written down to fair value, the credit-related loss is recognized through earnings and the non-credit related portion is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the effective interest method over the term of the respective security. Realized gains and losses are recognized in current operations using the specific identification method for determining the cost basis to be used.

The bank may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration. These programs allow the bank to make investments that further the System's mission to serve rural America. Mission-related investments are not included in the bank's liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mission-related investments for which the bank has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. In May 2008 the bank purchased mission-related rural housing mortgage-backed securities which constituted the bank's held-to-maturity investment portfolio. These securities had an amortized cost basis of $50.5 million and a fair market value of $51.6 million at December 31, 2008. In December 2009, these securities, which had an amortized cost basis of $39.4 million, were sold for a gain of $2.1 million to enhance the bank's liquidity position.

The bank's holdings in investment securities are more fully described in Note 3, "Investment Securities."

C. Loans and Reserves for Credit Losses:

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

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

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

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

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

Authoritative accounting guidance 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. The bank capitalizes origination fees, premiums and discounts in excess of $50 thousand and amortizes them over the lives of the related loans on a straight-line basis, which does not yield results that are materially different from the effective interest method.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans under authoritative accounting guidance. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral-dependent.

Allowance and reserves for credit losses consist of the allowance for loan losses, which is recorded on the balance sheet as a reduction from loans, and the reserve for losses on letters of credit and unfunded commitments, which is recorded as a liability on the balance sheet. The reserve for losses on letters of credit and unfunded commitments is management's estimate of probable credit losses related to unfunded commitments and letters of credit.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance and reserves for credit losses is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs.

D. Other Property Owned:

Other property owned, consisting of real and personal property acquired through foreclosure or other collection action, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. Revised estimates to the fair value, established by appraisal, less cost to sell, are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in 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 10 years for furniture, equipment and certain leasehold improvements; and three to four years for automobiles. Computer software and hardware are amortized over three years. Gains and losses on dispositions are reflected currently. Maintenance and repairs are charged to operating expense, and improvements are capitalized and amortized over the remaining useful life of the asset.

F. Other Assets and Other Liabilities:

Direct expenses incurred in issuing debt are deferred and amortized using the prospective level yield method over the term of related indebtedness.

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at December 31, 2009, 2008 and 2007.

Derivative financial instruments are included on the balance sheet at fair value, as either other assets or other liabilities.

G. Employee Benefit Plans:

Employees of the bank participate in one of two districtwide retirement plans (a defined benefit plan and a defined contribution plan) and are eligible to participate in the 401(k) plan of the district. Within the 401(k) plan, a certain percentage of employee contributions is matched by the bank. The 401(k) plan costs are expensed as incurred. Additionally, certain qualified individuals in the bank may participate in a separate, nonqualified supplemental defined benefit pension plan or in a separate, nonqualified 401(k) plan.

The structure of the district's defined benefit plan (DB plan) is characterized as multi-employer, since neither the assets, liabilities nor cost of the 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. Participating employers are jointly and severally liable for their plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets) and associated costs of withdrawal. As a result, participating employers of the plan 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. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year. As described more fully in Note 9, "Employee Benefit Plans," the bank's supplemental pension plan is accounted for and reported in accordance with authoritative accounting guidance.

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

Authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits other than pensions (primarily healthcare benefits) to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

H. Income Taxes:

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

I. Derivative Instruments and Hedging Activity:

In the normal course of business, we enter into derivative financial instruments, including interest rate swaps and caps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded on the balance sheet as assets and liabilities, measured at fair value.

In accordance with authoritative accounting guidance, 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. For cash flow hedges, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative will generally be offset by an entry to accumulated other comprehensive income in shareholders' equity. 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 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 authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively if it was determined that a hedge has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

J. Fair Value Measurements:

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value and effective for 2008 and subsequent years expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Assets held in trust funds relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The fair value disclosures are disclosed in Note 13, "Fair Value Measurements."

K. Recently Issued or Adopted Accounting Pronouncements:

In June 2009, the FASB issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The impact of adoption does not have an impact on our financial condition or results of operation.

In May 2009, the FASB issued guidance on "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009. The bank adopted this standard in the second quarter and the required disclosures are included in Note 18, "Subsequent Events."

In April 2009, the FASB issued guidance on "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. It further indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It was effective for interim periods ending after June 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The adoption did not have a material impact on the bank and its related associations.

In April 2009, the FASB issued guidance on "Recognition and Presentation of Other-Than-Temporary Impairments," which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changed existing impairment guidance on "Accounting for Certain Investments in Debt and Equity Securities" by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectibility of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment, if any, not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities were expanded and are now required quarterly, as well as annually. This guidance was effective for interim and annual periods ending after June 15, 2009.

For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The impact of adoption resulted in a $1.5 million adjustment to increase beginning retained earnings with a corresponding charge to other comprehensive income.

In addition, in April 2009, the FASB issued guidance on "Interim Disclosures about Fair Value of Financial Instruments." This requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The guidance was effective for interim periods ending after June 15, 2009. The bank adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 14, "Fair Value of Financial Instruments."

In December 2008, the FASB issued new guidance that expands the disclosures required in an employer's financial statements about pension and other postretirement benefits plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was effective for fiscal years ending after December 15, 2009. The bank adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 9, "Employee Benefit Plans."

Note 3 — Investment Securities

A summary of the amortized cost and estimated fair value of investment securities at December 31, 2009, 2008 and 2007, follows:

	December 31, 2009				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Corporate debt	**$ 131,815**	**$ 1,918**	**$ —**	**$ 133,733**	**1.56%**
Federal agency collateralized mortgage obligations	**1,843,894**	**32,866**	**(5,421)**	**1,871,339**	**3.16**
Other collateralized mortgage obligations	**123,315**	**12**	**(13,221)**	**110,106**	**6.87**
Asset-backed securities	**31,658**	**—**	**(3,351)**	**28,307**	**3.50**
Total available-for-sale investments	**$ 2,130,682**	**$34,796**	**$(21,993)**	**$ 2,143,485**	**3.30%**

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency debt	$ 500,000	$ 957	$ —	$ 500,957	3.54%
Commercial paper and other	536,970	1,490	(2,144)	536,316	0.84
Federal agency collateralized mortgage obligations	1,660,429	22,313	(1,709)	1,681,033	4.58
Other collateralized mortgage obligations	228,059	—	(35,478)	192,581	4.80
Asset-backed securities	73,499	—	(6,458)	67,041	4.17
Total available-for-sale investments	$ 2,998,957	$24,760	$(45,789)	$ 2,977,928	3.74%
Held-to-maturity investments:					
Mission-related	$ 50,540	$ 1,103	$ —	$ 51,643	4.98%

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper and other	$ 399,265	$ 14	$ (964)	$ 398,315	4.60%
Federal agency collateralized mortgage obligations	1,502,436	10,899	(5,284)	1,508,051	4.98
Other collateralized mortgage obligations	296,552	22	(2,891)	293,683	5.06
Asset-backed securities	217,703	—	(6,753)	210,950	5.13
Total available-for-sale investments	$ 2,415,956	$10,935	$(15,892)	$ 2,410,999	4.93%

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of available-for-sale investment securities at December 31, 2009, follows:

	Due in one year or less	**Due after one year through five years**	**Due after five years through 10 years**	**Due after 10 years**	**Total**
Corporate debt	$ 30,000	$ 103,733	$ —	$ —	$ 133,733
Federal agency collateralized mortgage obligations	—	109,766	296,537	1,465,036	1,871,339
Other collateralized mortgage obligations	—	—	11,137	98,969	110,106
Asset-backed securities	—	3,955	6,607	17,745	28,307
Total	$ 30,000	$ 217,454	$ 314,281	$ 1,581,750	$ 2,143,485
Total amortized cost	$ 30,000	$ 212,201	$ 310,828	$ 1,577,653	$ 2,130,682
Weighted average yield	0.15%	3.64%	2.99%	3.37%	3.30%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2009, the CMO portfolio had a weighted average remaining life of approximately two years.

The ratings of the eligible investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk must meet the applicable regulatory guidelines, which require these securities to be high quality, senior class and rated triple-A at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The bank performs analysis based on expected behavior of the loans, whereby these loan performance scenarios are applied against each security's credit-support structure to monitor credit-enhancement sufficiency to protect the investment. The model output includes projected cash flows, including any shortfalls in the capacity of the underlying collateral to fully return the original investment, plus accrued interest.

If an investment no longer meets the credit rating criteria, the investment becomes ineligible. The bank must dispose of an investment that becomes ineligible within six months, unless the Farm Credit Administration approves, in writing, a plan that authorizes the bank to divest over a longer period of time. At December 31, 2009, the bank held 10 investments that were ineligible for liquidity purposes by FCA standards. Those ineligible securities had an amortized cost basis of $66.2 million and a fair value of $55.3 million at December 31, 2009. The bank has received approval from the FCA to continue to hold these investments.

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

	Year Ended December 31,		
	2009	2008	2007
Proceeds on sales	**$ 153,119**	$ 114,424	$ 93,123
Realized gains on sales	**7,607**	2,556	503
Realized losses due to impairment	**5,293**	2,238	—

The net realized gain is included in the statements of income as part of total noninterest income. The sales were made to enhance the bank's liquidity position. Included in the table is the bank's $2.1 million gain on sale of its held-to-maturity portfolio of rural housing mortgage-backed securities. The bank received proceeds of $41.5 million for the securities, which had an amortized cost basis of $39.4 million.

At December 31, 2009, the bank had 61 investments that were in a loss position. The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at December 31, 2009. The continuous loss position is based on the date the impairment occurred.

	Less Than 12 Months		**Greater Than 12 Months**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Federal agency collateralized mortgage obligations	$ 506,742	$ (5,240)	$ 33,840	$ (182)	$ 540,582	$ (5,422)
Other collateralized mortgage obligations	2,233	(4)	103,708	(13,216)	105,941	(13,220)
Asset-backed securities	—	—	28,307	(3,351)	28,307	(3,351)
Total	$ 508,975	$ (5,244)	$ 165,855	$ (16,749)	$ 674,830	$ (21,993)

Although net unrealized gain on investment securities has increased by $33.8 million, the fair value of some investments in the portfolios has been impacted as a result of recent turmoil in the credit markets. As more fully discussed in Note 1, the new guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: 1) whether or not management intends to sell the security; 2) whether it is more likely than not that management would be required to sell the security before recovering its costs, or; 3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell).

The bank performs an evaluation quarterly on a security-by-security basis considering all available information. If the bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss would equal the full difference between amortized cost and fair value of the security. When the bank does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. The bank uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, managements consider factors, such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

The bank recognized other-than-temporary impairment losses on four mortgage-backed investments and one asset-backed investment during 2009. The credit portion of the impairment losses, totaling $5.3 million for 2009, was recognized as a loss in earnings of $1.4 million in the first quarter, $977 in the second quarter, $679 in the third quarter and $2.3 million in the fourth quarter. The non-credit-related impairment losses on the five investments, totaling $8.0 million, are included as a charge against other comprehensive income. Also, in accordance with guidance issued in 2009, $1.5 million in non-credit-related impairment losses taken as a charge against earnings during 2008 was added back to retained earnings and charged against accumulated other comprehensive income during the first quarter of 2009.

As the bank has no intent of selling the securities deemed other-than-temporarily impaired and will not more likely than not be required to sell the securities before recovery, the credit loss portion of impairment was recognized through earnings for 2009. To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank utilizes a third party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Applicable securities are identified through prior analysis based on the deterioration of price and credit ratings. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan level data. Loan level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The default rates used at December 31, 2009, ranged from 11.3 percent to 16.0 percent for non-agency mortgage-backed securities and was 13.5 percent for the asset-backed security. Prepayment rate assumptions are based on historical prepayment rates and ranged from 2.5 percent to 22.3 percent for non-agency mortgage-backed securities and was 12.7 percent for the asset-backed security at December 31, 2009. At December 31, 2009, the loss severity assumptions ranged from 41.4 percent to 56.8 percent for non-agency mortgage-backed securities and was 57.4 percent for the asset-backed security. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

The following table details the activity related to the credit loss component of the amortized cost of debt securities that have been written down for other-than-temporary impairment and the credit component of the loss that is recognized in earnings:

Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at December 31, 2008	$ 712
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	3,594
Increase to amount related to credit loss for which other-than temporary impairment previously recognized when it did not intend to sell and it is not more likely than not that it will be required to sell	1,699
Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at December 31, 2009	$ 6,005

Note 4 — Loans and Reserves for Credit Losses

Loans comprised the following categories at December 31:

	2009	2008	2007
Direct notes receivable from district associations and OFIs	**$ 8,304,420**	$ 8,402,595	$ 8,158,458
Participations purchased	**2,715,889**	2,984,414	2,682,262
Other loans	**12,805**	16,104	25,271
Total loans	**$ 11,033,114**	$ 11,403,113	$ 10,865,991

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

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

Commodity	2009	2008	2007
Livestock	**38%**	38%	40%
Crops	**14**	14	14
Timber	**11**	11	12
Cotton	**5**	5	5
Poultry	**4**	4	4
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**24**	24	21
Total	**100%**	100%	100%

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

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties. The bank's impaired loans consisted of participations purchased and other loans; no direct notes to district associations were impaired at December 31, 2009, 2008 and 2007.

	December 31,		
	2009	2008	2007
Nonaccrual loans			
Current as to principal and interest	**$ 66,608**	$ 93,333	$ 23,923
Past due	**45,307**	16,329	—
Total nonaccrual loans	**111,915**	109,662	23,923
Impaired accrual loans			
Restructured accrual loans	**647**	690	715
Accrual loans 90 days or more past due	**—**	—	9,999
Total impaired accrual loans	**647**	690	10,714
Total impaired loans	**$ 112,562**	$ 110,352	$ 34,637
Average impaired loans	**$ 143,751**	$ 36,449	$ 11,217

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

	2009	2008	2007
Interest income recognized on nonaccrual loans	**$ 4,100**	$ 96	$ 292
Interest income on impaired accrual loans	**100**	119	447
Interest income recognized on impaired loans	**$ 4,200**	$ 215	$ 739

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

	2009	2008	2007
With related specific allowance	**$ 81,198**	$ 41,189	$ 16,296
With no related specific allowance	**31,364**	69,163	18,341
Total impaired loans	**$ 112,562**	$ 110,352	$ 34,637
Allowance on impaired loans	**$ 28,114**	$ 12,549	$ 1,065

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

	2009	2008	2007
Interest income which would have been recognized under the original loan terms	**$ 8,288**	$ 3,693	$ 1,299
Less: interest income recognized	**4,200**	215	739
Foregone interest income	**$ 4,088**	$ 3,478	$ 560

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on letters of credit and unfunded commitments. At December 31, 2009 and 2008, the bank had a reserve for losses on letters of credit and unfunded commitments of $870 and $121, respectively, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

A summary of changes in the allowance and reserves for credit losses follows:

	December 31,		
	2009	2008	2007
Balance at beginning of year	**$ 12,549**	$ 1,065	$ 142
Provision for loan losses	**33,648**	20,529	1,043
Loans charged off	**(14,364)**	(9,148)	(217)
Recoveries	**518**	224	97
Transfer to reserve for losses on standby letters of credit and unfunded commitments	**(749)**	(121)	—
Balance of allowance for credit losses at end of year	**$ 31,602**	$ 12,549	$ 1,065
Reserve for losses on standby letters of credit and unfunded commitments	**$ 870**	$ 121	$ —

Charge-offs for 2009 included $11.3 million in charge-offs against loans to four telecommunications borrowers.

To mitigate the risk of loan losses, district associations have entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the associations the right to sell the loans identified in the agreements to the bank, who can, in turn, sell them to Farmer Mac in the event of default, subject to certain conditions. The balance of loans under long-term standby commitments to purchase was $499.4 million at December 31, 2009. Fees paid to Farmer Mac for such commitments are paid by the associations.

At December 31, 2008, the bank had a total of $3.5 billion of direct notes sold to another System bank. The sales included participations of eight of its direct notes receivable from district associations. The purpose of these sales was to diversify the credit exposure of the bank by providing capital for liquidity and expansion of the capital markets loan participations portfolio. In 2009, the bank purchased back $100 million of these participations for net outstanding direct notes sold of $3.4 billion at December 31, 2009.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2009	2008	2007
Leasehold improvements	**$ 1,142**	$ 1,056	$ 948
Furniture and equipment	**18,614**	11,856	7,272
	19,756	12,912	8,220
Accumulated depreciation	**(7,408)**	(6,140)	(5,501)
Total	**$ 12,348**	$ 6,772	$ 2,719

Included in the bank's property and equipment at December 31, 2009, is $9.1 million in capitalized costs related to the bank's development of new lending systems, reflecting an increase of $5.8 million from the $3.3 million included in 2008. The new systems will enhance the accounting and informational capabilities related to district association lending as well as the bank's capital markets loan portfolios. Depreciation on these systems will commence when the specific system is implemented.

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 its term is from September 1, 2003, to August 31, 2013. Under the terms of the lease, the bank was obligated to pay base rental or its share of basic costs during the first 12 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 10th year. The bank moved to the new facilities during the second quarter of 2004. Annual lease expenses for the new facility were $2.8 million, $2.7 million and $2.9 million for 2009, 2008 and 2007, respectively.

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

	Minimum Lease Payments
2010	$ 1,776
2011	1,879
2012	1,947
2013	1,297
2014	—
Total minimum lease payments	$ 6,899

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2009	2008	2007
Investment in other System bank	**$ 22,504**	$ 10,742	$ 4,333
Other accounts receivable	**19,594**	17,414	8,928
Receivable on loan sales	**12,973**	—	—
Unamortized debt issue costs	**10,017**	10,680	9,628
Farmer Mac preferred stock	**7,000**	7,000	—
Fair value of derivatives	**2,526**	31,439	7,034
Other, net	**4,280**	3,999	3,320
Total	**$ 78,894**	$ 81,274	$ 33,243

Other liabilities comprised the following at December 31:

	2009	2008	2007
Accounts payable	**$ 25,587**	$ 27,308	$ 25,258
Patronage payable	**9,649**	9,994	7,802
FCSIC premium payable	**8,963**	5,968	3,800
Obligation for non-pension postretirement benefits	**7,212**	7,132	6,472
Supplemental pension	**6,018**	5,219	8,644
Mortgage life additional reserve	**3,393**	3,318	2,935
Accrued building lease payable	**1,497**	1,697	1,727
Reserve for losses on letters of credit and unfunded commitments	**870**	121	—
Fair value of derivatives	**30**	3,074	178
Other, net	**4,406**	3,076	1,158
Total	**$ 67,625**	$ 66,907	$ 57,974

Note 7 — Bonds and Notes

Systemwide Debt Securities:

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. Systemwide bonds, medium-term notes and discount notes (Systemwide debt securities) are the joint and several liability of the System banks. 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, 2009 the bank had such specified eligible assets totaling $13.6 billion and obligations and accrued interest payable totaling $12.8 billion, resulting in excess eligible assets of $808.1 million.

The System banks and the Funding Corporation have 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, 2009, the bank was, and currently remains, in compliance with the conditions and requirements of the System banks' and the Funding Corporation's MAA.)

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

The bank's participation in Systemwide debt securities at December 31, 2009, follows *(dollars in millions)*:

	Systemwide							
	Bonds		Medium-Term Notes		Discount Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2010	$ 3,835.5	1.74%	$ —	—%	$ 922.3	0.29%	$ 4,757.8	1.46%
2011	2,340.7	1.63	—	—	—	—	2,340.7	1.63
2012	1,302.6	2.35	—	—	—	—	1,302.6	2.35
2013	1,165.4	2.83	—	—	—	—	1,165.4	2.83
2014	993.6	3.25	—	—	—	—	993.6	3.25
Subsequent years	2,209.4	4.12	—	—	—	—	2,209.4	4.12
Total	$ 11,847.2	2.46%	$ —	—%	$ 922.3	0.29%	$ 12,769.5	2.30%

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

Systemwide bonds, medium-term notes, master notes, discount notes (Systemwide debt securities) and bank bonds are the joint and several obligations of all System banks. Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2009, was 76 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2009 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2010	$ 285,000	1/12/2010-3/1/2010
2011	980,000	1/5/2010-11/16/2010
2012	870,000	1/13/2010-12/27/2010
2013	949,000	1/7/2010-11/4/2010
2014	840,000	1/6/2010-9/2/2011
Subsequent years	1,459,000	1/5/2010-11/7/2011
Total	$ 5,383,000	1/5/2010-11/7/2011

Callable debt may be called on the first call date and, generally, every day thereafter with seven days' notice. Expenses associated with the exercise of call options on debt issuances are included in interest expense.

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 financial statements are uninsured. At December 31, 2009, the assets of the Insurance Fund aggregated $3.29 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal and interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

Subordinated Debt:

In September 2008, the bank issued $50.0 million of 8.406 percent unsecured subordinated notes due in 2018, generating proceeds of $49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to Farm Credit Administration regulations and for general corporate purposes. This debt is unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest is payable semi-annually on March 15 and September 15. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, the issuing bank may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt is not considered Systemwide debt and is not guaranteed by the Farm Credit System or any banks in the System. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund. In accordance with FCA's approval of the bank's subordinated debt offering, the bank's minimum net collateral ratio for all regulatory purposes while any subordinated debt is outstanding will be 104 percent, instead of the 103 percent stated by regulation.

Other:

The bank maintains a $150.0 million commercial bank committed line of credit to support possible general short-term credit needs.

Note 8 — Shareholders' Equity

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

A. Description of Bank Equities:

On November 7, 2003, the bank issued 100,000 shares of $1,000 cumulative perpetual preferred stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate is 7.561 percent, payable semi-annually to December 15, 2013, after which dividends are payable quarterly at a rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of cumulative perpetual preferred stock with the same terms. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. Dividends on preferred stock are recorded as declared. The preferred stock ranks, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the bank. In 2009, preferred stock dividends of $15,122 were declared and paid.

According to the bank's bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCAs are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the associations is 2 percent of their average borrowings from the bank. There were 47,078 shares, 45,044 shares and 39,378 shares of Class A voting common stock issued and outstanding at December 31, 2009, 2008 and 2007, respectively.

The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the bank based on a minimum and maximum of 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of the OFIs' average borrowings from the bank.

The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 395 shares, 399 shares and 395 shares of Class A nonvoting common stock issued and outstanding at December 31, 2009, 2008 and 2007, respectively.

Allocated retained earnings of $8,029 at December 31, 2009, consisted of $727 of patronage refunds allocated to certain PCAs, and $7,302 allocated for the payment of patronage on loans participated with another System bank.

Allocated retained earnings of $6,114 at December 31, 2008, consisted of $834 of patronage refunds allocated to certain PCAs, and $5,280 allocated for the payment of patronage on loans participated with another System bank.

Allocated retained earnings of $5,196 at December 31, 2007, consisted of $1,702 of patronage refunds allocated to certain PCAs, and $3,494 allocated for the payment of patronage on loans participated with another System bank.

At December 31, the bank's equities included the following:

	2009	2008	2007
Class A voting common stock – Associations	**$ 235,388**	$ 225,218	$ 196,888
Class A nonvoting common stock – Other Financing Institutions	**1,973**	1,994	1,976
Total common stock	**237,361**	227,212	198,864
Preferred stock	**200,000**	200,000	200,000
Allocated retained earnings			
Associations	**727**	834	1,702
Other entities	**7,302**	5,280	3,494
Total allocated retained earnings	**8,029**	6,114	5,196
Total capital stock and allocated retained earnings	**$ 445,390**	$ 433,326	$ 404,060

Patronage may be paid to the holders of Class A voting common stock and allocated retained earnings of the bank, as the board of directors may determine by resolution, subject to the capitalization requirements defined by the FCA. During 2009, $62,959 in cash patronages was declared to district associations, OFIs and other entities, compared to $51,618 in 2008 and $46,174 in 2007.

B. Regulatory Capitalization Requirements and Restrictions:

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

The bank is required by FCA regulations to achieve and maintain net collateral of at least 103 percent of total liabilities. However, the issuance of subordinated debt resulted in FCA requiring the net collateral to be 104 percent of total liabilities while any subordinated debt is outstanding. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, cash and cash equivalents.

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

	2009	2008	2007	Regulatory Minimum
Permanent capital ratio	**15.98%**	14.03%	13.43%	7.00%
Total surplus ratio	**12.47**	11.25	11.15	7.00
Core surplus ratio	**7.11**	6.40	6.70	3.50
Collateral ratio	**105.83**	105.40	105.18	103.00

C. Accumulated Other Comprehensive (Income) Loss:

Accumulated other comprehensive (income) loss was comprised of the following components at December 31:

	2009	2008	2007
Unrealized losses on other-than-temporarily impaired investments	**$ 8,038**	$ —	$ —
Unrealized (gains) losses on other investments available-for-sale, net	**(20,840)**	21,029	4,957
Supplemental pension and other postretirement benefit plans	**1,627**	1,681	747
Unrealized losses on cash flow interest rate caps	**304**	—	—
Unrealized losses (gains) on cash flow interest rate swaps, net	—	3,073	(1,047)
Total	**$ (10,871)**	$ 25,783	$ 4,657

Note 9 — Employee Benefit Plans

Employees of the bank participate in either the district's defined benefit retirement plan (DB plan) or in a non-elective defined contribution feature (DC plan) within the Farm Credit Benefits Alliance 401(k) plan. In addition, all employees are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan.

The structure of the district's DB plan is characterized as multiemployer, 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. As a result, participating employers of the plan 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. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year.

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, to facilitate reorganization and/or restructuring. Additionally, certain qualified individuals in the bank may participate in a separate, nonqualified defined benefit supplemental pension plan. The bank accrues the cost and liability of the supplemental pension plan as incurred, and not as contributions are required. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2009. Actuarial information regarding the bank's nonqualified supplemental pension plan's benefit obligations and funded status are disclosed in the following tables.

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. Participants in the nonelective pension feature of the DC plan direct the placement of their employers' contributions (5 percent of eligible compensation during 2009) made on their behalf into various investment alternatives.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax compensation deferral feature. Employers match 100 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation. Additionally, certain employees in the bank that are not eligible for participation in the nonqualified defined benefit supplemental pension plan are eligible to participate in a separate nonqualified supplemental 401(k) plan.

The following table presents the bank's pension benefit expenses for the years ended:

	2009	2008	2007
District DB plan	**$ 5,620**	$ 2,295	$ 929
Supplemental DB plan	**956**	4,525	1,457
DC plan	**718**	634	564
401(k) plan	**687**	619	558
Supplemental 401(k) plan	**121**	47	—
Total	**$ 8,102**	$ 8,120	$ 3,508

The DB plan's investments were significantly impacted by the effects of declines in the general economy and global financial markets during 2008. As a result, the contribution for 2009 was significantly higher than prior years. Future market conditions and their effect on the plan's assets may continue to have a significant effect on future funding requirements.

The expense for the supplemental DB plan is based on the actuarially calculated benefit expense. The supplemental DB plan expense for 2008 included $3.2 million in settlement expense related to the bank chief executive officer (CEO) withdrawal from the plan pursuant to a compensation agreement between the bank and the CEO in November 2008.

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses at their expense with no company subsidy.

In September 2006, the FASB issued authoritative accounting guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans.

Pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the bank decreased retained earnings $406, and increased the supplemental pension and other postretirement benefit liabilities by $406.

The following tables reflect the benefit obligation, cost, funded status and actuarial assumptions for the bank's supplemental pension plan and other postretirement benefits:

	Supplemental Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
Accumulated benefit obligation, end of year	**$ 3,879**	$ 2,801	$ 4,676			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ 5,219**	$ 8,644	$ 7,288	**$ 7,132**	$ 6,547	$ 6,580
Service cost	**90**	508	368	**194**	210	191
Interest cost	**317**	682	427	**438**	517	384
Plan participants' contributions	**—**	—	—	**138**	171	131
Plan amendments	**—**	—	—	**—**	—	—
Settlements	**—**	(458)	—	**—**	—	—
Special termination benefits	**—**	—	—	**—**	—	—
Actuarial loss (gain)	**393**	4,380	759	**(198)**	298	(248)
Benefits paid	**—**	(8,537)	(198)	**(491)**	(611)	(491)
Projected benefit obligation, end of year	**$ 6,019**	$ 5,219	$ 8,644	**$ 7,213**	$ 7,132	$ 6,547
Change in plan assets						
Plan assets at fair value, beginning of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Actual return on plan assets	**—**	—	—	**—**	—	—
Company contributions	**—**	8,537	198	**353**	440	360
Plan participants' contributions	**—**	—	—	**138**	171	131
Benefits paid	**—**	(8,537)	(198)	**(491)**	(611)	(491)
Plan assets at fair value, end of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Reconciliation of funded status						
Unfunded status	**$ (6,019)**	$ (5,219)	$ (8,644)	**$ (7,213)**	$ (7,132)	$ (6,547)
Contributions between measurement date and fiscal year end	**—**	—	—	**—**	—	75
Net benefit liability at end of year	**$ (6,019)**	$ (5,219)	$ (8,644)	**$ (7,213)**	$ (7,132)	$ (6,472)
Amounts recognized in accumulated other comprehensive income						
Additional minimum pension liability adjustment	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Net actuarial loss (gain)	**2,158**	1,959	1,269	**(481)**	(282)	(587)
Prior service cost (credit)	**1,855**	2,209	2,652	**(1,905)**	(2,205)	(2,587)
Total	**$ 4,013**	$ 4,168	$ 3,921	**$ (2,386)**	$ (2,487)	$ (3,174)
Net periodic benefit cost						
Service cost	**$ 90**	$ 406	$ 368	**$ 194**	$ 168	$ 191
Interest cost	**317**	546	427	**438**	414	384
Expected return on plan assets	**—**	—	—	**—**	—	—
Amortization of:						
Transition obligation (asset)	**—**	—	—	**—**	—	—
Prior service cost	**354**	354	662	**(300)**	(306)	(340)
Net actuarial loss	**195**	51	—	**—**	(5)	(5)
Net periodic benefit cost	**$ 956**	$ 1,357	$ 1,457	**$ 332**	$ 271	$ 230
Settlement expense	**—**	3,168	—	**—**	—	—
Total benefit cost	**$ 956**	$ 4,525	$ 1,457	**$ 332**	$ 271	$ 230
Adjustment to retained earnings for 2008 due to change in measurement date	**$ N/A**	$ 339		**$ N/A**	$ 67	
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial loss (gain)	**$ 393**	$ 3,922	N/A	**$ (198)**	$ 298	N/A
Amortization of net actuarial loss (gain)	**(195)**	(63)	N/A	**—**	6	N/A
Settlement expense	**—**	(3,168)	N/A	**—**	—	N/A
Prior service costs	**—**	—	N/A	**—**	—	N/A
Amortization of prior service costs	**(354)**	(443)		**300**	382	
Termination recognition of prior service costs	**—**	—	N/A	**—**	—	N/A
Net change	**$ (156)**	$ 248	N/A	**$ 102**	$ 686	N/A
AOCI amounts expected to be amortized in 2010						
Prior service cost (credit)	**$ 354**			**$ (300)**		
Net actuarial loss (gain)	**233**			**—**		
Total	**$ 587**			**$ (300)**		

	Supplemental Pension Benefits			Other Postretirement Benefits		
Weighted-average assumptions used to determine benefit obligation as of December 31						
Measurement date	**12/31/2009**	12/31/2008	9/30/2007	**12/31/2009**	12/31/2008	9/30/2007
Discount rate	**4.25%**	6.30%	6.50%	**6.05%**	6.30%	6.50%
Rate of compensation increase	**6% in 2010 down to 4% in 2012**	7% in 2009 down to 4% in 2012	8% in 2008 down to 4% in 2012			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**8.0%/7.0%**	8.5%/6.25%	8.5%/6.5%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**10.50%**	12.00%	12.00%
Ultimate health care cost trend rate				**5.00%**	5.00%	4.75%
Year that the rate reaches the ultimate trend rate				**2017**	2015	2016
Weighted-average assumptions used to determine net periodic cost for year ended December 31						
Measurement date	**12/31/2008**	9/30/2007	9/30/2006	**12/31/2008**	9/30/2007	9/30/2006
Discount rate	**6.30%**	6.50%	6.00%	**6.30%**	6.50%	6.00%
Expected return on plan assets	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Rate of compensation increase	**7% in 2009 down to 4% in 2012**	8% in 2008 down to 4% in 2012	9% in 2007 down to 4% in 2012			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**8.5%/6.5%**	9.0%/6.75%	9.0%/6.75%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**11.00%**	13.00%	13.00%
Ultimate health care cost trend rate				**5.00%**	4.75%	4.75%
Year that the rate reaches the ultimate trend rate				**2015**	2016	2016

Effect of Change in Assumed Health Care Cost Trend Rates

Effect on total service cost and interest cost components	
One-percentage point increase	$ 117
One-percentage point decrease	(94)
Effect on year-end postretirement benefit obligation	
One-percentage point increase	$ 1,174
One-percentage point decrease	(954)

Expected Future Cash Flow Information

	Pension Benefits	Other Postretirement Benefits
Expected Benefit Payments		
Fiscal 2010	$ 814	$ 373
Fiscal 2011	667	393
Fiscal 2012	1,937	391
Fiscal 2013	568	401
Fiscal 2014	548	419
Fiscal 2015 - 2019	2,466	2,424
Expected Contributions		
Fiscal 2010	$ 814	$ 373

Neither the bank's supplemental pension plan nor the bank's plan for other postretirement benefits have plan assets.

Note 10 — Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $364,620, $394,059 and $452,775 for 2009, 2008 and 2007, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 8, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $9,039, $9,435 and $8,918 for 2009, 2008 and 2007, respectively, and was included in the bank's noninterest income.

The bank had no loans to directors or officers during 2009, 2008 or 2007.

Note 11 — Commitments and Contingencies

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

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2009, were approximately $177.3 billion.

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

Note 12 — Financial Instruments With Off-Balance-Sheet Risk

The bank may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage its exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. 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. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2009, $1.641 billion of commitments to extend credit and $88.3 million of standby letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon.

The bank also participates in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the bank. At December 31, 2009, $88.3 million of standby letters of credit with a fair value of $3.0 million was included in other liabilities. Outstanding standby letters of credit generally have expiration dates ranging from 2010 to 2013. The bank has one stand-by letter of credit in the amount of $7.6 million that expires in 2025.

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 13 — Fair Value Measurements

Authoritative accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2009, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2009

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 20,490**	$ —	$ 20,490	$ —
Investments available-for-sale	**2,143,485**	—	2,143,485	—
Derivative assets	**2,526**	—	2,526	—
Assets held in non-qualified benefit trusts	**235**	235	—	—
Total assets	**$ 2,166,736**	$ 235	$ 2,166,501	$ —
Liabilities:				
Derivative liabilities	**$ 30**	$ —	$ 30	$ —
Standby letters of credit	**3,006**	—	3,006	—
Total liabilities	**$ 3,036**	$ —	$ 3,036	$ —

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2009:

Level 3 Assets and Liabilities

	Investment Securities
Balance at January 1, 2009	$ 99,992
Net losses included in other comprehensive income	(376)
Net losses included in earnings	(5,293)
Purchases, issuances and settlements	(104,208)
Net transfers from Level 3	9,885
Balance at December 31, 2009	$ —
The amount of gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2009	$ 5,293

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2009 for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2009

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	**$ 53,084**	$ —	$ —	$ 53,084
Other property owned	**710**	—	—	710
Total assets	**$ 53,794**	$ —	$ —	$ 53,794

Assets and liabilities measured at fair value on a recurring basis at December 31, 2008 for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2008

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 176,698**	$ —	$ 176,698	$ —
Investments available-for-sale	**2,977,928**	—	2,877,936	99,992
Derivative assets	**31,439**	—	31,439	—
Assets held in non-qualified benefit trusts	**90**	90	—	—
Total assets	**$ 3,186,155**	$ 90	$ 3,086,073	$ 99,992
Liabilities:				
Derivative liabilities	**$ 3,074**	$ —	$ 3,074	$ —
Standby letters of credit	**1,901**	—	1,901	—
Collateral liabilities	**1,080**	—	1,080	—
Total liabilities	**$ 6,055**	$ —	$ 6,055	$ —

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2008:

Level 3 Assets and Liabilities

	Investment Securities
Balance at January 1, 2008	$ 273,231
Net losses included in other comprehensive income	864
Purchases, issuances and settlements	(112,973)
Net transfers from Level 3	(61,130)
Balance at December 31, 2008	$ 99,992
The amount of gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2008	$ 2,238

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2008 for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2008

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	**$ 28,640**	$ —	$ —	$ 28,640
Total assets	**$ 28,640**	$ —	$ —	$ 28,640

VALUATION TECHNIQUES

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," authoritative accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the bank for assets and liabilities:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At January 1, 2009, Level 3 securities included commercial paper and certain asset-backed securities valued using broker quotes.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments in mutual funds.

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and cash flow derivatives.

Loans

On a nonrecurring basis, specific allowances for loan losses on certain collateral-dependent impaired loans have been recorded to effectively measure the loans, net of their specific allowances, at the estimated fair value of the collateral on which repayment is deemed to be dependent. At December 31, 2009, impaired loans with a fair value of $53,084 were included in loans.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based on the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Note 14 — Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the bank's financial instruments at December 31, 2009, 2008 and 2007.

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

	December 31, 2009		December 31, 2008		December 31, 2007	
Financial assets	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, federal funds sold and investment securities	**$ 2,634,400**	**$ 2,634,400**	$ 3,218,259	$3,219,362	$ 2,553,101	$ 2,553,101
Loans	**11,033,114**	**11,176,487**	11,403,113	11,612,380	10,865,991	10,799,211
Allowance for loan losses	**(31,602)**	**—**	(12,549)	—	(1,065)	—
Loans, net	**11,001,512**	**11,176,487**	11,390,564	11,612,380	10,864,926	10,799,211
Derivative assets	**2,526**	**2,526**	31,439	31,439	7,034	7,034
Financial liabilities						
Bonds and notes	**12,769,479**	**12,862,844**	13,802,205	14,084,236	12,624,015	12,739,162
Subordinated debt	**50,000**	**50,696**	50,000	56,168	—	—
Derivative liabilities	**30**	**30**	3,074	3,074	178	178

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

A. Cash and Federal Funds Sold:

The carrying value is a reasonable estimate of fair value.

B. Investment Securities:

If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, the fair value is determined as described in Note 13, "Fair Value Measurements."

C. Loans:

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

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

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

D. Bonds and Notes:

Systemwide bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of new issues of Systemwide bonds with similar-maturity terms.

E. Subordinated Debt:

As discussed in Note 7, "Bonds and Notes," the bank issued subordinated debt in 2008. The fair value of these obligations is estimated based upon the Treasury yield curve.

F. Derivative Assets and Liabilities:

The fair value of derivative financial instruments is the estimated amount that a bank would receive or pay to replace the instruments at the reporting date, considering the current interest rate environment and the current creditworthiness of the counterparties. Where such quoted market prices do not exist, these values are generally provided by sources outside the respective bank or by internal market valuation models.

G. Commitments to Extend Credit:

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

Note 15 — Derivative Instruments and Hedging Activity

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

The bank enters into derivatives, particularly fair value interest rate swaps and cash flow interest rate swaps, primarily to lower interest rate risk. The bank substantially offsets this risk by concurrently entering into offsetting agreements with non-System counterparties. Fair value hedges allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the bank if floating-rate borrowings were made directly. Under fair value hedge arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index. At December 31, 2009, the bank had two fair value hedges with a total notional amount of $125.0 million.

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

In January 2009, the bank terminated two swap transactions with a total notional amount of $150.0 million and a remaining life of eight years. As a result of these terminations, exposure to LIBOR rate changes and counterparty credit exposure was reduced. The $26.8 million fair value of the swaps at termination will be amortized over the remaining life of the hedged debt. The bank has also purchased interest rate caps, in order to reduce the impact of rising interest rates on their floating-rate assets. At December 31, 2009, the bank held interest rate caps with a notional amount of $130.0 million and a fair value of $1.6 million. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2009 is summarized in the following table:

	Receive Fixed Swaps	Pay Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2009	$ 350,000	$ 450,000	$ —	$ 800,000
Additions	125,000	—	130,000	255,000
Terminations	(350,000)	(450,000)	—	(800,000)
Balance at December 31, 2009	$ 125,000	$ —	$ 130,000	$ 255,000

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

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed upon thresholds; 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. 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. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. At December 31, 2009, the bank's exposure to counterparties, net of collateral, was $2.5 million, as compared with $32.1 million for the same period of the prior year.

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

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

	Remaining Years to Maturity						
($ in millions)	**Less Than 1 Year**	**More Than 1 to 5 Years**	**Total**	**Maturity Distribution Netting**	**Exposure**	**Collateral Held**	**Exposure Net of Collateral**
Moody's Credit Rating							
Aa1	$ —	$ 0.9	$ 0.9	$ —	$ 0.9	$ —	$ 0.9
Aa3	—	1.6	1.6	—	1.6	—	1.6

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the bank's overall interest rate risk-management strategies.

Fair-Value Hedges:

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedge item (principally, debt securities) attributable to the hedged risk are recognized in current earnings. The bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. As the terms and bases of the bank's fair value hedges have matched those of the debt being hedged, full effectiveness is presumed. Accordingly, no gain or loss is recognized in earnings.

Cash Flow Hedges:

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Derivatives Not Designated as Hedges:

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "gains (losses) on derivative transactions" in the statement of income. The bank does not possess any derivatives not classified as hedges.

Fair Values of Derivative Instruments:

The following table represents the fair value of derivative instruments as of:

($ in millions)	Balance Sheet Location	Fair Value 12/31/2009	Fair Value 12/31/2008	Balance Sheet Location	Fair Value 12/31/2009	Fair Value 12/31/2008
Receive fixed	Other assets	$ 921	$ 31,439	Other liabilities	$ 30	$ —
Pay fixed	Other assets	—	—	Other liabilities	—	3,074
Interest rate caps	Other assets	1,605	—			

The following table sets forth the amount of gain (loss) recognized in Other Comprehensive Income for the year ended December 31, 2009:

	Change in OCI on Derivative (Effective Portion)
Pay fixed	$ 3,074
Interest rate caps	(304)

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 2009 Derivative Products and Other Financial Instruments							
December 31, 2009 *($ in millions)*	2010	2011	2012	2013	2014	Subsequent Years	Total	Fair Value
Total Systemwide debt obligations:								
Fixed rate	$ 2,508	$ 1,891	$ 1,302	$ 1,165	$ 994	$ 2,209	$ 10,069	$ 10,304
Weighted average interest rate	2.38%	1.95%	2.35%	2.83%	3.25%	4.12%	2.82%	
Variable rate	$ 2,250	$ 450	$ —	$ —	$ —	$ —	$ 2,700	$ 2,559
Weighted average interest rate	0.43%	0.26%	—	—	—	—	0.40%	
Total Systemwide debt obligations	$ 4,758	$ 2,341	$ 1,302	$ 1,165	$ 994	$ 2,209	$ 12,769	$ 12,863
Weighted average interest rate	1.46%	1.63%	2.35%	2.83%	3.25%	4.12%	2.30%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ —	$ 50	$ 75	$ —	$ —	$ —	$ 125	$ 1
Weighted average receive rate	—	1.23%	2.23%	—	—	—	1.83%	
Weighted average pay rate	—	0.17%	0.23%	—	—	—	0.21%	
Interest rate caps								
Notional value	$ —	$ —	$ —	$ —	$ 130	$ —	$ 130	$ 2
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	

Note 16 — Selected Quarterly Financial Information (Unaudited)

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

	2009				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 35,836**	**$ 39,041**	**$ 44,667**	**$ 49,668**	**$ 169,212**
Provision for loan losses	**7,033**	**2,926**	**22,697**	**992**	**33,648**
Noninterest expense, net	**12,162**	**8,830**	**1,770**	**6,194**	**28,956**
Net income	**$ 16,641**	**$ 27,285**	**$ 20,200**	**$ 42,482**	**$ 106,608**

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 28,080	$ 29,386	$ 30,375	$ 31,555	$ 119,396
Provision for loan losses	2,153	2,594	5,998	9,784	20,529
Noninterest expense, net	4,908	4,594	5,229	7,403	22,134
Net income	$ 21,019	$ 22,198	$ 19,148	$ 14,368	$ 76,733

	2007				
	First	Second	Third	Fourth	Total
Net interest income	$ 25,009	$ 25,005	$ 24,785	$ 24,766	$ 99,565
Provision (negative provision) for loan losses	—	400	(282)	925	1,043
Noninterest expense, net	7,486	6,376	6,227	4,429	24,518
Net income	$ 17,523	$ 18,229	$ 18,840	$ 19,412	$ 74,004

Note 17 — Combined Association Financial Data (Unaudited)

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

	Year Ended December 31,		
Balance Sheet Data	**2009**	2008	2007
Cash	**$ 30,542**	$ 43,789	$ 39,103
Investment securities	**35,827**	17,929	—
Loans	**13,316,686**	13,468,746	12,300,861
Less allowance for loan losses	**113,129**	39,104	23,430
Net loans	**13,203,557**	13,429,642	12,277,431
Accrued interest receivable	**156,805**	173,210	197,117
Other property owned, net	**52,685**	6,495	1,817
Other assets	**325,840**	293,655	262,802
Total assets	**$13,805,256**	$13,964,720	$12,778,270
Notes payable	**$11,613,442**	$11,782,402	$10,747,261
Other liabilities	**181,479**	248,596	252,204
Total liabilities	**11,794,921**	12,030,998	10,999,465
Capital stock and participation certificates	**63,983**	64,619	63,267
Retained earnings	**1,937,914**	1,860,481	1,705,238
Accumulated other comprehensive income	**8,438**	8,622	10,300
Total shareholders' equity	**2,010,335**	1,933,722	1,778,805
Total liabilities and shareholders' equity	**$13,805,256**	$13,964,720	$12,778,270

	Year Ended December 31,		
Statement of Income Data	**2009**	2008	2007
Interest income	**$ 760,041**	$ 849,893	$ 883,219
Interest expense	**391,099**	498,353	551,113
Net interest income	**368,942**	351,540	332,106
Provision for loan losses	**138,492**	32,985	42,088
Net interest income after provision for loan losses	**230,450**	318,555	290,018
Noninterest income	**87,291**	82,520	74,955
Other expense	**196,163**	176,892	157,070
(Benefit from) provision for income taxes	**(2,609)**	344	141
Net income	**$ 124,187**	$ 223,839	$ 207,762

Note 18 — Subsequent Events

The bank has evaluated subsequent events through March 1, 2010, which is the date the financial statements were issued.

As of December 31, 2009, all banks in the Farm Credit System met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2009, the banks met the defined CIPA score required by the MAA, except for the Farm Credit Bank of Texas which fell below a defined CIPA score as of September 30, 2009 and, effective November 9, 2009, was placed in "Category I." As of December 31, 2009, the Farm Credit Bank of Texas met the defined CIPA score required by the MAA and effective February 27, 2010, exited "Category I." The Farm Credit Bank of Texas was able to return to compliance with the defined CIPA score under MAA primarily due to reductions in the district's substandard assets, including high-risk assets due to improvements in borrowers' repayment capacities.

Senior Vice President and Chief Credit Officer Steven H. Fowlkes became Interim CEO of a district association on February 1, 2010. Mr. Fowlkes remains employed by the bank and has recused himself from day-to-day operations of the bank during service as Interim CEO. The Farm Credit Administration has conditionally approved Mr. Fowlkes' interim service to the association.

There are no other significant subsequent events requiring disclosure as of March 1, 2010.

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), collectively referred to as the district, are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrower-shareholders for qualified agricultural purposes in the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. The district's ACA parent associations, which each contain 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 financial statements.

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

Directors and Senior Officers

The following represents certain information regarding the district directors and senior officers of the bank as of March 1, 2010:

DIRECTORS

Ralph W. Cortese joined the board of directors in 1995, and his current term expires December 31, 2010. 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 president of Cortese Farm and Ranch Inc. and is from Fort Sumner, New Mexico. He operates a cow/calf and yearling operation on grass and in the feedlot, and raises irrigated alfalfa. Cortese is a member of the bank's audit and compensation committees. He also is a member of the Texas Agricultural Cooperative Council board of directors and serves as chief financial officer for his local church. Cortese served on the Farmer Mac board from 2003 to 2008 and is a former board member of the American Land Foundation.

James F. Dodson joined the board of directors in 2003, and his current term expires December 31, 2011. He has served as vice chairman of the board of directors since 2009. He is a past chairman of the Texas AgFinance, FCS Board of Directors and a former member of the Texas Farm Credit District Stockholders' Advisory Committee. He is chairman of both the bank's compensation committee and the Tenth District Farm Credit Council board and serves on the bank's audit committee. Dodson grows cotton, corn and milo, and operates a seed sales business with his family in Robstown, Texas. He is the president of Dodson Farms, Inc. and Dodson Ag, Inc.; the owner of Jimmy Dodson Farms; a partner in Legacy Farms, Weber Greene, Ltd., and Dodson Family Farms; and managing partner in Weber Station LLC. In addition, Dodson serves on the boards of Gulf Coast Cooperative and South Texas Cotton and Grain Association, and holds leadership positions in the National Cotton Council of America and American Cotton Producers.

Joe R. Crawford began his first term on the board of directors in 1998, and his current term expires December 31, 2012. Previously, he was a member of the FLBA of North Alabama Board of Directors. He also served on the Tenth District FLBA Legislative Advisory Committee. Crawford is a member of the bank's audit and compensation committees. He is a director on the board and an audit committee member of the Federal Farm Credit Banks Funding Corporation. He is also a member and past president of the Alabama Cattlemen's Association and a member of the National Cattlemen's Beef Association, the Alabama Farm Bureau and the Alabama Farmers Federation. Crawford, who lives near Baileyton, Alabama, has owned and operated a cattle business since 1968.

Elizabeth G. Flores joined the board of directors in August 2006, and her current term expires December 31, 2012. She was mayor of Laredo, Texas, where she resides, from 1998 to 2006. Previously, she was senior vice president of Laredo National Bank. Flores is a member of the bank's audit and compensation committees. She also serves on the boards of the Texas Agricultural Cooperative Council and the TMF Health Quality Institute, and is a graduate of Leadership Texas 1995 and Leadership America 2008. She is a partner in a family ranching and real estate business. She is a former member of the Federal Reserve Board Consumer Advisory Council.

Jon M. Garnett began his first term on the board of directors in 1999, and his current term expires December 31, 2010. He served as board vice chairman from 2000 through 2008. Prior to joining the bank board, he was chairman of Panhandle-Plains Land Bank, FLCA Board of Directors. In January 2003, he joined the national Farm Credit Council Board of Directors as a district representative and is a member of the Farm Credit Council Board of Directors' legislative committee. He is also a member of the bank's audit committee and the State Technical Committee for the Natural Resources Conservation Service, and is the vice chairman of the bank's compensation committee. Garnett raises grain and forage crops and runs stocker cattle near Spearman, Texas.

Lester Little joined the board of directors in 2009 and his term will expire December 31, 2011. Prior to joining the bank board, Little was chairman of Capital Farm Credit Board of Directors and previously served as vice chairman of the Texas Farm Credit District Stockholders' Advisory Committee. He also was a member of the district's Association Business Advisory Committee. Little is vice chairman of the bank's audit committe and a member of the bank's compensation committee. He is from Hallettsville, Texas, and owns and operates a farm, and offers custom-farming services. He is a Farm Bureau member and serves on the Lavaca Regional Water Planning Group.

William F. Staats joined the board of directors in 1997, and his current term expires December 31, 2011. 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, SevenOaks Capital Associates, LLC and Platinum Healthcare Staffing, Inc. He is a member of the Farm Credit System audit committee, is chairman of the bank's audit committee, serves on the bank's compensation committee, and is the bank's designated financial expert. He is also a member of the Texas Lutheran University board of regents.

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. Compensation for 2009 was paid at the rate of $52,133 per year, payable at $4,344 per month. In addition to days served at board meetings, directors may serve additional days on other official assignments, and under exceptional circumstances where extraordinary time and effort are involved, the board may approve additional compensation, not to exceed 30 percent of the annual maximum allowable by FCA regulations. The board approved additional compensation in the amount of $4,500 during 2009 as noted below. No director received non-cash compensation exceeding $5,000 in 2009. Total cash compensation paid to all directors as a group during 2009 was $369,431. Information for each director for the year ended December 31, 2009, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid
Ralph W. Cortese	30.0	37.0	$ 52,133
James F. Dodson***	30.0	53.5	54,633
Joe R. Crawford	30.0	47.0	52,133
Elizabeth G. Flores	30.0	28.0	52,133
Jon M. Garnett	27.5	35.0	52,133
Lester Little	29.5	30.5	52,133
William F. Staats***	30.0	38.0	54,133
			$ 369,431

*Includes travel time, but does not include time required to prepare for board meetings.

**Includes audit committee meetings, compensation committee meetings, special assignments, training and travel time.

***During 2009, additional compensation of $2,500 was paid to Mr. Dodson for travel time and attendance at an FCA meeting in his capacity as the chairman of the bank's compensation committee. Additional compensation of $2,000 was paid in 2009 to Dr. Staats for his participation as a speaker at an association annual meeting and as a speaker for an FCA held conference.

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2009, 2008 and 2007 totaled $131,507, $162,118 and $149,254, respectively. The decrease in expenses in 2009 as compared to 2008 was primarily due to less travel costs incurred during 2009. The increase in expenses in 2008 as compared to the previous year was primarily due to an overall increase in costs for travel related to airlines and fuel as well as an increase in travel expenses associated with the participation by members of the board in meetings held by other System entities. A copy of the bank's travel policy is available to shareholders upon request.

SENIOR OFFICERS

Name and Title	Time in Position	Experience — Past Five Years
Larry R. Doyle, *Chief Executive Officer*	6.5 years	Chief Executive Officer, FCBT Prior to joining FCBT, Executive Vice President and Chief Operating Officer, AgFirst Farm Credit Bank
Thomas W. Hill, *Senior Vice President, Chief Financial Officer,* *Chief Operations Officer*	15 years 6 years	Senior Vice President, Chief Financial Officer, FCBT
Steven H. Fowlkes, *Senior Vice President,* *Chief Credit Officer*	12 years 6 years	Senior management and management positions, FCBT
Kyle Pankonien, *Vice President, Corporate Affairs,* *General Counsel and Corporate Secretary*	2 years	Vice President, Corporate Affairs, Deputy General Counsel, FCBT

Compensation Discussion and Analysis – Senior Officers

Overview

The board of directors of the Farm Credit Bank of Texas, through its compensation committee, has pursued a compensation philosophy for the bank that promotes leadership in the adoption and administration of a comprehensive compensation program so that:

- Competent senior officers can be attracted, developed and retained for the delivery of performance that will result in the attainment of the bank's strategic business plan;
- Operational activities that produce bank efficiencies and produce financial results that maximize the principles of a cooperative organization will be rewarded;
- Consistent application of compensation programs will link compensation to bank performance and levels of accountability for the achievement of the bank's strategies and programs; and,
- Market-based base salaries, benefits and bonus compensation will position the bank to be a competitive employer in the financial services marketplace.

The compensation committee annually reviews the appropriate mix of salaries, benefits and bonus arrangements and approves these programs for senior officers of the bank. With data derived from an independent third-party compensation consultant, the compensation committee considers market salary data of competition in the financial services sector to ensure that base salaries and bonus plan structures are in line with market-comparable positions with similarly situated financial institutions. This study provides the basis for actions by the compensation committee to approve the compensation level and bonus plan structure of the bank's chief executive officer (CEO) annually, plus review and approve other compensation programs for the other senior officers of the bank. The bank's compensation program encompasses four primary elements: (1) base salary, (2) discretionary bonus compensation, (3) bank-paid retirement benefits and (4) secondary benefits such as an executive physical program, annual leave, bank-paid life insurance and bank-provided vehicles.

Chief Executive Officer (CEO) Compensation Table and Policy

The base salary amount of the CEO was $750,029 for 2009. As discussed in detail below, the compensation committee settled the bank's obligations to the CEO with respect to the Farm Credit Bank of Texas Supplemental Pension Plan pursuant to a Compensation Agreement between the bank and the CEO entered into in November 2008. Pursuant to the terms and conditions of the Compensation Agreement between the bank and CEO, the CEO would not earn any bonuses for performance during 2009 or 2010. There is no agreement in place at this time between the bank and the CEO with respect to 2011 or other future years.

The following table summarizes the compensation paid to the CEO of the bank during 2009, 2008 and 2007.

Summary Compensation Table for the CEO

Name of Chief Executive Officer	Year	Salary (a)	Bonus (b)	Annual Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	Total
Larry R. Doyle	2009	$ 750,029	$ —	$ 167,901	$ 20,627	$ 4,178,570	$ 5,117,127
Larry R. Doyle	2008	500,019	600,000	<5,810,710>	19,229	8,821,430	4,129,968
Larry R. Doyle	2007	440,017	560,000	1,884,534	22,017	N/A	2,906,568

(a) Gross salary for year presented.

(b) Bonus compensation is presented in the year earned, and bonuses are paid within the first 30 days of the subsequent calendar year. For 2009, no bonus for performance was paid to the CEO in accordance with the Compensation Agreement.

(c) For 2009, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. For 2008, disclosure of the change in the pension value represents the change in the actuarial present value of the accumulated benefit under both defined benefit pension plans (i.e., the Farm Credit Bank of Texas Pension Plan and the Farm Credit Bank of Texas Supplemental Pension Plan). The decrease in pension value for 2008 is because the CEO no longer participates in the Farm Credit Bank of Texas Supplemental Pension Plan, under the terms of the Compensation Agreement entered into between the bank and the CEO in November 2008. See the Pension Benefits Table Narrative Disclosure for a more detailed explanation regarding the Compensation Agreement.

(d) Deferred/Perquisites include contributions to a 401(k) plan, automobile benefits, and premiums paid for life insurance.

(e) For 2009, Other reflects the remaining proration of the $4,500,000 payment paid in January 2010 pursuant to the Compensation Agreement between the bank and the CEO. For 2008, Other reflects the payment of $8,500,000 made in January 2009 pursuant to the Compensation Agreement between the bank and the CEO. In part, this payment was in exchange for the CEO's agreement to no longer participate in the Farm Credit Bank of Texas Supplemental Pension Plan. The CEO was also eligible for a $4,500,000 payment in January 2010. The prorated amount of $4,500,000 as of December 31, 2008 was $321,430, which was earned in 2008 and is also reflected in Other. See the Pension Benefits Table Narrative Disclosure for a more detailed explanation of the Compensation Agreement and the payments provided thereunder.

Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2009:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2009
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	35.838	$ 1,048,177	$ 0

Pension Benefits Table Narrative Disclosure for the CEO

The CEO participates in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Through the end of 2008, the CEO also participated in the Farm Credit Bank of Texas Supplemental Pension Plan (the "Supplemental Pension Plan"), which is a nonqualified deferred compensation plan. Compensation, as defined in the Pension Plan, includes wages, incentive and bonus compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The CEO's Pension Plan benefit is offset by the CEO's pension benefits from another Farm Credit System institution. The present value of the CEO's accumulated Pension Plan benefit is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 57. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly 2 years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Supplemental Pension Plan restores benefits under the Pension Plan that are limited or reduced (a) by the imposition of Internal Revenue Code limits, (b) by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of "Compensation" in the Pension Plan, and (c) by the commencement of benefits prior to "Normal Retirement Age" for a participant who has satisfied the rule of 85 and is at least age 55. After calculating the amount of Pension Plan benefits that are restored in the Supplemental Pension Plan, that amount is grossed-up for income taxes at a fixed rate. Supplemental Pension Plan benefits are payable 30 days after separation from service as a lump sum amount.

The CEO's earned benefit under the Supplemental Pension Plan was $8,537,622 as of December 2008 and was projected to increase significantly in the coming years based upon his "Years of Benefit Service" and anticipated total compensation during 2009, 2010, 2011 and 2012. Therefore, under a Compensation Agreement between the bank and the CEO that was executed in November 2008, the board approved the settlement of the bank's obligations to the CEO under the Supplemental Pension Plan in order (a) to limit the bank's potential future liability under the Supplemental Pension Plan; (b) to decrease the impact upon the bank and the Supplemental Pension Plan of changes in compensation paid to the CEO, changes in interest rates, and changes in law; (c) to remove uncertainty for the bank and the CEO with respect to the amount of the Supplemental Pension Plan benefit; (d) to agree upon a fixed amount of compensation for the CEO during 2009 and 2010; and (e) to provide incentives for the CEO to remain employed at least through the period involving the development of an important lending systems project. Pursuant to the terms and conditions of the Compensation Agreement, the CEO received the following benefits: (i) a payment of $8,500,000 in January 2009; (ii) deferred compensation in the amount of $4,500,000 paid to the CEO in January 2010, (iii) annual base salary of $750,000 for 2009 and 2010. In exchange for those benefits, the Compensation Agreement provided that the CEO would not (1) participate in the Supplemental Pension Plan after January 1, 2009; (2) actively participate in another nonqualified plan the bank has established; (3) earn any bonuses for performance during 2009 or 2010; and (4) receive the set severance payment of $1,000,000 which was provided under Mr. Doyle's "employment at will" agreement dated February 26, 2003. Although the Compensation Agreement only covers the CEO's compensation through 2010, the board of the bank hopes to retain the CEO for a longer period, due to the current economic conditions. Therefore, the Compensation Agreement further provides that if the CEO remains employed past 2010, he shall be eligible for bonuses for years after 2010 and that base salary for years after 2010 shall be negotiated in late 2010.

The Compensation Agreement is not an employment contract. The deferred compensation provisions of the Compensation Agreement are intended to be an unfunded nonqualified deferred compensation plan for tax purposes, are not intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code, and are intended to be exempt from ERISA as a governmental plan exempted under ERISA § 4(b)(1). The Compensation Agreement was drafted to comply with the provisions of Section 409A of the Internal Revenue Code.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the five highest paid officers of the bank during 2009, 2008 and 2007. Amounts reflected in the table are presented in the year the compensation is earned.

Summary Compensation Table

Name of Individual or Group	Year	Annual Salary (a)	Annual Bonus (b)	Annual Deferred/Perquisites (c)	Annual Other (d)	Total
Aggregate of five highest paid officers: (excludes Chief Executive Officer)						
5	2009	$ 1,317,567	$ 417,510	$ 143,369	–	$ 1,878,446
5	2008	1,249,615	396,360	126,827	–	1,772,802
5	2007	1,118,743	404,825	115,711	–	1,639,279

(a) Gross salary.
(b) Bonuses paid within the first 30 days of the subsequent calendar year.
(c) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance.
(d) Other - no amounts paid in years presented.

Other senior officers of the bank are eligible for deferred compensation plans and can participate in a retention plan, at the discretion and approval of the bank board's compensation committee. Amounts paid in 2009 and 2008 to any senior officer associated with the retention plan are reflected in the salary column in the above table. Senior officers, other than the CEO, participate in a bank discretionary bonus program, whose terms and conditions are detailed in writing as a Success Sharing Plan, with awards annually approved by the board's compensation committee. Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2009.

Disclosure of the compensation paid during 2009 to any senior officer or officer included in the table is available and will be disclosed to shareholders of the institution and stockholders of the district's associations upon written request.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. A copy of the bank's travel policy is available to shareholders upon request.

Bank employees, other than the CEO, can earn compensation above base salary through an annual Success Sharing Plan, which the bank adopted in 2001. The plan is based upon the achievement of bank performance, which is approved by the bank board's compensation committee, annually, and payment is determined by the compensation committee in its discretion. In addition, certain select bank employees participate in a retention plan, which was determined at the discretion and approval of the bank board's compensation committee. The Farm Credit Bank of Texas Employee Retention Plan (Retention Plan) is an unfunded nonqualified deferred compensation plan that was created and approved by the bank's board of directors in 2007 as a means to induce specific employees to accomplish certain activities and remain with the bank for a defined period of time. Participants are nominated by the CEO and approved by the bank board's compensation committee.

The Retention Plan is constructed to be flexible as to the length of the retention period and the amounts paid for each year of successful participation in the Retention Plan. Certain senior officers and other bank employees, other than the CEO, in the Retention Plan are currently participating in individual three-year plans that pay a fixed percentage of their salary as long as they are still employed on the anniversary or ending date coincident with the effective date of each participant's Plan year.

Description of Property

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 moved into the new facilities during May of 2004.

Legal Proceedings

There were no matters that came to the attention of the board of directors or management regarding the involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed.

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 11, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2009.

Description of Capital Structure

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

Description of Liabilities

The bank's debt outstanding is described in Note 7, "Bonds and Notes," to the accompanying financial statements. The bank's contingent liabilities are described in Note 11, "Commitments and Contingencies," to the accompanying financial statements.

Selected Financial Data

The selected financial data for the five years ended December 31, 2009, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

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

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

Transactions With Senior Officers and Directors

The 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 10, "Related Party Transactions," to the accompanying financial statements.

Relationship With Public Accountants

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

The bank's Audit Committee approves all services provided by the independent public accountants. During 2009, the bank paid its independent public accountants $286,083 for district audit services and $65,707 for bank audit services. During 2009, the non-audit services provided by the independent public accountants were approved by the bank's audit committee prior to commencement of these services. The non-audit services provided by PricewaterhouseCoopers consisted of an independent tally service for director elections. The billing for this service had not been received as of the date of this annual report.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 1, 2010, and the report of management in this annual report to shareholders, are incorporated herein by reference.

The Farm Credit Bank of Texas and its affiliated associations' (district) 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 202590, Austin, Texas 78720 or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports can be requested by e-mailing fcb@farmcreditbank.com. The bank's and district's quarterly reports are available approximately 40 days after the end of each fiscal quarter. The bank's and district's annual reports will be posted on the bank's Web site (www.farmcreditbank.com) within 75 calendar days of the end of the bank's fiscal year. This posting coincides with an electronic version of the report being provided to its regulator, the Farm Credit Administration. Within 90 calendar days of the end of the bank's fiscal year, a copy of the bank's annual report will be provided to its stockholders.

Credit and Services to Young, Beginning and Small Farmers and Ranchers, and Producers or Harvesters of Aquatic Products (YBS)

In line with our mission, we have policies and programs for making credit available to young, beginning and small farmers and ranchers.

The definitions for YBS, as prescribed by FCA regulations, are provided below.

Young Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

For the purposes of YBS, the term "loan" means an extension of, or a commitment to extend, credit authorized under the Farm Credit Act, whether it results from direct negotiations between a lender and a borrower or is purchased from, or discounted for, another lender, including participation interests. A farmer/rancher may be included in multiple categories as they are included in each category in which the definition is met.

The bank and associations' efforts to respond to the credit and related needs of YBS borrowers are evidenced by the following table:

	At December 31, 2009	
	Number of Loans	Volume
(dollars in thousands)		
Total loans and commitments	76,054	$ 18,692,494
Loans and commitments to young farmers and ranchers	13,563	$ 1,962,381
Percent of loans and commitments to young farmers and ranchers	17.8%	10.5%
Loans and commitments to beginning farmers and ranchers	36,331	$ 7,432,730
Percent of loans and commitments to beginning farmers and ranchers	47.8%	39.8%

The following table summarizes information regarding new loans to young and beginning farmers and ranchers:

	For the Year Ended December 31, 2009	
	Number of Loans	Volume
(dollars in thousands)		
Total new loans and commitments	13,741	$ 4,916,790
New loans and commitments to young farmers and ranchers	2,166	$ 691,911
Percent of new loans and commitments to young farmers and ranchers	15.8%	14.1%
New loans and commitments to beginning farmers and ranchers	5,405	$ 1,620,396
Percent of new loans and commitments to beginning farmers and ranchers	39.3%	33.0%

The following table summarizes information regarding loans to small farmers and ranchers:

	At December 31, 2009				
	Annual Gross Sales				
	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
(dollars in thousands)					
Total number of loans and commitments	21,526	18,637	20,569	15,322	76,054
Number of loans and commitments to small farmers and ranchers	14,869	14,376	15,372	8,420	53,037
Percent of loans and commitments to small farmers and ranchers	69.1%	77.1%	74.7%	55.0%	69.7%
Total loans and commitments volume	$ 408,897	$ 1,044,111	$ 2,701,448	$ 14,538,038	$ 18,692,494
Total loans and commitments to small farmers and ranchers volume	$ 309,710	$ 820,931	$ 2,048,667	$ 5,399,783	$ 8,579,091
Percent of loans and commitments volume to small farmers and ranchers	75.7%	78.6%	75.8%	37.1%	45.9%

The following table summarizes information regarding new loans made to small farmers and ranchers:

	For the Year Ended December 31, 2009				
	Annual Gross Sales				
	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
(dollars in thousands)					
Total number of new loans and commitments	4,077	2,704	3,320	3,640	13,741
Number of new loans and commitments to small farmers and ranchers	2,941	2,029	2,296	1,421	8,687
Percent of new loans and commitments to small farmers and ranchers	72.1%	75.0%	69.2%	39.0%	63.2%
Total new loans and commitments volume	$ 96,454	$ 199,842	$ 546,418	$ 4,074,076	$ 4,916,790
Total new loans and commitments to small farmers and ranchers volume	$ 75,138	$ 149,451	$ 371,128	$ 1,017,504	$ 1,613,221
Percent of loan and commitment volume to small farmers and ranchers	77.9%	74.8%	67.9%	25.0%	32.8%

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