HERE FOR AGRICULTURE

EVERY DAY

2009 ANNUAL REPORT
TEXAS FARM CREDIT DISTRICT

Table of Contents

FARM CREDIT BANK OF TEXAS
4801 Plaza on the Lake Drive
Austin, Texas 78746
512.465.0400
FAX 512.465.0675

FarmCreditBank.com
FindFarmCredit.com

Strength, stability and endurance —

they are the type of words often used to describe Farm Credit, which has been the leading lender to agriculture and rural America for more than 90 years.

They also are the characteristics that helped Farm Credit weather the recent financial crisis and continue to fulfill its mission to rural America. Farm Credit organizations went into the crisis with a strong capital position, consistent earnings, an excellent credit portfolio and a reputation for conservative management and transparent financial disclosures.

Because of this, Farm Credit organizations — including the Texas Farm Credit District — outperformed many other financial institutions in 2009. Although the district faced significant challenges, it continued to achieve positive results and remained focused on serving its customers well.

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.

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

Leadership is never more important than when times are tough. When "business as usual" doesn't cut it anymore, it takes strong leaders to stay focused on the mission and steer the organization in the right direction, to make hard decisions about the future and to rally the troops to overcome obstacles.

The Texas Farm Credit District has such leaders. The seven-member Farm Credit Bank of Texas Board of Directors helped to lead the district through the turbulent economic environment of 2009. They urged bank and association leaders to evaluate and improve every aspect of their lending practices; they supported and encouraged training programs, both for association directors and for credit staff throughout the district; and, as the district continues to recover from the negative impacts of 2009, they will continue to push for excellence and make decisions in the best interest of the borrowers they serve.

2009 FINANCIAL HIGHLIGHTS

The Texas Farm Credit District has reported record net income for seven years in a row and record loan volume for 14 years in a row. In 2009, however, that steady climb leveled off in response to a global financial crisis and tremendous weakness in the economy. Net income dropped from $267.7 million at year-end 2008 to $198.4 million at Dec. 31, 2009.

Loan volume reported at year-end 2009 was $16.2 billion, down slightly from the $16.6 billion reported at year-end 2008 and up from the $15.1 billion at year-end 2007.

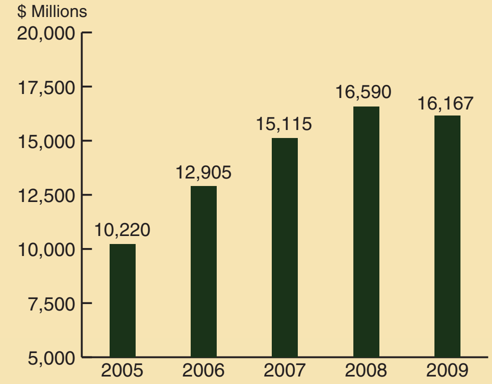
Total assets were $19.1 billion at Dec. 31, 2009, compared with $20.2 billion at Dec. 31, 2008 and $17.9 billion at Dec. 31, 2007. Credit quality remains stable at 94.1 percent acceptable at year end, compared to 97.1 percent at Dec. 31, 2008.

2009 KEY FINANCIAL HIGHLIGHTS

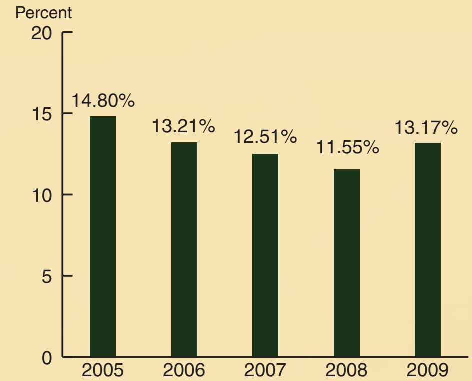
(Dollars in Thousands)

Total Loans	$16,167,170
Total Assets	$19,117,163
Net Income	$198,424
Return on Average Assets	1.01%
Return on Average Members' Equity	8.02%

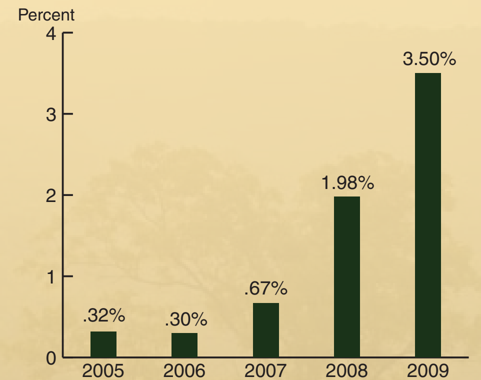
Total Loans Outstanding at Year End



Total Members' Equity to Total Assets at Year End



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



2009 MESSAGE TO STOCKHOLDERS

There is no denying that 2009 was a trying year for the Texas Farm Credit District. We faced some of the most difficult circumstances we have dealt with in decades. The volatility of the agricultural and financial markets, coupled with the downturn in the general economy, created an extremely negative lending environment. After many years of record growth and record earnings, our progress slowed from a sprint to a crawl.

It is significant, however, that we still made progress. We earned $198 million in net income in 2009, despite provision for loan losses totaling more than $172 million. The district had net loan volume of $16.0 billion, down from $16.5 billion at Dec. 31, 2008, but up from the $15.1 billion reported at year-end 2007.

Fortunately, the district's fourth quarter results showed significant improvement from the third quarter. Substandard assets and nonaccrual volume both decreased in the fourth quarter, indicating that better times are on the horizon. Credit quality weakened in 2009 but remains strong overall. The markets for many agricultural products, particularly those related to feed conversion, show signs of improvement in 2010. If those positive projections are realized, we anticipate that 2010 will be a better year for the Texas Farm Credit District.

While the circumstances of 2009 hampered our record-setting pace, they also provided us with an opportunity to hone our strengths and fix our weaknesses. In 2009, it was not "business as usual" throughout the Texas District. On the contrary, the boards and management of the bank and district associations used the lending crisis as a chance to grow stronger and set the stage for our future success.

With every decision, we kept our mission in the forefront of our minds: to be a reliable source of competitive funding for creditworthy borrowers throughout rural America. It is notable that the Farm Credit System maintained its AAA rating, did not lose access to funding through the crisis and never had to turn away a qualified borrower due to a lack of funds.

The cooperative structure on which Farm Credit is based proved to be very resilient during the economic crisis of 2009. It will continue to be the solid base on which we build our organization going forward. To keep our business strong, we will focus on proper underwriting, as well as loan pricing and servicing. As a customer-owned cooperative, we will strive to make our district strong for the benefit of our stockholders.

Larry R. Doyle
Chief Executive Officer
Farm Credit Bank of Texas

REPORT OF MANAGEMENT

The Farm Credit Bank of Texas and the Texas Farm Credit District Associations

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

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

In the opinion of management, the combined financial statements are true and correct and fairly state the financial position of the bank and district 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 or district associations.

The undersigned certify that we have reviewed the December 31, 2009, annual report of the Farm Credit Bank of Texas and district associations, 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 Farm Credit Bank of Texas and the Texas Farm Credit District Associations

The Audit Committee (committee) is comprised of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the scope of the district's system of internal controls and procedures, 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 district's internal controls and 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 district'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 district'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 district'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 district. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the independent 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 district's combined 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 board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the combined 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 district; (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 district's assets that could have a material effect on its combined 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. This evaluation relies upon the evaluations made by the individual associations and the related certification they provide to the bank.

Based on the assessment performed, the district 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

Five-Year Summary of Selected Combined Financial Data

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	**2009**	2008	2007	2006	2005
Balance Sheet Data					
Cash and federal funds sold	**$ 521,457**	$ 233,580	$ 181,205	$ 149,399	$ 94,291
Investment securities	**2,179,312**	3,046,397	2,410,999	2,672,242	2,697,876
Loans	**16,167,170**	16,590,071	15,114,537	12,905,321	10,219,596
Less allowance for loan losses	**144,731**	51,653	24,495	13,969	9,533
Net loans	**16,022,439**	16,538,418	15,090,042	12,891,352	10,210,063
Other property owned, net	**53,324**	6,495	1,817	2,020	3,902
Other assets	**340,631**	341,422	312,434	272,054	206,088
Total assets	**$ 19,117,163**	$ 20,166,312	$ 17,996,497	$ 15,987,067	$ 13,212,220
Obligations with maturities of one year or less	**$ 8,588,063**	$ 9,920,558	$ 7,751,462	$ 6,458,754	$ 5,968,414
Obligations with maturities greater than one year	**8,011,696**	7,916,037	7,994,374	7,415,653	5,288,711
Total liabilities	**16,599,759**	17,836,595	15,745,836	13,874,407	11,257,125
Preferred stock	**202,754**	202,754	202,754	203,565	203,569
Capital stock and participation certificates	**63,202**	63,859	62,489	59,068	73,642
Allocated retained earnings	**266,991**	211,450	133,423	83,705	32,327
Unallocated retained earnings	**2,061,299**	1,984,421	1,886,488	1,792,723	1,692,534
Accumulated other comprehensive loss	**(76,842)**	(132,767)	(34,493)	(26,401)	(46,977)
Total members' equity	**2,517,404**	2,329,717	2,250,661	2,112,660	1,955,095
Total liabilities and members' equity	**$ 19,117,163**	$ 20,166,312	$ 17,996,497	$ 15,987,067	$ 13,212,220
Statement of Income Data					
Net interest income	**$ 535,792**	$ 470,428	$ 432,381	$ 386,246	$ 340,472
Provision for loan losses	**(172,140)**	(53,514)	(43,131)	(9,356)	(1,084)
Noninterest expense, net	**(167,837)**	(148,842)	(146,569)	(137,000)	(118,872)
Benefit from (provision for) income taxes	**2,609**	(344)	(141)	228	(639)
Net income	**$ 198,424**	$ 267,728	$ 242,540	$ 240,118	$ 219,877
Key Financial Ratios (unaudited)					
Net income to:					
Average assets	**1.01%**	1.40%	1.44%	1.66%	1.92%
Average members' equity	**8.02**	11.37	10.86	11.69	11.80
Net interest income to average earning assets	**2.82**	2.50	2.61	2.72	3.04
Net charge-offs to average loans	**0.48**	0.16	0.23	0.04	0.02
Total members' equity to total assets	**13.17**	11.55	12.51	13.21	14.80
Allowance for loan losses to total loans	**0.90**	0.31	0.16	0.11	0.09
Regulatory permanent capital ratio (bank only)	**15.98**	14.03	13.43	13.67	17.36
Total surplus ratio (bank only)	**12.47**	11.25	11.15	11.61	14.97
Core surplus ratio (bank only)	**7.11**	6.40	6.70	6.93	8.82
Net collateral ratio (bank only)	**105.83**	105.40	105.18	105.35	105.90
Other (unaudited)					
Net income distributions declared					
Preferred stock dividends	**$ 15,122**	$ 15,122	$ 15,122	$ 15,122	$ 11,342
Patronage distributions					
Cash	**52,303**	71,402	76,253	70,479	49,964
Allocated earnings	**55,648**	80,558	57,400	54,328	6,435

Combined Average Balances and Net Interest Earnings

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS
(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	**$ 2,526,664**	**$ 88,441**	**3.50%**	$ 2,709,676	$ 111,358	4.11%	$ 2,598,854	$ 131,768	5.07%
Loans	**16,460,808**	**873,032**	**5.30**	16,106,806	1,006,081	6.25	13,940,105	1,053,629	7.56
Total interest-earning assets	**18,987,472**	**961,473**	**5.06**	18,816,482	1,117,439	5.94	16,538,959	1,185,397	7.17
Cash	**304,910**			30,863			33,110		
Accrued interest receivable	**196,441**			228,902			238,632		
Allowance for loan losses	**(90,285)**			(36,800)			(21,122)		
Other noninterest-earning assets	**197,532**			118,792			103,376		
Total average assets	**$ 19,596,070**			$ 19,158,239			$ 16,892,955		
Liabilities and Members' 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	**5,100,493**	**49,505**	**0.97**	4,851,341	144,634	2.98	2,618,740	144,949	5.54
Total interest-bearing liabilities	**16,734,977**	**425,681**	**2.54**	16,393,104	647,011	3.95	14,336,782	753,016	5.25
Noninterest-bearing liabilities	**387,598**			410,778			323,042		
Total liabilities	**17,122,575**			16,803,882			14,659,824		
Members' equity and retained earnings	**2,473,495**			2,354,357			2,233,131		
Total average liabilities and members' equity	**$ 19,596,070**			$ 19,158,239			$ 16,892,955		
Net interest rate spread		**$ 535,792**	**2.52%**		$ 470,428	1.99%		$ 432,381	1.92%
Net interest margin			**2.82%**			2.50%			2.61%

Management's Discussion and Analysis

(dollars in thousands, except as noted)

The following commentary provides a discussion and analysis of the combined financial position and results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Associations (FLCAs) and the Agricultural Credit Associations (ACAs) for the years ended December 31, 2009, 2008 and 2007. FLCAs and ACAs collectively are referred to as "associations," and the bank and its affiliated associations are collectively referred to as the district. The commentary should be read in conjunction with the accompanying combined financial statements, notes to the combined financial statements (notes) and additional sections of this report. The accompanying combined financial statements were prepared under the oversight of the bank's audit committee.

The district, which serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico, is part of the federally chartered Farm Credit System (System). The bank provides funding to the associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2009, the district comprised the bank, five FLCAs and 14 ACAs. The bank also had funding relationships with four Other Financing Institutions (OFIs). In January, 2010, four FLCAs restructured to form ACA structures with operating FLCA and Production Credit Association subsidiaries.

Forward-Looking Information

This annual information 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 combined 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," of the accompanying combined financial statements. The following is a summary of certain critical policies.

- Allowance for loan losses — The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is 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 are 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, general allowances for loan losses are recorded to reflect expected credit deterioration and inherent losses in that portion of loans that are not individually evaluated.
- 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 or district's results of operations.
- Pensions — The bank and its related associations participate in defined benefit retirement plans. These plans are non-contributory, 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. Pension expense

for all plans is recorded as part of salaries and employee benefits. 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' 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 district's loan portfolio totaled $16.2 billion at December 31, 2009, a 2.5 percent decrease from the prior year. The district's net income for 2009 was $198.4 million, a decrease of $69.3 million, or 25.9 percent, from the $267.7 million in net income for 2008. The district's $69.3 million decrease in net income for 2009 was driven by a $118.6 million increase in provisions for loan losses and a $23.2 million increase in noninterest expenses, offset by a $65.4 million increase in net interest income and a $4.2 million increase in noninterest income. The net interest rate spread improved, as well as the district's efficiency ratios, tracking operating expense in relation to income and earning assets. 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 district's financial condition and results of operations for 2009, resulting in a $205.4 million increase in impaired loans and a $118.6 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 area 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 $16.17 billion, compared to $16.59 billion at December 31, 2008, reflecting a decrease of 2.5 percent over December 31, 2008.
- ❖ Net income totaled $198.4 million for the year ended December 31, 2009, compared to $267.7 million for 2008 and $242.5 million for 2007, reflecting a decrease of 25.9 percent from 2008 and a decrease of 18.2 percent over 2007.
- ❖ Net interest income for the year ended December 31, 2009, was $535.8 million compared to $470.4 million for 2008 and $432.4 million for 2007, reflecting 13.9 and 23.9 percent increases over the years ended December 31, 2008 and 2007, respectively.
- ❖ Return on average assets and return on average members' equity for the year ended December 31, 2009, were 1.01 and 8.02 percent, respectively, compared to 1.40 and 11.37 percent for 2008 and 1.44 and 10.86 percent for 2007, respectively.
- ❖ Patronage distributions declared totaled $107.9 million in 2009, compared to $152.0 and $133.7 million in 2008 and 2007, respectively.

RESULTS OF OPERATIONS

Net Income

The district's net income of $198.4 million for the year ended December 31, 2009, reflected a decrease of 25.9 percent from net income of $267.7 million for the year ended December 31, 2008, and a decrease of 18.2 percent from net income of $242.5 million for 2007. The return on average assets decreased to 1.01 percent for the year ended December 31, 2009, from 1.40 percent reported for the year ended December 31, 2008. This decrease was due primarily to an increase of $118.6 million in the district's provision for loan losses, discussed more fully in the "Loan Portfolio" section of this discussion, offset by effects of a 0.9 percent increase in the district's average earning assets and the increase in the interest rate spread on those earning assets, discussed more fully in the following "Net Interest Income" section.

Changes in Components of Net Income

	2009 vs. 2008	2008 vs. 2007
Net income, prior period	$ 267,728	$ 242,540
Increase (decrease) due to:		
Decrease in interest income	(155,966)	(67,958)
Decrease in interest expense	221,330	106,005
Net interest income	65,364	38,047
Provision for loan losses	(118,626)	(10,383)
Noninterest income	4,207	11,426
Noninterest expense	(23,202)	(13,699)
Benefit from (provision for) income taxes	2,953	(203)
Total (decrease) increase in net income	(69,304)	25,188
Net income	$ 198,424	$ 267,728

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 $961.5 million, a decrease of $156.0 million, or 14.0 percent, compared to 2008. Total interest income for 2008 was $1.1 billion, a decrease of $68.0 million, or 5.7 percent, from 2007. The decreases for both periods were due to decreases in the interest rates on earning assets, offset by increases in average interest-earning assets.

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

	Year Ended December 31,	
	2009 vs. 2008	2008 vs. 2007
Increase in average earning assets	$ 170,990	$ 2,277,523
Average yield, prior year	5.94%	7.17%
Interest income variance attributed to change in volume	10,154	163,298
Average earning assets, current year	18,987,472	18,816,482
Decrease in average yield	(0.88)%	(1.23)%
Interest income variance attributed to change in yield	(166,120)	(231,256)
Net change in interest income	$ (155,966)	$ (67,958)

Interest Expense

Total interest expense for the year ended December 31, 2009, was $425.7 million, a decrease of $221.3 million, or 34.2 percent, from the prior year. Total interest expense for the year ended December 31, 2008, was $647.0 million, a decrease of $106.0 million, or 14.1 percent, from 2007. The decrease for both periods was due primarily to a decrease in the average rate on debt, offset by an increase in interest-bearing liabilities.

Analysis of Operating Margin to Average Earning Assets

	For the Years Ended December 31,		
	2009	2008	2007
Net interest margin	**2.82%**	2.50%	2.61%
Operating expense	**1.06**	0.98	1.04
Operating margin	**1.76%**	1.52%	1.57%

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	$ 341,873	$ 2,056,322
Average rate, prior year	3.95%	5.25%
Interest expense variance attributed to change in volume	13,493	107,957
Average interest-bearing liabilities, current year	16,734,977	16,393,104
Decrease in average rate	(1.41)%	(1.30)%
Interest expense variance attributed to change in rate	(234,823)	(213,962)
Net change in interest expense	$ (221,330)	$ (106,005)

Net Interest Income

Net interest income increased by $65.4 million, or 13.9 percent, from 2008 to 2009 and increased by $38.0 million, or 8.8 percent, from 2007 to 2008. Factors responsible for these changes are illustrated in Figure 1.

Net interest income for 2009 increased from 2008 due to an increase in average-earning assets and a 53-basis-point increase in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt.

The increase in average earning assets was due primarily to loan growth at the district's associations, net of slight decreases in the bank's loan participation portfolio. The increase in the interest rate spread was due primarily to the bank's ability to call and replace callable debt with debt that had more favorable terms. During 2009, the bank called $10.326 billion in debt, replacing it with debt that had more favorable terms. Moderate increases in loan pricing spreads at the associations also contributed to the increase in the district's net interest rate spread.

Net interest income for 2008 increased from 2007 due to an increase in the district's earning assets, and a 7-basis-point increase in the interest rate spread.

Provision for Loan Losses

The provision for loan losses for 2009 was $172.1 million, reflecting an increase of $118.6 million from the $53.5 million provision recorded in 2008. The provision for loan losses at the bank increased by $13.1 million, while the associations' provisions increased by $105.5 million. The increase is due primarily to specific provisions for loan losses on impaired loans. The specific provisions reflect credit deterioration primarily in those agricultural sectors that continue to be impacted by volatility in commodity prices, such as ethanol, livestock and dairy, 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.

Noninterest Income

Noninterest income of $40.5 million reflected an increase of $4.2 million, or 11.6 percent, from 2008 to 2009. The increase was primarily due to a $5.1 million increase in gain on sale of investments, a $952 increase in fees for loan-related services and a $1.4 million increase in all other noninterest items, collectively, offset by a $3.1 million increase in estimated credit losses related to other-than-temporary impairments on investment securities — which is more fully discussed in Note 3, "Investment Securities" — and a $264 decrease in patronage and dividend income. 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 2008 of $36.2 million reflected an increase of $11.4 million, or 46.0 percent, from 2007 to 2008. The increase was primarily due to a $10.5 million increase in patronage from another System bank, a $2.5 million increase in fees for loan-related services, and a $2.1 million increase in gains on sales of investment securities, offset by a $2.2 million decrease in other noninterest income which includes a $2.2 million loss recognized due to an other-than-temporary impairment on an investment security, which is more fully discussed in "Investments."

Noninterest Expenses

Noninterest expenses for 2009 totaled $208.3 million, increasing $23.2 million, or 12.5 percent, from 2008. The increase was primarily due to an increase of $7.7 million in salaries and employment benefits, an increase of $7.4 million in net losses on other property owned, an increase of $7.0 million in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), an increase of $658 in occupancy and equipment expense, and an increase of $441 in other operating expenses. The $7.7 million increase in salaries and employee benefits was due primarily to a $1.7 million increase in salaries and related payroll taxes, a $11.4 million increase in pension and retirement benefits, and a $61 increase in other benefits, offset by a $4.3 million increase in salaries and benefits capitalized for nonrefundable fees and costs associated with originating and acquiring loans, and a $1.2 million increase in capitalized salaries and benefits related to the bank's development of new lending systems. Salaries increased due to increases in the number of employees and in pay rates, primarily at the district's associations. The increase in pension and retirement benefits was due primarily to an increase in losses recognized in the district's defined benefit pension plan during 2008. The increase in compensation included a $3.9 million accrual of deferred compensation for the bank's chief executive officer (see CEO compensation discussion in the Disclosure and Information Index section). The $7.4 million increase in losses on other property owned was primarily due to a $6.9 million increase in provision for losses on property acquired by district associations during the fourth quarter. The $7.0 million increase in premiums paid to the FCSIC was primarily due to a change in the premium base effective July 1, 2008, from loans to Systemwide debt outstanding, as well as an increase in the premium rate which began in January 2009. The $658 increase in occupancy and equipment expenses included a $452 increase in computer expenses. The $441 increase in other operating expenses was primarily due to a $1.3 million increase in professional and contract services and a $1.1 million increase in Funding Corporation assessment fees, and an $866 increase in all other operating expenses, collectively, offset by a $1.9 million decrease in advertising and member relations expenses, a $550 decrease in directors' expenses, and a $394 decrease in travel expenses. Assessments from the Funding Corporation increased primarily due to a $687 special assessment in January 2009 to provide additional funding for the

Figure 1

Analysis of Net Interest Income

	2009		2008		2007	
	Avg. Balance	**Interest**	Avg. Balance	Interest	Avg. Balance	Interest
Loans	**$ 16,460,808**	**$ 873,032**	$ 16,106,806	$ 1,006,081	$ 13,940,105	$ 1,053,629
Investments	**2,526,664**	**88,441**	2,709,676	111,358	2,598,854	131,768
Total earning assets	**18,987,472**	**961,473**	18,816,482	1,117,439	16,538,959	1,185,397
Interest-bearing liabilities	**16,734,977**	**425,681**	16,393,104	647,011	14,336,782	753,016
Impact of capital	**$ 2,252,495**		$ 2,423,378		$ 2,202,177	
NET INTEREST INCOME		**$ 535,792**		$ 470,428		$ 432,381

	Average Yield	Average Yield	Average Yield
Yield on loans	**5.30%**	6.25%	7.56%
Yield on investments	**3.50**	4.11	5.07
Yield on earning assets	**5.06**	5.94	7.17
Cost of interest-bearing liabilities	**2.54**	3.95	5.25
Interest rate spread	**2.52**	1.99	1.92
Impact of capital	**0.30**	0.51	0.69
Net interest income/average earning assets	**2.82**	2.50	2.61

Funding Corporation's pension plan, a $365 increase in the assessment for the Funding Corporation's 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, the bank's CEO compensation is expected to decrease in 2010. Also, due to a premium rate reduction from 20 basis points to 10 basis points, premiums to the FCSIC are expected to be lower in 2010.

Noninterest expenses for 2008 totaled $185.1 million, increasing by $13.7 million, or 8.0 percent, from 2007. The increase was primarily due to an increase of $5.6 million in salaries and employment benefits, an increase of $3.1 million in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), an increase of $3.9 million in other operating expenses, an increase of $711 in occupancy and equipment expense, and an increase of $343 in net losses on other property owned. The $5.6 million increase in salaries and employee benefits was due primarily to a $7.9 million increase in salaries and related payroll taxes, a $2.6 million increase in pension and retirement benefits and an $884 increase in other benefits, offset by a $5.2 million increase in salaries and benefits capitalized for nonrefundable fees and costs associated with originating and acquiring loans, and a $652 increase in capitalized salaries and benefits related to the bank's development of new lending systems. Salaries increased due to increases in the number of employees and in pay rates, primarily at the district's associations. The increase in pension and retirement benefits included a $3.1 million benefit 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 and Information Index section). The increase in pension and retirement benefits was due primarily to an increase in losses recognized in the district's defined benefit pension plan during 2008 and to a reduction in the discount rate used to determine plan liabilities. The $3.1 million increase in premiums paid to the FCSIC was primarily due to a change in the premium base effective July 1, 2008, from loans to Systemwide debt outstanding, and to increases during the first six months of 2008 over the same period of 2007 on the loan balances on which premiums were based at that time. The $3.9 million increase in other operating expenses was primarily due to a $2.7 million increase in professional and contract services, an $819 increase in travel expenses, a $552 increase in directors' expenses and a $345 increase in communications expenses, offset by a $472 decrease in training 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	**$ 335,305**	$ 285,714	$ 261,023
Operating expense as a percentage of net interest income	**37.42%**	39.27%	39.63%
Operating expense as a percentage of net interest income and noninterest income	**34.79**	36.46	37.48
Operating expense as a percentage of average loans	**1.22**	1.15	1.23
Operating expense as a percentage of average earning assets	**1.06**	0.98	1.04

The district's operating expense statistics for 2009 and 2008 reflect the district's growth in net interest income, which outpaced increases in operating expenses. Net interest income has increased 13.9 percent and 8.8 percent for the years ended December 31, 2009 and 2008, respectively, while operating expenses increased at the rates of 8.5 percent and 7.5 percent, respectively, for the same periods. Average loans increased 2.2 percent and 15.5 percent in 2009 and 2008, respectively. Average investments decreased 6.8 percent in 2009 and increased 4.2 percent in 2008. Average earning assets increased 0.9 percent in 2009 and increased 13.8 percent in 2008.

CORPORATE RISK PROFILE

Overview

The district 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 and its related associations are part of the Farm Credit System (System), which is comprised 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 Federal Farm Credit Banks Funding Corporation's (Funding Corporation) 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 stock, 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 retail lending activities through an assessment of the credit risk profile of an individual borrower. Each institution sets their own underwriting standards and lending policies, approved by the board of directors, that provides 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 retail 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. Real estate loans with terms greater than 10 years must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate loans with terms greater than 10 years may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000. 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 and 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.

Loan Portfolio

The loan portfolio consists only of retail loans. Bank loans to its affiliated associations have been eliminated in the combined financial statements. Gross loan volume of $16.17 billion at December 31, 2009, reflected a decrease of $422.9 million, or 2.5 percent, from the $16.59 billion loan portfolio balance at December 31, 2008. Loans, net of the allowance for loan losses, represented 83.8 percent, 82.0 percent and 83.8 percent of total assets as of December 31, 2009, 2008 and 2007, respectively.

Agricultural real estate mortgage loans totaled $11.04 billion at December 31, 2009, an increase of $25.0 million, or 0.23 percent, from 2008, and currently comprise approximately 68.3 percent of the district's loan portfolio. Commercial loans for agricultural production, processing and marketing totaled $3.22 billion, a decrease of $444.4 million, or 12.1 percent, from 2008, and represented 19.9 percent of the loan portfolio at December 31, 2009. All other loans, including energy loans, communications loans, farm-related business loans, rural home loans and loans to OFIs, decreased by $3.5 million to $1.90 billion. The composition of the district's loan portfolio by category may be found in Note 4, "Loans and Allowance for Loan Losses."

The bank and district associations review the credit quality of the loan portfolio as a part of their credit risk practices, using the classifications of the Uniform Classification System which is used by all System institutions. The classifications are defined as follows:

- Acceptable — Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (Special Mention) — Assets are currently collectible but exhibit some potential weakness.
- Substandard — Assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful — Assets exhibit similar weaknesses to substandard assets, but have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss — Assets are considered uncollectible.

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

	2009	2008	2007
Acceptable	**89.3%**	94.8%	97.2%
Special mention	**4.8**	2.3	1.6
Substandard	**5.9**	2.9	1.2
Total	**100.0%**	100.0%	100.0%

During 2009, overall credit quality reflected some deterioration from prior years. Volatility in the general economy and in agricultural sectors has resulted in some migration to more adverse classifications. Loans classified (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 94.1 percent at December 31, 2009, compared to 97.1 percent at December 31, 2008 and 98.8 percent at December 31, 2007.

High-Risk Assets

Total high-risk assets have increased by $252.2 million, or 71.5 percent, from $352.9 million at December 31, 2008, to $605.1 million at December 31, 2009. The increase in high-risk assets during 2009 includes a $192.0 million increase in nonaccrual loans and a $46.8 million increase in other property owned. The increases are reflective of the adverse conditions in the agricultural and general economy, and are due to the 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. The growth in nonaccrual loans included significant increases in livestock, ethanol-related, dairy, and hunting, trapping and game propagation, as well as loans related to land in transition, whose values are driven primarily by development values near urban areas rather than agricultural value. The $46.8 million increase in other property owned was due mainly to the credit stress induced by the general economy as well as the agricultural sectors previously mentioned.

Figure 2

Nonaccrual Loans
as a Percentage of Total Loans at Year End

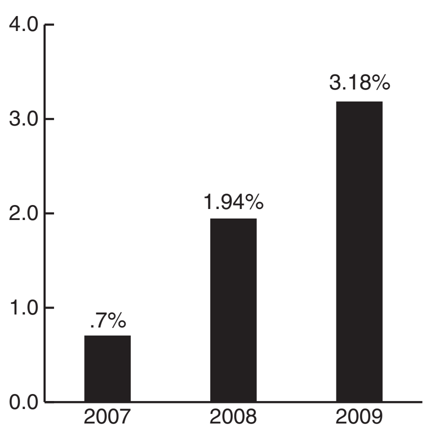


Figure 3

High-Risk Assets
as a Percentage of Total Members' Equity at Year End

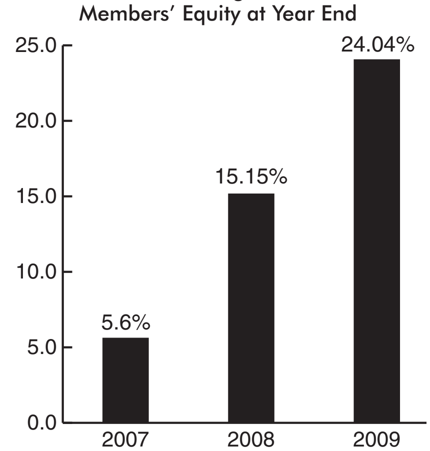
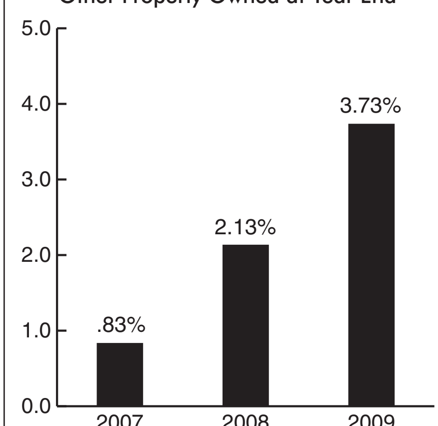


Figure 4

High-Risk Assets
as a Percentage of Total Loans and Other Property Owned at Year End



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

(in millions)	2009	2008	2007
Nonaccrual loans	**$ 514.4**	$ 322.4	$ 100.1
Formally restructured loans	**3.0**	6.1	6.2
Loans past due 90 days or more and still accruing interest	**34.4**	17.9	16.9
Other property owned, net	**53.3**	6.5	1.8
Total	**$ 605.1**	$ 352.9	$ 125.0

At December 31, 2009, $211.8 million, or 41.2 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $249.9 million, or 77.5 percent, of nonaccrual loans at December 31, 2008, and $79.5 million, or 79.4 percent, at December 31, 2007.

Figures 2, 3 and 4 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members' equity at December 31, 2009, 2008 and 2007. 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 district anticipates credit quality of the loan portfolio will stabilize in 2010.

Allowance and Provision for Loan Losses

At December 31, 2009, the allowance for loan losses was $144.7 million, or 0.90 percent of total loans outstanding, compared to $51.7 million (0.31 percent) and $24.5 million (0.16 percent) at December 31, 2008 and 2007, respectively. Net charge-offs of $78.3 million, $26.2 million and $32.6 million were recorded in 2009, 2008 and 2007, respectively. The district's net provision for loan losses of $172.1 million for 2009 reflected an increase of $118.6 million, or 221.7 percent, from the $53.5 million provision recorded for 2008, due primarily to provision related to the loans described in the "Provision for Loan Losses" section of this discussion. The allowance for loan losses for the district represents the aggregate of each entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each entity is particular to that institution and is not available to absorb losses realized by other institutions. The allowance for loan losses at each period end was considered by management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. Management's evaluations consider factors including loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions and economic conditions.

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

	2009	2008	2007
Allowance for loan losses as a percentage of:			
Average loans	**0.9%**	0.3%	0.2%
Loans at year end			
Total loans	**0.9**	0.3	0.2
Nonaccrual loans	**28.1**	16.0	24.5
Total impaired loans	**26.2**	14.9	19.9
Net charge-offs to average loans	**0.5**	0.2	0.2
Provision expense to average loans	**1.0**	0.3	0.3

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 interest rate risk through its direct loan pricing and asset/liability management process. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members.

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

The rate sensitivity gap analysis in Figure 5 sets forth a static measurement of the district's volume of interest-rate-sensitive assets and liabilities outstanding as of December 31, 2009, which are projected to mature or reprice in each of the future time periods shown. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the district has a negative gap position, indicating that the district has an exposure to rising interest rates. This occurs when interest expense on interest-bearing liabilities increases, due to their maturing or repricing cycle, sooner than maturing or repricing assets.

To more appropriately reflect the cash flow and repricing characteristics of the district's balance sheet, an estimate of expected prepayments on loans is reflected in the maturities of the loans in the

Figure 5

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**
Earning Assets							
Total loans	$ 6,214,241	$ 2,117,451	$ 1,336,956	**$ 9,668,648**	$ 4,852,816	$ 1,645,706	**$ 16,167,170**
Total investments	693,664	218,488	240,190	**1,152,342**	815,869	231,591	**2,199,802**
Total earning assets	6,907,905	2,335,939	1,577,146	**10,820,990**	5,668,685	1,877,297	**18,366,972**
Interest-Bearing Liabilities							
Total interest-bearing funds*	6,942,918	2,483,052	2,600,290	**12,026,260**	3,385,642	809,546	**16,221,448**
Excess of earning assets over interest-bearing liabilities	—	—	—	**—**	—	2,145,524	**2,145,524**
Total interest-bearing liabilities	6,942,918	2,483,052	2,600,290	**12,026,260**	3,385,642	2,955,070	**$ 18,366,972**
Interest rate sensitivity gap	$ (35,013)	$ (147,113)	$ (1,023,144)	**$ (1,205,270)**	$ 2,283,043	$ (1,077,773)	
Cumulative interest rate sensitivity gap	$ (35,013)	$ (182,126)	$ (1,205,270)	**$ (1,205,270)**	$ 1,077,773		

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

earning assets section of Figure 5. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the district's balance sheet.

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

At December 31, 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 16 "Derivative Instruments and Hedging Activity" for further discussion. Unrealized losses on interest rate caps, the difference between the 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 has bilateral collateral agreements to reduce potential exposure, diversify counterparties in the swap transactions and monitor the credit ratings of all counterparties with whom it transacts. Figure 6 summarizes the bank's activity in derivative financial instruments for 2009.

Interest rate risk exposure as measured by simulation modeling calculates the district'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 the district's financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. As of December 31, 2009, projected district net interest income would increase by $47.5 million, or 8.9 percent, if interest rates were to increase by 200 basis points, and would decrease by $1.2 million, or 0.22 percent, if interest rates were to decrease by 3 basis points. In general, the bank's ability to exercise call options on debt benefits the district in the event of decreasing interest rates. In a rising interest rate scenario, the benefit of rate increases on investments, association loans and the bank's participation loans would outpace the increase in the cost of debt. This favorable performance is due to the bank's ability to exercise call options on debt currently outstanding and considerably lower interest rates.

Liquidity Risk Management

The district'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 comprised primarily of high-quality liquid securities. The

Figure 6

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance, December 31, 2008	$ 800
Additions	255
Terminations	(800)
Balance, December 31, 2009	**$ 255**

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 composed of cash and Treasury securities, and an additional 30 days composed 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

We continually raise funds to support our 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, we have 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.

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 ratio 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 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 the bank 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 district *(dollars in millions)*:

	December 31,		
	2009	2008	2007
Bonds and term notes outstanding	**$ 11,847**	$ 11,335	$ 11,464
Average effective interest rate	**2.46%**	3.89%	4.98%
Average life (years)	**2.8**	3.4	3.2
Subordinated debt outstanding	**$ 50**	$ 50	$ —
Average effective interest rate	**8.41%**	8.50%	—
Average life (years)	**8.8**	9.8	—
Discount notes outstanding	**$ 922**	$ 2,467	$ 1,160
Average effective interest rate	**0.29%**	1.37%	4.10%
Average life (days)	**76**	107	39
Notes payable to other System banks	**$ 3,400**	$ 3,500	$ 2,700
Average effective interest rate	**0.78%**	3.25%	5.74%
Average life (years)	**1.0 or less**	1.0 or less	1.0 or less

The following table provides a summary of the average balances of the debt obligations of the district *(dollars in millions)*:

	For the years ended December 31,		
	2009	2008	2007
Average interest-bearing liabilities outstanding	**$ 16,735**	$ 16,393	$ 14,337
Average interest rates on interest-bearing liabilities	**2.54%**	3.95%	5.25%

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 Farm Credit Administration (FCA) approved a rule that increased the amount of eligible investments a bank is authorized to hold to an amount not to exceed 35 percent of loans outstanding from the previous percentage of 30 percent. FCA regulations also permit an association to hold eligible investments with the approval of its affiliated bank.

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 develop and submit to the FCA a divestiture plan that includes disposal of an asset that becomes ineligible within six months, unless the FCA grants permission to divest the instrument over a longer period of time.

The following table discloses the district's holdings in available-for-sale investment securities at December 31,

	2009		2008	
	Amortized Cost	**Fair Value**	Amortized Cost	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	**67,069**	**64,134**	91,310	84,970
Total available-for-sale investments	**$ 2,166,093**	**$ 2,179,312**	$ 3,016,768	$ 2,995,857

At December 31, 2009, the available-for-sale investment portfolio included guaranteed Small Business Administration pooled securities totaling $35.8 million held by a district association. The district's available-for-sale portfolio is 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 district's cash position by $444.1 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 $6.5 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 composition and characteristics of the district's investment securities are described in Note 3, "Investment 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	**55,482**	**—**	**—**	**4,958**	**—**	**—**	**—**	**2,014**	**1,680**	**—**	**64,134**
Total	**$ 2,063,307**	**$ 30,000**	**$ —**	**$ 30,656**	**$ 5,792**	**$ 2,400**	**$ 8,203**	**$ 2,014**	**$ 12,589**	**$ 24,351**	**$2,179,312**

	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	73,989	—	—	8,733	—	—	—	2,248	—	—	84,970
Total	$ 2,673,201	$ —	$ 194,993	$ 112,731	$ —	$ —	$ —	$ 14,932	$ —	$ —	$2,995,857

Capital Adequacy

In November 2003, the bank issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98.6 million. The preferred stock is treated as equity and is not mandatorily redeemable. The preferred stock was issued for general corporate purposes. In September 2005, an additional 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock was issued for net proceeds of $108.9 million, which included $2.1 million in accrued dividends payable. Net proceeds from the additional issue were used to enhance the composition of the bank's capital and liquidity position; to support the bank's loan growth; to provide a base for further growth and service opportunities to our members and to rural America; and for general corporate purposes.

Borrower equity purchases required by association capitalization bylaws (see Note 8, "Members' Equity"), combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $2.52 billion capital position of the district at December 31, 2009, reflects an increase of 8.1 percent over the December 31, 2008, capital position of $2.33 billion. This increase is attributable to the $198.4 million of net income earned in 2009; issuances of capital stock, participation certificates and allocated retained earnings of $7.6 million; a decrease in net unrealized losses on investments of $34.1 million; an adjustment to accumulated other comprehensive income of $19.0 million related to pension and postretirement benefit plans; an increase of net unrealized gains in cash flow derivatives of $2.8 million; an adjustment to retained earnings of $1.5 million resulting from the effects the noncredit portion of the previous other-than-temporary impairment losses recorded in the first quarter of 2009, offset by dividend and patronage distributions of $67.4 million; and retirements of capital stock, participation certificates and allocated retained earnings of $8.4 million.

The return on average members' equity for the year ended December 31, 2009, was 8.0 percent, compared to 11.4 percent and 10.9 percent reported for the years ended December 31, 2008 and 2007, respectively.

The district recorded a $2.7 million charge to retained earnings pursuant to a change in the measurement date used for the valuation of pension and other postretirement benefit obligations from September 30 to December 31 in 2008.

FCA regulations require System institutions to compute a total surplus ratio, a core surplus ratio and a net collateral ratio (bank only), and maintain at least the minimum standard for each ratio. In those instances where an entity may not be in compliance, the regulations require the entity to submit a corrective plan to the FCA designed to move the institution into compliance. As of December 31, 2009, the bank and all district associations were in compliance with the regulations. Note 8, "Members' Equity," outlines the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 15.98 percent at December 31, 2009, is considered adequate, in accordance with the capital plan adopted by the bank's board of directors. An analysis of the trend in the district's capital ratios is presented in Figures 7, 8 and 9.

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.

As of December 31, 2009, the management of one association within the district concluded it had not maintained effective internal control over the accounting for the allowance for loan losses, which caused a material weakness. The association has deemed the lack of effective internal credit review and effective monitoring over

Figure 7

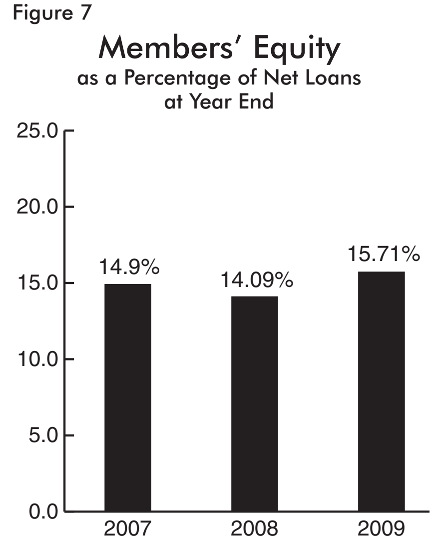


Figure 8

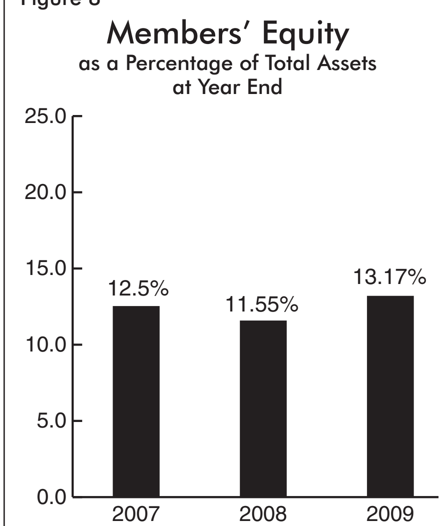
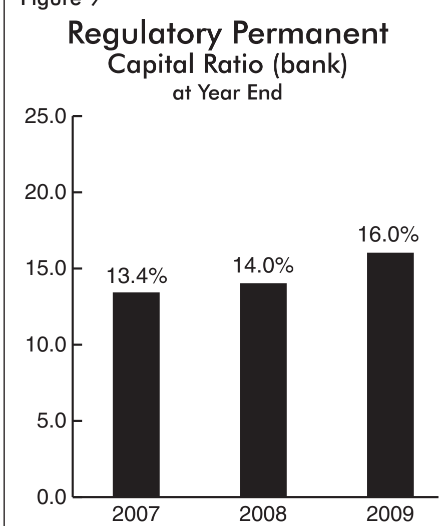


Figure 9



credit classification as causing a failure of aspects of the association's internal controls. The association will disclose the material weakness in its 2009 annual report to stockholders. The association is in the process of remediating the weakness and has recently completed an internal review of its loan portfolio risk ratings and recalculated its allowance for loan loss as of December 31, 2009. The association's financial results for 2009 will include the respective financial adjustments identified by this review and respective allowance for loan loss recalculations. Additional diligence and evaluation of the association's loan portfolio risk ratings will be completed by a third party service provider prior to the end of the first quarter 2010. The impact of this association's material weakness to the district's financial results and its internal controls over financial reporting for 2009 was evaluated by bank management and not considered significant.

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 Farm Credit 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 (GAAP) 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 district adopted this standard in the second quarter and the required disclosures are included in Note 19, "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 was expanded and is 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 district adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 15, "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 district adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 10, "Employee Benefit Plans."

Association Structural Changes

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.

Regulatory Matters

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

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 outstanding 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.

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 and the Texas District Associations:

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

COMBINED FINANCIAL STATEMENTS

Combined Balance Sheets

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	December 31,		
(dollars in thousands)	**2009**	2008	2007
Assets			
Cash	**$ 500,967**	$ 56,882	$ 55,703
Federal funds sold	**20,490**	176,698	125,502
Investment securities	**2,179,312**	3,046,397	2,410,999
Loans	**16,167,170**	16,590,071	15,114,537
Less allowance for loan losses	**144,731**	51,653	24,495
Net loans	**16,022,439**	16,538,418	15,090,042
Accrued interest receivable	**177,094**	202,807	228,212
Other property owned, net	**53,324**	6,495	1,817
Premises and equipment, net	**55,525**	49,499	42,599
Other assets	**108,012**	89,116	41,623
Total assets	**$ 19,117,163**	$ 20,166,312	$ 17,996,497
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	**$ 16,169,479**	$ 17,302,205	$ 15,324,015
Subordinated debt	**50,000**	50,000	—
Accrued interest payable	**70,074**	103,288	122,459
Patronage distributions payable	**42,974**	55,024	63,899
Other liabilities	**267,232**	326,078	235,463
Total liabilities	**16,599,759**	17,836,595	15,745,836
Commitments and contingencies (Note 12)			
Members' equity			
Preferred stock	**202,754**	202,754	202,754
Common stock and participation certificates	**63,202**	63,859	62,489
Allocated retained earnings	**266,991**	211,450	133,423
Unallocated retained earnings	**2,061,299**	1,984,421	1,886,488
Accumulated other comprehensive loss	**(76,842)**	(132,767)	(34,493)
Total members' equity	**2,517,404**	2,329,717	2,250,661
Total liabilities and members' equity	**$ 19,117,163**	$ 20,166,312	$ 17,996,497

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

Combined Statements of Income

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(dollars in thousands)	**2009**	2008	2007
Investment securities and other	**$ 88,441**	$ 111,358	$ 131,768
Loans	**873,032**	1,006,081	1,053,629
Total interest income	**961,473**	1,117,439	1,185,397
Bonds, notes and subordinated debt	**396,467**	541,316	653,972
Notes payable and other	**29,214**	105,695	99,044
Total interest expense	**425,681**	647,011	753,016
Net interest income	**535,792**	470,428	432,381
Provision for loan losses	**172,140**	53,514	43,131
Net interest income after provision for loan losses	**363,652**	416,914	389,250
Patronage income	**17,626**	17,420	7,003
Fees for loan-related services	**17,885**	16,933	14,429
Gain from sale of investment securities	**7,650**	2,556	503
Miscellaneous income, net	**2,585**	1,575	2,885
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	**40,453**	36,246	24,820
Salaries and employee benefits	**101,700**	94,043	88,489
Occupancy and equipment expense	**13,763**	13,105	12,394
Insurance Fund premiums	**31,265**	24,248	21,092
Losses on other property owned, net	**7,803**	374	31
Other operating expenses	**53,759**	53,318	49,383
Total noninterest expense	**208,290**	185,088	171,389
Income before income taxes	**195,815**	268,072	242,681
(Benefit from) provision for income taxes	**(2,609)**	344	141
Net income	**$ 198,424**	$ 267,728	$ 242,540

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

Combined Statements of Changes in Members' Equity

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Retained Earnings Total	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2006	$ 203,565	$ 59,068	$ 83,705	$ 1,792,723	$ 1,876,428	$ (26,401)	$ 2,112,660
Comprehensive income							
Net income	—	—	—	242,540	242,540	—	242,540
Net change in unrealized losses on investment securities	—	—	—	—	—	16,513	16,513
Net change in unrealized gains on cash flow hedge derivatives	—	—	—	—	—	1,047	1,047
Minimum pension liability adjustment	—	—	—	—	—	4,931	4,931
Total comprehensive income	—	—	—	242,540	242,540	22,491	265,031
Adjustment to recognize unfunded retirement obligations	—	—	—	—	—	(30,583)	(30,583)
Capital stock/participation certificates issued	—	12,926	—	—	—	—	12,926
Capital stock/participation certificates and allocated retained earnings retired	(811)	(9,505)	(7,682)	—	(7,682)	—	(17,998)
Cash dividends on preferred stock	—	—	—	(15,122)	(15,122)	—	(15,122)
Patronage distributions							
Cash	—	—	—	(76,253)	(76,253)	—	(76,253)
Members' equity	—	—	57,400	(57,400)	—	—	—
Balance at December 31, 2007	202,754	62,489	133,423	1,886,488	2,019,911	(34,493)	2,250,661
Adjustment for accounting changes:							
Change in benefits measurement date	—	—	—	(2,713)	(2,713)	—	(2,713)
Balance at January 1, 2008	202,754	62,489	133,423	1,883,775	2,017,198	(34,493)	2,247,948
Comprehensive income							
Net income	—	—	—	267,728	267,728	—	267,728
Change in pension and postretirement benefit plans	—	—	—	—	—	(78,201)	(78,201)
Net change in unrealized net losses on investment securities	—	—	—	—	—	(15,952)	(15,952)
Net change in unrealized gains on cash flow hedge derivatives	—	—	—	—	—	(4,121)	(4,121)
Total comprehensive income	—	—	—	267,728	267,728	(98,274)	169,454
Capital stock/participation certificates issued	—	13,594	—	—	—	—	13,594
Capital stock/participation certificates and allocated retained earnings retired	—	(12,224)	(2,531)	—	(2,531)	—	(14,755)
Cash dividends on preferred stock	—	—	—	(15,122)	(15,122)	—	(15,122)
Patronage distributions							
Cash	—	—	—	(71,402)	(71,402)	—	(71,402)
Members' equity	—	—	80,558	(80,558)	—	—	—
Balance at December 31, 2008	202,754	63,859	211,450	1,984,421	2,195,871	(132,767)	2,329,717
Noncredit portion of previous other-than-temporary impairment losses	—	—	—	1,527	1,527	(1,527)	—
Balance at January 1, 2009	202,754	63,859	211,450	1,985,948	2,197,398	(134,294)	2,329,717
Comprehensive income							
Net income	—	—	—	198,424	198,424	—	198,424
Change in pension and postretirement benefit plans	—	—	—	—	—	19,028	19,028
Net change in unrealized net losses on investment securities	—	—	—	—	—	42,166	42,166
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	—	(6,511)	(6,511)
Net change in unrealized gains on cash flow hedge derivatives	—	—	—	—	—	2,769	2,769
Total comprehensive income	—	—	—	198,424	198,424	57,452	255,876
Capital stock/participation certificates issued	—	7,601	—	—	—	—	7,601
Capital stock/participation certificates and allocated retained earnings retired	—	(8,258)	(107)	—	(107)	—	(8,365)
Cash dividends on preferred stock	—	—	—	(15,122)	(15,122)	—	(15,122)
Patronage distributions							
Cash	—	—	—	(52,303)	(52,303)	—	(52,303)
Members' equity	—	—	55,648	(55,648)	—	—	—
Balance at December 31, 2009	**$ 202,754**	**$ 63,202**	**$ 266,991**	**$2,061,299**	**$2,328,290**	**$ (76,842)**	**$ 2,517,404**

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

Combined Statements of Cash Flows

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Year Ended December 31, **2009**	2008	2007
Operating Activities			
Net income	**$ 198,424**	$ 267,728	$ 242,540
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**172,140**	53,514	43,131
Provision for losses on other property owned	**7,349**	458	133
Depreciation and amortization on premises and equipment	**6,075**	5,715	5,375
Accretion of net discount on loans	**(1,005)**	(1,263)	(1,876)
Amortization and accretion on debt instruments	**(4,045)**	(2,240)	(1,759)
Accretion of net premium (discount) on investments	**4,062**	(1,405)	(3,004)
Gain on sale of investment securities	**(7,650)**	(2,556)	(503)
Loss on impairment of available-for-sale investments	**5,293**	2,238	—
Allocated equity patronage from System bank	**(11,780)**	(6,468)	(1,972)
(Gain) loss on sales of other property owned, net	**(686)**	(297)	34
Gain on sales of premises and equipment	**(4,501)**	(2,932)	(1,978)
Decrease (increase) in accrued interest receivable	**25,713**	25,405	(23,609)
Increase in other assets, net	**(8,760)**	(9,077)	(7,643)
(Decrease) increase in accrued interest payable	**(33,214)**	(19,171)	19,874
(Decrease) increase in other liabilities, net	**(1,752)**	8,819	13,716
Net cash provided by operating activities	**345,663**	318,468	282,459
Investing Activities			
Net decrease (increase) in federal funds sold	**156,208**	(51,196)	(36,273)
Investment securities available for sale:			
Purchases	**(1,419,563)**	(4,338,753)	(3,971,804)
Proceeds from maturities, calls and prepayments	**2,147,272**	3,572,339	4,159,943
Proceeds from sales	**165,512**	116,785	93,123
Investment in Farmer Mac preferred stock	**—**	(7,000)	—
Decrease (increase) in loans, net	**243,832**	(1,514,401)	(2,244,329)
(Expenditures) proceeds from (purchase) sale of loans	**(100,000)**	800,000	1,300,000
Proceeds from sales of other property owned, net	**18,341**	8,935	4,420
Proceeds from sales of premises and equipment	**3,944**	2,872	4,255
Expenditures for premises and equipment	**(11,544)**	(12,555)	(9,616)
Net cash provided by (used in) investing activities	**1,204,002**	(1,422,974)	(700,281)
Financing Activities			
Bonds and notes issued	**42,684,817**	57,398,132	31,248,805
Subordinated debt issued, net of costs	**—**	49,458	—
Bonds and notes retired	**(43,682,950)**	(56,243,332)	(30,751,324)
(Decrease) increase in advanced conditional payments	**(27,208)**	(2,014)	8,495
Capital stock and participation certificates issued	**7,601**	13,594	12,926
Capital stock and participation certificates retired and allocated retained earnings distributed	**(8,365)**	(14,755)	(17,998)
Cash dividends on preferred stock	**(15,122)**	(15,122)	(15,122)
Cash dividends and patronage distributions paid	**(64,353)**	(80,276)	(72,427)
Net cash (used in) provided by financing activities	**(1,105,580)**	1,105,685	413,355
Net increase (decrease) in cash	**444,085**	1,179	(4,467)
Cash at beginning of year	**56,882**	55,703	60,170
Cash at end of year	**$ 500,967**	$ 56,882	$ 55,703
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 24,884**	$ —	$ 4,079
Loans transferred to other property owned	**96,717**	13,560	4,043
Net decrease (increase) in unrealized losses on investment securities	**34,128**	(15,952)	21,444
Patronage distributions payable	**42,974**	55,024	63,899
Traded but not settled participation loan sales	**29,178**	—	—
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 Information			
Cash paid during the year for:			
Interest	**$ 458,895**	$ 666,182	$ 733,142
Income taxes	**345**	826	315

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

Notes to Combined Financial Statements

Farm Credit Bank of Texas and District Associations

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

Note 1 — Organization and Operations

A. Organization:

The Farm Credit Bank of Texas (bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is currently subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The 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 lending authorities of an FCB within its chartered territories. The bank is chartered to service the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs). The 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 certain activities of the associations within their districts. The FCBs and/or associations make loans to or for the benefit of eligible borrower-stockholders for qualified agricultural purposes. District associations borrow the majority of funds from their related bank. The System banks obtain a substantial majority of their funds for 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 and 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 the associations and defines the eligible borrowers which they may serve. The associations are authorized to provide, or participate with other lenders to provide, credit, credit commitments and related services to eligible borrowers. Eligible borrowers are defined as (a) bona fide farmers and ranchers and producers or harvesters of aquatic products, (b) persons furnishing to farmers and ranchers services directly related to their on-farm operating needs, (c) owners of rural homes, (d) rural residents and (e) farm-related businesses. The bank also may lend to any national bank, state bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union or any association of agricultural producers (aggregately referred to as OFIs) engaged in the making of loans to farmers and ranchers, and any corporation engaged in the making of loans to producers or harvesters of aquatic products.

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

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

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

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

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

In addition, The Farm Credit Council acts as a full-service, federated trade association which represents the System before

Congress, the executive branch and others, and provides support services to System institutions on a fee basis.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (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. In June 2008, with the passage of the Food, Conservation, and Energy Act of 2008 (Farm Bill), the basis for assessing premiums was changed, beginning with the second half of 2008, to reflect each System bank's pro rata share of outstanding insured debt. The Farm Bill imposes premiums of 20 basis points on adjusted insured debt obligations, with the Insurance Corporation Board having the ability to reduce the amount, and a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

Note 2 — Summary of Significant Accounting Policies

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

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

A. Cash:

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

B. Investment Securities:

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

Most of the district's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2009, 2008 and 2007, respectively. 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 and associations 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 district's holdings in investment securities are more fully described in Note 3, "Investment Securities."

C. Loans and Allowance for Loan Losses:

Long-term real estate mortgage loans can have maturities ranging from five to 30 years. Substantially all short-term and intermediate-term loans are made for agricultural production or operating purposes and have maturities of 10 years or less.

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

Loan origination fee income and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loans as an adjustment to yield.

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 or association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. Management considers the following factors in determining and supporting the levels of allowances for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors.

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.

D. Other Property Owned:

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

E. Premises and Equipment:

Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. 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 and associations are authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2009, 2008 and 2007 were $109.8 million, $271.5 million and $309.0 million, respectively.

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

As more fully described in Note 10, "Employee Benefit Plans," these plans are accounted for and reported in accordance with authoritative accounting guidance. The bank and all but one association provide certain health care benefits to eligible retired employees and directors. District employees' eligibility for these benefits upon retirement is dependent on conditions set by each district employer.

The structure of the district's defined benefit 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 plans only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. The majority of plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only.

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

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

As of December 31, 2009, deferred income taxes have not been provided by the ACAs and their PCA subsidiaries on $35.3 million of pre-1993 patronage distributions from the bank because management's intent is to (1) permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) pass any distributions related to pre-1993 earnings to borrowers through qualified patronage allocations. No deferred taxes have been provided on the bank's post-1994 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances which, if distributions were made, would result in income taxes being paid at the association level.

I. Derivative Instruments and Hedging Activity:

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 firm commitments. Derivatives are recorded on the balance sheet as assets and liabilities at fair value.

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 are reflected in accumulated other comprehensive income. 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 when the bank determines that a derivative has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

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 plans. 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 14, "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 district adopted this standard in the second quarter and the required disclosures are included in Note 19, "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 district adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 15, "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 district adopted the guidance with no impact on its financial statements and the required disclosures are included in Note 10, "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	**67,069**	**416**	**(3,351)**	**64,134**	**2.66**
Total available-for-sale investments	**$2,166,093**	**$35,212**	**$(21,993)**	**$2,179,312**	**2.61%**

	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	91,310	118	(6,458)	84,970	4.17
Total available-for-sale investments	$ 3,016,768	$24,878	$(45,789)	$ 2,995,857	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	—	6,145	19,227	38,762	64,134
Total securities	$ 30,000	$ 219,644	$ 326,901	$1,602,767	$ 2,179,312
Total amortized cost	$ 30,000	$ 214,409	$ 323,373	$1,598,311	$ 2,166,093
Weighted average yield	0.15%	2.97%	2.25%	2.68%	2.61%

At December 31, 2009, the available-for-sale investment portfolio included guaranteed Small Business Administration pooled securities totaling $35.8 million held by a district association. Available-for-sale investments are recorded on the balance sheet at fair value; held-to-maturity investments are recorded at amortized cost.

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 investment securities follow:

	Year Ended December 31,		
	2009	2008	2007
Proceeds on sales	**$ 165,512**	$ 114,424	$ 93,123
Realized gains on sales	**7,650**	2,556	503
Realized losses due to impairment	**5,293**	2,238	—

The net realized gain and loss is included on the combined 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 district 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. An investment is considered impaired if its fair value is less than its cost.

	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 available-for-sale investments	$ 508,975	$ (5,244)	$ 165,855	$ (16,749)	$ 674,830	$ (21,993)

Although net unrealized gain on investment securities has increased by $34.1 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 and associations perform an evaluation quarterly on a security-by-security basis considering all available information. If the bank or association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the bank or association 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 and associations use 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 Allowance for Loan Losses

Loans comprised the following categories at December 31:

	2009	2008	2007
Real estate mortgage	**$ 11,040,592**	$ 11,015,550	$ 10,149,685
Production and intermediate term	**1,965,720**	2,268,893	2,115,224
Agribusiness			
Loans to cooperatives	**151,580**	188,105	184,229
Processing and marketing	**1,251,631**	1,392,895	1,220,876
Farm-related business	**229,261**	262,007	277,912
Communication	**253,914**	409,341	306,351
Energy	**869,292**	644,236	524,175
Water and waste disposal	**50,000**	50,172	50,098
Rural home	**212,817**	205,949	151,583
Mission-related	**43,982**	41,841	28,055
International	**504**	1,349	979
Loans to other financial institutions	**93,878**	106,126	100,328
Lease receivables	**3,999**	3,607	5,042
Total	**$ 16,167,170**	$ 16,590,071	$ 15,114,537

The FCA approved a program that allows the bank and its associations to purchase investments in debt instruments called "Rural America Bonds." This program is intended to help meet the growing financing needs of agriculture and rural America, improve the income and economic well-being of American farmers and ranchers, and enhance the economic vibrancy of rural areas that support agriculture. Loans related to this initiative are included in "mission-related" loans in the above table.

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

	2009		2008		2007	
Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 6,198**	**38%**	$ 6,310	38%	$ 6,000	40%
Crops	**2,292**	**14**	2,255	14	2,095	14
Timber	**1,712**	**11**	1,855	11	1,819	12
Cotton	**750**	**5**	758	5	774	5
Poultry	**625**	**4**	681	4	575	4
Dairy	**449**	**3**	508	3	476	3
Rural home	**213**	**1**	206	1	152	1
Other	**3,928**	**24**	4,017	24	3,224	21
Total	**$ 16,167**	**100%**	$ 16,590	100%	$ 15,115	100%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

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

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

	December 31,		
	2009	2008	2007
Nonaccrual loans			
Current as to principal and interest	**$ 211,756**	$ 249,851	$ 79,501
Past due	**302,611**	72,562	20,618
Total nonaccrual loans	**514,367**	322,413	100,119
Accrual loans			
Restructured	**2,974**	6,072	6,191
90 days or more past due	**34,446**	17,896	16,852
Total impaired accrual loans	**37,420**	23,968	23,043
Total impaired loans	**$ 551,787**	$ 346,381	$ 123,162
Average impaired loans	**$ 527,161**	$ 165,941	$ 73,680

There were $63.5 million in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2009.

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	**$ 12,408**	$ 577	$ 1,515
Interest income on impaired accrual loans	**1,477**	1,500	1,353
Interest income recognized on impaired loans	**$ 13,885**	$ 2,077	$ 2,868

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

	2009	2008	2007
With related specific allowance	**$ 291,654**	$ 116,627	$ 51,588
With no related specific allowance	**260,133**	229,754	71,574
Total impaired loans	**$ 551,787**	$ 346,381	$ 123,162
Allowance on impaired loans	**$ 86,623**	$ 31,379	$ 10,376

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans during 2009 were as follows:

	2009	2008	2007
Interest income which would have been recognized under the original loan terms	**$ 40,496**	$ 20,727	$ 15,086
Less: Interest income recognized	**13,885**	2,077	2,868
Foregone interest income	**$ 26,611**	$ 18,650	$ 12,218

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

	December 31,		
	2009	2008	2007
Balance at beginning of year	**$ 51,653**	$ 24,495	$ 13,969
Charge-offs:			
Real estate mortgage	**13,733**	160	30,017
Production and intermediate term	**18,016**	3,163	2,868
Communication	**18,214**	—	—
Agribusiness	**31,989**	4,766	127
Energy	**41**	18,958	—
Rural home	**69**	11	22
Total charge-offs	**82,062**	27,058	33,034
Recoveries:			
Real estate mortgage	**769**	—	—
Production and intermediate term	**1,855**	473	142
Communication	**125**	—	—
Agribusiness	**877**	322	287
Energy	**123**	27	—
Total recoveries	**3,749**	822	429
Net charge-offs	**(78,313)**	(26,236)	(32,605)
Provision for loan losses	**172,140**	53,515	43,131
Reserve for losses on letters of credit and remaining commitment	**(749)**	(121)	—
Balance at end of year	**$ 144,731**	$ 51,653	$ 24,495
Ratio of net charge-offs during the period to average loans outstanding during the period	**0.48%**	0.16%	0.23%

The following table presents a breakdown of the allowance for loan losses at December 31:

	2009		2008		2007	
	Amount	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 97,132**	**67%**	$ 36,225	70%	$ 18,847	77%
Production and intermediate term	**14,759**	**10**	6,610	13	3,315	13
Agribusiness	**23,054**	**16**	6,792	13	1,689	7
Communication	**6,533**	**5**	1,013	2	153	1
Energy	**3,134**	**2**	405	1	196	1
Water and waste disposal	**—**	**—**	1	—	—	—
Rural home	**119**	**—**	593	1	285	1
International	**—**	**—**	4	—	2	—
Lease receivables	**—**	**—**	10	—	8	—
Total	**$144,731**	**100%**	$ 51,653	100%	$ 24,495	100%

To mitigate risk of loan losses, district associations have entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the associations the right to sell the loans identified in the agreements to Farmer Mac in the event of default, subject to certain conditions. The balance of loans under long-term standby commitments to purchase was $499.4 million at December 31, 2009. Fees paid to Farmer Mac for such commitments totaled $1.9 million for the year ended December 31, 2009, and are classified as noninterest expense.

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
Land	**$ 10,938**	$ 10,875	$ 9,798
Buildings and improvements	**39,011**	36,678	33,942
Furniture and equipment	**42,586**	36,254	30,650
	92,535	83,807	74,390
Accumulated depreciation	**(37,010)**	(34,308)	(31,791)
Total	**$ 55,525**	$ 49,499	$ 42,599

Included in the district's property and equipment at December 31, 2009, is $9.1 million in capitalized costs related to the district'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 district'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 for the bank and district associations on leases:

	Minimum Lease Payments
2010	$ 3,301
2011	3,013
2012	2,745
2013	1,860
2014	641
Total minimum lease payments	$ 11,560

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2009	2008	2007
Receivable on participation loan sales	**$ 29,178**	$ —	$ —
Investment in another System bank	**22,504**	10,742	4,333
Other accounts receivable	**20,807**	23,866	16,505
Unamortized debt issue costs	**10,017**	10,680	9,628
Farmer Mac preferred stock	**7,000**	7,000	—
Deferred tax assets, net	**5,013**	2,231	2,074
Fair value of derivatives	**2,526**	31,439	7,034
Other, net	**10,967**	3,158	2,049
Total	**$ 108,012**	$ 89,116	$ 41,623

Other liabilities comprised the following at December 31:

	2009	2008	2007
Pension liability	**$ 111,296**	$ 139,783	$ 72,052
Postretirement benefits	**41,607**	40,199	36,547
Accounts payable	**37,645**	34,163	24,785
FCSIC premium payable	**24,386**	21,978	20,691
Advance conditional payments	**22,281**	49,489	51,503
Bank draft payable	**17,218**	32,382	25,615
Deferred tax liabilities	**371**	410	606
Income taxes payable	**334**	644	602
Fair value of derivatives	**30**	3,074	178
Other, net	**12,064**	3,956	2,884
Total	**$ 267,232**	$ 326,078	$ 235,463

Note 7 — Bonds and Notes

Systemwide Debt Securities and Notes Payable:

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

In 1994, the System banks and the Funding Corporation entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. (At December 31, 2009, the bank was, and currently remains, in compliance with the conditions and requirements of the MAA.)

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

The district's participation in Systemwide debt securities and notes payable to other System bank follows (*dollars in millions*):

	Systemwide						Notes Payable to Other System Bank		Total	
	Bonds		Medium-Term Notes		Discount Notes					
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2010	$ 3,835.5	1.74%	$ —	—%	$ 922.3	0.29%	$ 3,400.0	0.78%	$ 8,157.8	1.18%
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%	$ 3,400.0	0.78%	$ 16,169.5	1.98%

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

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

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2009:

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 business 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 combined financial statements are uninsured.

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 bank may not declare or pay any dividends or patronage refunds, among certain other 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:

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 $100.0 million of these participations for a net outstanding direct notes sold of $3.4 billion at December 31, 2009.

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

Note 8 — Members' Equity

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

A. Capitalization Requirements:

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

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

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

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

B. Regulatory Capitalization Requirements and Restrictions:

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

The bank's permanent capital ratio at December 31, 2009, was 15.98 percent and exceeded FCA standards. All associations currently meet the minimum capital standard established by FCA regulations. All associations are able to retire stock or distribute earnings in accordance with the Farm Credit Act and FCA regulatory restrictions. Management knows of no reasons why the bank and associations would be prohibited from retiring stock.

The following table sets forth the ranges of capital standards for the district at December 31, 2009:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	15.98	7.11	12.47
FLCAs	13.30 – 17.13	12.76 – 16.45	12.76 – 16.45
ACAs	9.06 – 17.70	8.59 – 17.11	8.59 – 17.11
Regulatory minimum standard	7.00	3.50	7.00

The bank is required by FCA regulations to achieve and maintain net collateral of 103 percent of total liabilities. However, the issuance of subordinated debt resulted in FCA requiring the net collateral to be 104 percent to total liabilities while any subordinated debt is outstanding. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, and cash and cash equivalents. At December 31, 2009, the bank's net collateral ratio was 105.83 percent.

C. Description of Associations' Equities:

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

Stock and Participation Certificates	Par Value	Number of Shares at December 31, 2009	2008	2007
Stock				
Common – voting (eligible for dividends, convertible)	$ 5.00	**11,759,905**	11,899,534	11,647,412
Common – nonvoting (eligible for dividends, convertible)	$ 5.00	**55,802**	76,595	93,083
Preferred – nonvoting (eligible for dividends, nonconvertible)	$ 5.00	**550,840**	550,840	550,840
Participation certificates – nonvoting (eligible for dividends, convertible)	$ 5.00	**430,705**	396,849	370,682

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

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

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

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

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

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

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

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

D. Description of Bank Equities:

According to the bank's bylaws, the minimum and maximum stock investments required of the ACAs and FLCAs are 2 percent (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. These intercompany balances and transactions are eliminated in combination.

The bank requires OFIs to make cash purchases of common nonvoting stock in the bank based on the OFI's average borrowings from the bank. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. At December 31, 2009, the bank had $1.97 million of common stock outstanding to OFIs at a par value of $5.00 per share.

On November 7, 2003, the bank issued 100,000 shares of $1,000 cumulative perpetual preferred stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The preferred stock was issued to provide capital for general corporate purposes. On September 26, 2005, an additional 100,000 shares was issued for net proceeds of $108,894, including $2,121 of accrued dividends payable and after expenses of $1,687 associated with the offering. Net proceeds from the additional issue were to enhance the composition of the bank's capital and liquidity, to support the bank's loan growth, to provide a base for further growth and service opportunities to our members and to rural America, and for general corporate purposes. The dividend rate on the cumulative perpetual preferred stock is 7.561 percent, payable semi-annually to December 31, 2013, after which dividends are payable quarterly at a rate equal to the 3-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. Dividends on the stock are reported as declared. Preferred stock dividends totaling $15,122 were declared and paid during 2009.

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. In June 2008, Fitch Ratings, Ltd. issued an AA-long-term issuer default rating with a stable rating outlook and assigned an A rating to the bank's preferred stock. 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.

E. Accumulated Other Comprehensive Loss:

Accumulated Other Comprehensive 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 investments available-for-sale, net	**(21,256)**	20,910	4,957
Pension and other benefit plans	**89,756**	108,783	30,583
Unrealized losses on cash flow interest rate caps	**304**	—	—
Unrealized losses (gains) on cash flow interest rate swaps, net	**—**	3,074	(1,047)
Total	**$ 76,842**	$ 132,767	$ 34,493

Note 9 — Income Taxes

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

The (benefit from) provision for income taxes follows for years ended December 31:

	2009	2008	2007
Current			
Federal	**$ 167**	$ 694	$ 262
State	**44**	3	6
Total current	**211**	697	268
Deferred			
Federal	**(2,625)**	(357)	(75)
State	**(195)**	4	(52)
Total deferred	**(2,820)**	(353)	(127)
Total (benefit from) provision for income taxes	**$ (2,609)**	$ 344	$ 141

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

	2009	2008	2007
Federal tax at statutory rate	**$ 35,107**	$ 60,322	$ 60,407
State tax, net	**(150)**	7	—
Effect of nontaxable entities	**(44,869)**	(59,080)	(56,265)
Valuation allowance	**4,400**	1,934	814
Patronage distributions	**(1,684)**	(3,739)	(4,302)
Capital download to associations	**(40)**	(195)	(351)
Other, net	**4,627**	1,095	(162)
Total (benefit from) provision for income taxes	**$ (2,609)**	$ 344	$ 141

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

	2009	2008	2007
Allowance for loan losses	**$ 11,519**	$ 5,392	$ 3,685
Allowance for acquired property	**19**	32	—
Postretirement benefits	**2,073**	3,632	3,490
Net operating loss carryforward	**6,043**	2,659	2,982
Other	**51**	808	274
Gross deferred tax assets	**19,705**	12,523	10,431
Less valuation allowance	**(14,692)**	(10,292)	(8,357)
Adjusted gross deferred tax assets	**5,013**	2,231	2,074
FCBT stock redemption	**(273)**	(313)	(508)
Other	**(98)**	(97)	(98)
Gross deferred tax liabilities	**(371)**	(410)	(606)
Net deferred tax assets	**$ 4,642**	$ 1,821	$ 1,468

There were no uncertain tax positions and related liabilities for unrecognized tax benefits recorded at December 31, 2009. Any penalties and interest related to income taxes would be accounted for as an adjustment to income tax expense.

Note 10 — Employee Benefit Plans

Employees of the district 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 DB plan is noncontributory, and benefits are based on salary and years of service. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan in 1998 and beyond, to facilitate reorganization and/or restructuring. Under authoritative accounting guidance, there were no pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under a retention plan at December 31, 2009 and 2008 as compared to $320 for the year ended December 31, 2007. Additionally, certain qualified individuals in the bank may participate in a separate, nonqualified defined benefit supplemental pension plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the non-elective pension feature of the DC plan direct the placement of their employers' contributions made on their behalf into various investment alternatives. Employer contributions to the DC plan were $2.9 million, $4.7 million and $3.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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. Employer contributions were $3.2 million, $3.1 million and $2.8 million for the years ended December 31, 2009, 2008 and 2007, respectively. Additionally, certain qualified individuals may participate in separate nonqualified supplemental 401(k) plans managed by their employer.

The bank and associations also provide certain health care benefits to eligible retired employees, beneficiaries and directors (retiree medical plan).

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 authoritative accounting guidance were adopted at December 31, 2007. Authoritative accounting 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. The Standard provides two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, 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 and related associations decreased retained earnings by $2.7 million, net of taxes, and increased the pension and other postretirement benefit liabilities by $2.7 million.

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

	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
Accumulated benefit obligation, end of year	**$ 231,745**	$ 205,854	$ 190,594			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ 253,945**	$ 242,007	$ 230,244	**$ 40,291**	$ 36,811	$ 38,489
Service cost	**5,516**	6,987	5,209	**1,239**	1,331	1,235
Interest cost	**15,681**	19,304	13,549	**2,497**	2,937	2,271
Plan participants' contributions	**—**	—	—	**419**	497	365
Plan amendments	**—**	—	—	**—**	(658)	—
Settlements	**—**	(458)	—	**—**	—	—
Special termination benefits	**—**	—	320	**—**	—	—
Actuarial loss (gain)	**13,198**	12,993	1,424	**(1,001)**	1,367	(3,969)
Benefits paid	**(9,662)**	(26,887)	(8,740)	**(1,838)**	(1,994)	(1,580)
Projected benefit obligation, end of year	**$ 278,678**	$ 253,946	$ 242,006	**$ 41,607**	$ 40,291	$ 36,811
Change in plan assets						
Plan assets at fair value, beginning of year	**$ 114,162**	$ 169,954	$ 152,936	**$ —**	$ —	$ —
Actual return on plan assets	**30,897**	(52,254)	19,206	**—**	—	—
Company contributions	**31,985**	23,350	6,552	**1,419**	1,497	1,215
Plan participants' contributions	**—**	—	—	**419**	497	365
Benefits paid	**(9,662)**	(26,887)	(8,740)	**(1,838)**	(1,994)	(1,580)
Plan assets at fair value, end of year	**$ 167,382**	$ 114,163	$ 169,954	**$ —**	$ —	$ —
Reconciliation of funded status						
Unfunded status	**$ (111,296)**	$ (139,783)	$ (72,052)	**$ (41,607)**	$ (40,291)	$ (36,811)
Contributions between measurement date and fiscal year end	**N/A**	N/A	—	**N/A**	N/A	264
Net benefit liability at end of year	**$ (111,296)**	$ (139,783)	$ (72,052)	**$ (41,607)**	$ (40,291)	$ (36,547)

	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
Amounts recognized consist of:						
Deferred income tax assets	**$ —**	$ —	$ —	**$ —**	$ (128)	$ (431)
Net benefit liability at end of year	**(111,296)**	(139,783)	(72,052)	**(41,607)**	(40,291)	(36,547)
Accumulated other comprehensive loss (income)	**100,164**	119,775	44,056	**(10,408)**	(10,992)	(13,473)
Amounts recognized in accumulated other comprehensive income						
Additional minimum pension liability adjustment	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Net actuarial loss (gain)	**98,124**	117,345	40,608	**878**	2,003	668
Prior service cost (credit)	**2,040**	2,430	3,448	**(11,286)**	(12,995)	(14,141)
Total	**$ 100,164**	$ 119,775	$ 44,056	**$ (10,408)**	$ (10,992)	$ (13,473)

A funding policy adopted in 2007 establishes contribution requirements for the district's DB plan if plan assets are less than the accumulated benefit obligation at year end. The policy calls for contributions equal to the value of the additional benefits expected to be earned by employees during the year plus a payment on the shortfall between the accumulated benefit obligation and the plan assets. The additional payments for any shortfall are intended to fund the shortfall over the next five years. In accordance with this policy, contributions of $20,000 and $31,985 were made to the plan in January 2010 and January 2009, respectively. The supplemental (nonqualified) pension plan is not funded.

The following table discloses the excess of the DB plan's accumulated benefit obligation over its plan assets at December 31,

	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
District DB plan projected benefit obligation	**$ 272,661**	$ 248,726	$ 233,362			
District DB plan assets at fair value	**167,382**	114,163	169,954			
Accumulated benefit obligation of district DB plan	**227,866**	203,053	185,918			
Funding shortfall	**(60,484)**	(88,890)	(15,964)			
Supplemental (nonqualified) projected benefit obligation	**$ 6,017**	$ 5,220	$ 8,644			
Supplemental (nonqualified) accumulated benefit obligation	**3,879**	2,801	4,675			
Supplemental (nonqualified) fair value of plan assets	**—**	—	—			
Net periodic benefit cost						
Service cost	**$ 5,516**	$ 5,590	$ 5,209	**$ 1,239**	$ 1,235	$ 1,235
Interest cost	**15,681**	15,443	13,549	**2,497**	2,271	2,271
Expected return on plan assets	**(10,598)**	(14,143)	(12,249)	**—**	—	—
Amortization of:						
Prior service cost	**390**	814	1,144	**(1,732)**	(1,844)	(1,844)
Net actuarial loss	**12,120**	2,051	3,171	**138**	71	71
Net periodic benefit cost	**$ 23,109**	$ 9,755	$ 10,824	$ **2,142**	$ 1,733	$ 1,733
Settlement expense	**—**	3,168	—	**—**	—	—
Special termination benefits	**—**	—	320	**—**	—	—
Total benefit cost	**$ 23,109**	$ 12,923	$ 11,144	$ **2,142**	$ 1,733	$ 1,733
Adjustment to retained earnings for 2008 due to change in measurement date	**N/A**	$ 2,439		**N/A**	$ 272	
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss	**$ (7,101)**	$ 82,469	N/A	$ **(986)**	$ 1,218	N/A
Amortization of net actuarial (gain) loss	**(12,120)**	(2,564)	N/A	**(136)**	(20)	N/A
Settlement expense	**—**	(3,168)	N/A	**—**	(5)	N/A
Prior service costs	**—**	—	N/A	**—**	(586)	N/A
Amortization of prior service costs	**(390)**	(1,018)		**1,706**	1,872	
Termination recognition of prior service costs	**—**	—	N/A	**—**	4	N/A
Net change	**$ (19,611)**	$ 75,719	N/A	**$ 584**	$ 2,483	N/A
AOCI amounts expected to be amortized in 2010						
Prior service cost (credit)	**$ 390**			**$ (1,732)**		
Net actuarial loss (gain)	**9,775**			**125**		
Total	**$ 10,165**			**$ (1,607)**		
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	**5.95%**	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%**	11.00%	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

	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	**2009**	2008	2007
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	**7.50%**	8.00%	8.00%	**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%**	8.5%/6.5%	9.0%/6.75%
Health care cost trend rate assumed for next year (pre/post-65) — prescriptions				**11.00%**	12.00%	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	**$ 694**
One-percentage point decrease	**(553)**
Effect on year-end postretirement benefit obligation	
One-percentage point increase	**$ 6,774**
One-percentage point decrease	**(5,503)**

Plan Assets

The trustees of the district DB plan set investment policies and strategies for the plan, including target allocation percentages for each category of plan asset. Generally, the funding objectives of the DB plan is to achieve and maintain plan assets in accordance with the funding policy mentioned above and to provide competitive investment returns and reasonable risk levels when measured against appropriate benchmarks. Plan trustees develop asset allocation policies based on plan objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. District postretirement health-care plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

	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)**
Asset Category:				
Commingled trust funds:				
Russell Growth Fund	**$ 17,588**	$ —	$ 17,588	$ —
Russell All International Markets Fund	**30,518**	—	30,518	—
Russell Small Cap Fund	**6,682**	—	6,682	—
Russell U.S. Value Fund	**17,472**	—	17,472	—
Russell Multi-Manager Bond Fund	**66,775**	—	66,775	—
Russell Enhanced Index U.S. Equity Fund	**28,347**	—	28,347	—
Total assets	**$ 167,382**	$ —	$ 167,382	$ —

Expected Future Cash Flow Information

	Pension Benefits	Other Postretirement Benefits
Expected Benefit Payments		
Fiscal 2010	**$ 11,649**	**$ 1,501**
Fiscal 2011	**12,659**	**1,688**
Fiscal 2012	**15,177**	**1,836**
Fiscal 2013	**15,166**	**2,050**
Fiscal 2014	**16,540**	**2,238**
Fiscal 2015 - 2019	**103,641**	**13,838**
Expected Contributions		
Fiscal 2010	**$ 20,814**	**$ 1,501**

Plan Assets

	Pension Benefits				Other Postretirement Benefits			
Asset Category	Target	**2009**	2008	2007	Target	**2009**	2008	2007
Equity securities	60%	**60%**	60%	60%	—%	**—%**	—%	—%
Debt securities	40	**40**	40	40	—	**—**	—	—
Cash/other	—	**—**	—	—	100	**100**	100	100
Total	100%	**100%**	100%	100%	100%	**100%**	100%	100%

As disclosed above, the expected total contributions for 2010 was $20.8 million, which is $11.6 million less than contributions for 2009. The significant decline in the plan's actual return on plan assets for 2008 reflects the adverse effects of the global financial markets during that year, necessitating the increase in expected contributions for 2009. The plan's investment results in 2009, and general economic trends and their effects on the plan's investment portfolio in 2009 affected the level of contributions required to fund the plan.

Notwithstanding current investment market conditions, the expected long-term rate of return assumption is determined independently for each defined benefit pension plan and for each other postretirement benefit plan. Generally, plan trustees use historical return information to establish a best-estimate range for each asset class in which the plans are invested. Plan trustees select the most appropriate rate for each plan from the best-estimate range, taking into consideration the duration of plan benefit liabilities and plan sponsor investment policies.

Note 11 — Related Party Transactions

In the ordinary course of business, the bank and associations have entered into loan transactions with directors, officers and other employees of the bank or associations and other organizations with which such persons may be associated. Total loans to such persons at December 31, 2009, amounted to $180.8 million. In the opinion of management, such loans outstanding to directors, officers and other employees at December 31, 2009, did not involve more than a normal risk of collectibility and were subject to approval requirements contained in FCA regulations and were made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Disclosures on individual associations' officers and directors are found in the associations' individual annual reports.

Note 12 — Commitments and Contingencies

In the normal course of business, the bank and associations have various outstanding commitments and contingent liabilities as discussed elsewhere in these notes. For a discussion of commitments to extend credit and standby letters of credit issued, see Note 13, "Financial Instruments With Off-Balance-Sheet Risk."

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

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

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

At any time, the bank and associations have outstanding a significant number of commitments to extend credit. The bank and associations also provide standby letters of credit to guarantee the performance of customers to third parties. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the combined balance sheets (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The district's commitments to extend credit totaled $3.057 billion, $3.320 billion and $3.076 billion at December 31, 2009, 2008 and 2007, respectively. At December 31, 2009, the district had $129.9 million in outstanding standby letters of credit, issued primarily in conjunction with participation loans. Outstanding standby letters of credit generally have expiration dates ranging from 2010 to 2013. The district has a stand-by letter of credit to one borrower in the amount of $11.4 million that expires in 2025. The fair value of these obligations is $4.5 million, based on the fees for the unexpired period remaining.

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

Note 14 — 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	**2,179,312**	—	2,179,312	—
Derivative assets	**2,526**	—	2,526	—
Assets held in non-qualified benefit trusts	**1,822**	1,822	—	—
Total assets	**$ 2,204,150**	$ 1,822	$ 2,202,328	$ —
Liabilities:				
Derivative liabilities	**$ 30**	$ —	$ 30	$ —
Standby letters of credit	**4,537**	—	4,537	—
Total liabilities	**$ 4,567**	$ —	$ 4,567	$ —

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 other earnings	(5,293)
Purchases, issuances and settlements	(104,208)
Net transfers out of 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	$ 205,031	$ —	$ —	$ 205,031
Other property owned	59,248			59,248
Total assets	$ 264,279	$ —	$ —	$ 264,279

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 and securities purchased under resale agreements	**$ 176,698**	$ —	$ 176,698	$ —
Investments available-for-sale	**2,995,857**	—	2,895,865	99,992
Derivative assets	**31,439**	—	31,439	—
Assets held in non-qualified benefit trusts	**746**	746	—	—
Total assets	**$ 3,204,740**	$ 746	$ 3,104,002	$ 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 gains 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	$ 85,248	$ —	$ —	$ 85,248
Other property owned	6,495			6,495
Total assets	$ 91,743	$ —	$ —	$ 91,743

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. The following represent a brief summary of the valuation techniques used by the bank and associations 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 fair value of the collateral on which repayment is deemed to be dependent. At December 31, 2009, impaired loans with a fair value of $205,031 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.

In accordance with authoritative accounting guidance, assets acquired in loan foreclosures are recorded at fair value, less estimated costs of sale. At December 31, 2009, foreclosed assets with a fair value of $59,248 are included in other property owned.

Note 15 — Fair Value of Financial Instruments

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

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

	December 31, 2009		December 31, 2008		December 31, 2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash and federal funds sold and investment securities	**$ 2,700,769**	**$ 2,700,769**	$ 3,279,977	$ 3,281,080	$ 2,592,204	$ 2,592,204
Loans	**16,167,170**	**16,204,014**	16,590,071	17,122,656	15,114,537	15,041,574
Allowance for loan losses	**(144,731)**	**—**	(51,653)	—	(24,495)	—
Loans, net	**16,022,439**	**16,204,014**	16,538,418	17,122,656	15,090,042	15,041,574
Derivative assets	**2,526**	**2,526**	31,439	31,439	7,034	7,034
Financial liabilities						
Bonds and notes	**16,169,479**	**16,262,844**	17,302,205	17,584,236	15,324,015	15,439,162
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 district'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 14, "Fair Value Measurements."

C. Loans:

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

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

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

D. Bonds and Notes:

Systemwide bonds and notes are not regularly traded; thus, quoted market prices are not available. Fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of 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 16 — 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 district's gains or losses on the derivative instruments that are linked to these hedged liabilities. Another result of interest rate fluctuations is that the interest expense of hedged variable-rate liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the 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 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 the bank 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 had credit exposure to counterparties, net of collateral of $2.5 million, as compared with $32.1 million for the same period of the prior year.

The table below presents the credit ratings of counterparties to whom the bank has credit exposure at December 31, 2009:

	Remaining Years to Maturity						
(dollars in millions)	Less Than One 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 oversight of the bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the district's overall interest rate risk-management strategies. The bank enters into interest rate swaps classified as fair value hedges primarily to convert a portion of its non-prepayable fixed-rate long-term debt to floating-rate debt.

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. 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 Value of Derivative Instruments:

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

(dollars 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 the 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.

December 31, 2009	Maturities of 2009 Derivative Products and Other Financial Instruments							
(dollars in millions)	2010	2011	2012	2013	2014	Subsequent Years	Total	Fair Value
Total 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	$ 5,650	$ 450	$ —	$ —	$ —	$ —	$ 6,100	$ 5,959
Weighted average interest rate	0.64%	0.26%	—	—	—	—	0.61%	
Total debt obligations	$ 8,158	$ 2,341	$ 1,302	$ 1,165	$ 994	$ 2,209	$ 16,169	$ 16,263
Weighted average interest rate	1.18%	1.63%	2.35%	2.83%	3.25%	4.12%	1.98%	
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 17 — 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	**$ 124,987**	**$ 128,882**	**$ 136,141**	**$ 145,782**	**$ 535,792**
Provision for loan losses	**31,560**	**43,496**	**61,809**	**35,275**	**172,140**
Noninterest expense, net	**43,551**	**39,433**	**34,198**	**48,046**	**165,228**
Net income	**$ 49,876**	**$ 45,953**	**$ 40,134**	**$ 62,461**	**$ 198,424**

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 114,007	$ 116,240	$ 120,642	$ 119,539	$ 470,428
Provision for loan losses	8,410	6,663	12,431	26,010	53,514
Noninterest expense, net	35,844	34,318	34,866	44,158	149,186
Net income	$ 69,753	$ 75,259	$ 73,345	$ 49,371	$ 267,728

	2007				
	First	Second	Third	Fourth	Total
Net interest income	$ 105,570	$ 106,186	$ 110,290	$ 110,335	$ 432,381
Provision for loan losses	1,242	25,778	8,333	7,778	43,131
Noninterest expense, net	37,275	36,107	35,794	37,534	146,710
Net income	$ 67,053	$ 44,301	$ 66,163	$ 65,023	$ 242,540

Note 18 — Bank-Only Financial Data

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

	Year Ended December 31,		
Balance Sheet Data	**2009**	2008	2007
Cash and federal funds sold	**$ 490,915**	$ 189,791	$ 142,102
Investment securities	**2,143,485**	3,028,468	2,410,999
Loans			
To associations	**8,304,420**	8,402,595	8,058,130
To others	**2,728,694**	3,000,518	2,807,861
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**	—	—
Other assets	**91,242**	88,046	35,962
Total assets	**$ 13,776,502**	$ 14,760,501	$ 13,520,778
Bonds and notes	**$ 12,819,479**	$ 13,852,205	$ 12,624,015
Other liabilities	**135,731**	163,754	168,162
Total liabilities	**12,955,210**	14,015,959	12,792,177
Preferred stock	**200,000**	200,000	200,000
Capital stock	**237,361**	227,212	198,864
Retained earnings	**373,060**	343,113	334,394
Accumulated other comprehensive income (loss)	**10,871**	(25,783)	(4,657)
Total members' equity	**821,292**	744,542	728,601
Total liabilities and members' equity	**$ 13,776,502**	$ 14,760,501	$ 13,520,778

	Year Ended December 31,		
Statement of Income Data	**2009**	2008	2007
Interest income	**$ 565,384**	$ 660,690	$ 753,541
Interest expense	**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	**38,312**	33,900	22,116
Other expense	**67,268**	56,034	46,634
Net income	**$ 106,608**	$ 76,733	$ 74,004

Note 19 — Subsequent Events

The district 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 combined financial statements.

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

Directors and Senior Officers

The following represents certain information regarding the 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 of 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 committee 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 of the Bank

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 of the Bank

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 of the bank 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

		Annual					
Name of Chief Executive Officer	Year	Salary (a)	Bonus (b)	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	$ —

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 two 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 of the Bank

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 Retention 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. The district associations own 16 headquarter locations and lease three. There are 120 owned and 70 leased association branch locations. The bank's and associations' investment in property is further detailed in Note 5, "Premises and Equipment," to the accompanying combined financial statements.

Legal Proceedings

There 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 12, "Commitments and Contingencies," to the accompanying combined financial statements outlines the bank and association's position with regard to possible contingencies at December 31, 2009.

Description of Capital Structure

The bank and associations are authorized to issue and retire certain classes of capital stock and retained earnings in the management of their capital structures. Details of the capital structures are described in Note 8, "Members' Equity," to the accompanying combined financial statements, and in the "Management's Discussion and Analysis" of the district included in this annual report to stockholders.

Description of Liabilities

The bank's debt outstanding is described in Note 7, "Bonds and Notes," to the accompanying financial statements. The bank's contingent liabilities are described in Note 12, "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 Combined Financial Data" included in this annual report to stockholders.

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

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

Transactions With Senior Officers and Directors

The district's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 11, "Related Party Transactions," to the accompanying combined financial statements.

Relationship With Public Accountants

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

During 2009, district entities paid their independent public accountants $1.6 million for audit services and $99,628 for tax services. During 2009, the bank's 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 combined financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 1, 2010, and the report of management in this annual report to stockholders, 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 district's quarterly reports are available approximately 40 days after the end of each fiscal quarter. The district's annual report will be posted on the bank's Web site (at www.farmcreditbank.com), within 75 calendar days of the end of the district 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 district fiscal year, a copy of the district'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	
(dollars in thousands)	Number of Loans	Volume
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	
(dollars in thousands)	Number of Loans	Volume
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:

(dollars in thousands)	At December 31, 2009 — Annual Gross Sales: $50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
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:

(dollars in thousands)	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
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%