2010 ANNUAL REPORT

FARM CREDIT BANK OF TEXAS

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FARM CREDIT BANK OF TEXAS
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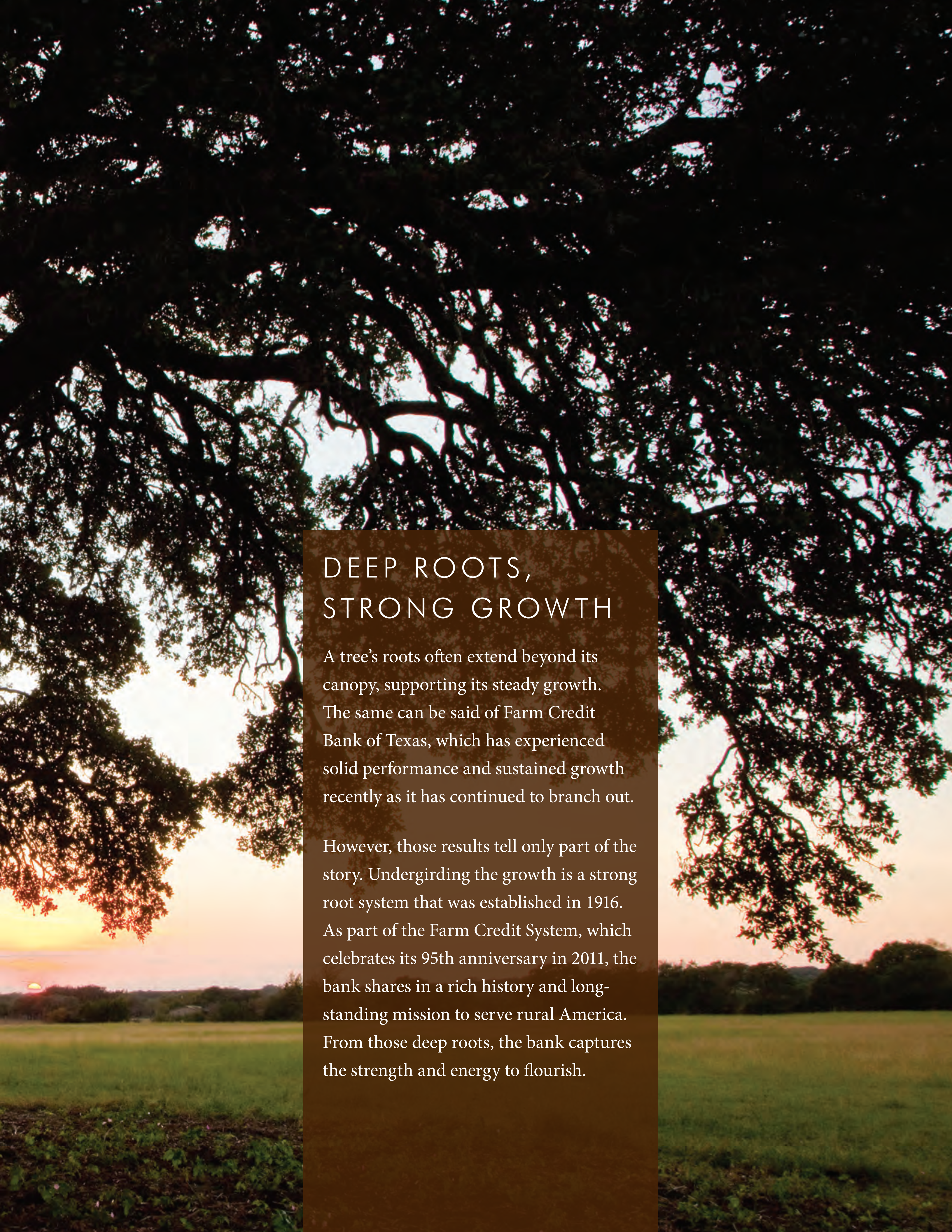


DEEP ROOTS, STRONG GROWTH

A tree's roots often extend beyond its canopy, supporting its steady growth. The same can be said of Farm Credit Bank of Texas, which has experienced solid performance and sustained growth recently as it has continued to branch out.

However, those results tell only part of the story. Undergirding the growth is a strong root system that was established in 1916. As part of the Farm Credit System, which celebrates its 95th anniversary in 2011, the bank shares in a rich history and long-standing mission to serve rural America. From those deep roots, the bank captures the strength and energy to flourish.

Ralph W. "Buddy" Cortese Larry R. Doyle

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.

TO OUR STOCKHOLDERS:

The bank is extremely pleased with how well our business model performed in 2010. Although the year was not without challenges, including the residual effects of a significant economic downturn, we still achieved strong financial results, including record net income of $168.5 million, a 58 percent increase over last year's net income.

That accomplishment can be linked directly to our business model and the philosophy behind it. We intentionally structured our bank to bring in additional capital through means other than the direct notes to our associations. Our liquidity investment portfolio and capital markets participation portfolio have turned into an earnings engine for the bank. Much of our net earnings for 2010 can be attributed to the bank's careful management of its liabilities by calling debt and reissuing it at lower rates.

Patronage: A Benefit of Our Cooperative Model

Our affiliated associations received a direct benefit from our structure. Our 2010 plan called for the bank to match the 40-basis-point patronage that was paid in 2009. We were able to accomplish that objective, plus pay an extra 10 basis points based on our record net income. In December 2010, we returned a 50-basis-point patronage to associations and the Other Financing Institutions (OFIs) that own the bank. The patronage was based on their direct note volume, and the payment totaled $56.6 million.

As a result of that patronage, the associations' cost of funding for 2010 was actually less than the bank's cost of funds. Essentially, we were able to discount the funds from what we paid in the marketplace as a way to add value to our associations.

Furthermore, the $56.6 million earnings patronage was only one of the bank's patronage programs. In total, the bank returned $76.1 million in patronage in 2010 through four patronage programs.

Total 2010 patronage:

• Earnings Patronage on Direct Note	$ 56.6 million
• Participations Patronage	$ 12.1 million
• Stock Investment Patronage	$ 5.7 million
• Capitalized Participation Patronage	$ 1.7 million
Total	$ 76.1 million

Farm Credit Remains Attractive to Investors

Another highlight for 2010 was the successful issuance of an additional $300 million in preferred stock, which occurred in August. Our bank was one of the first institutions to offer preferred stock after the markets took a downward turn in late 2008. Our successful sale was proof of the strength of Farm Credit and how attractive it remains to investors. The $300 million of Class B non-cumulative subordinated perpetual preferred stock further strengthens the bank's already strong capital position and increases our risk-bearing capacity, which will allow us to pursue business opportunities as they arise.

This latest stock issuance is part of a conservative management strategy to issue higher quality capital to replace the bank's existing $182 million of the Class A cumulative perpetual preferred stock that can be redeemed in 2013.

Ratings Reflect Bank's Stable Operating Performance

One factor that aided our stock issuance was the bank's positive ratings, which were affirmed in July by both Moody's Investor Services and Fitch Ratings. Fitch Ratings affirmed the bank's long-term and short-term Issuer Default Ratings at "AA-" and "F1+," respectively. Moody's affirmed the bank's investment-grade issuer rating of Aa2, A1 subordinated debt rating and A2 preferred stock rating. These favorable investment-grade ratings demonstrate the stability and strength that Farm Credit Bank of Texas offers to investors.

According to their statements, the ratings actions reflect the bank's continued stable operating performance and adequate capital levels, as well as the expectation that this consistent performance will continue, despite anticipated stress in specific segments of the industry.

Challenges in the Lending Environment

Enhanced credit standards and repayments on existing loans reduced many associations' loan portfolios. All of this resulted in a 5.2 percent decrease in the bank's gross loan volume, which is mainly attributable to a $774.4 million decrease in the bank's direct loans to associations and OFIs.

Despite the challenges in the lending markets, district associations have improved lending standards and improved the profitability on new loans. These improvements, along with strategic organizational changes made in many of the district's associations, will position them for greater success in the future.

TOP ACHIEVEMENTS in 2010

Net income up 58 percent; sets new record

Through careful management of its debt portfolio, Farm Credit Bank of Texas achieved record earnings of $168.5 million, 58 percent higher than the previous record of $106.6 million set in 2009.

Bank pays record 50-basis-point direct note patronage

True to its cooperative principles, Farm Credit Bank shared its success with its stockholders. The bank paid a record patronage on direct-note borrowings totaling $56.6 million. As a result of the patronage, the associations' cost of funding was less than the bank's cost of funds.

Another $300 million in preferred stock issued

In August, Farm Credit Bank of Texas issued an additional $300 million in preferred stock. The successful sale highlights the strength of Farm Credit and how attractive it remains to investors. The $300 million preferred stock provides the bank with higher quality capital and also improves the bank's capital position.

Investment-grade ratings affirmed by Fitch and Moody's

Farm Credit Bank of Texas was recognized by both Fitch Ratings and Moody's Investor Services with their recent affirmations of the bank's investment-grade ratings. The ratings actions reflect the bank's continue stable operating performance and adequate capital levels, as well as the expectation that this consistent performance will continue.

ROA and ROE increase

The bank's return on average assets and return on average shareholders' equity for the year ended December 31, 2010, were 1.20 and 16.78 percent, respectively, compared to 0.74 and 13.07 percent for the year ended December 31, 2009, respectively.

Fortunately, 2010 was a good year for many agricultural producers, and prices for many commodities were high. Total net farm income in 2010 exceeded the income level in 2009. We are always thankful to see our agricultural producers have a good year, because they are the reason we are in business.

Staying Focused on Long-Term Goals

We also stayed committed to our long-term goals. In the midst of an adverse credit environment, we pushed forward to implement our new lending system for processing large commercial loans and complex participations. This modernization will help us to better position the bank to compete for these large participations.

In 2010, we also continued the bank's diversity program and corporate citizenship efforts. At a time when many companies have reined in their efforts in these areas, we increased our donations and activities. In 2010, we spent more than $500,000 on sponsorships for more than 30 groups, ranging from Texas FFA and the State Fair of Texas to the Hispanic Chamber of Commerce and the Wounded Service Member Project.

In addition, as part of its diversity initiative, Farm Credit Bank of Texas partnered with several Texas District associations to award scholarships to colleges and universities that have large multicultural populations. In 2010, the bank donated $100,000 toward scholarships at 24 colleges and universities. The bank's Diversity Council also identified diverse professional organizations for corporate donations and scheduled work days for bank staff to get involved in the local community.

Keeping an Eye on Key Legislation

Throughout the year, we paid close attention to legislative activity in Washington, D.C. We were concerned about how some of the proposed financial reform legislation could potentially have a negative impact on Farm Credit. Fortunately, lawmakers recognized Farm Credit's importance to U.S. agriculture and rural America and exempted the Farm Credit System from several requirements of the financial regulatory reform bill. For example, the bill keeps intact the System's current regulatory structure and ensures that the Farm Credit Administration can continue to appropriately oversee the System.

In the upcoming months, we will closely follow the Farm Bill debate and proposed reform legislation for government-sponsored enterprises (GSEs), and we will work with the System to ensure that Farm Credit is not adversely affected by any reform efforts.

A Business Model That Benefits Our Owners

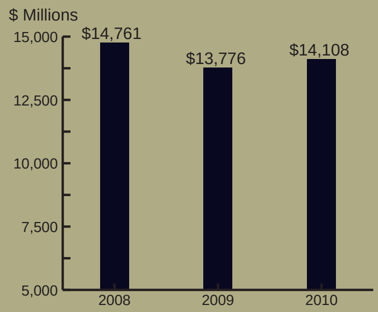
As we reflect on the progress we made in 2010 and push ahead in 2011, we look to continue our successful business model. We firmly believe that the cooperative model is a winning business structure that benefits its stockholder-owners. By abiding by our cooperative principles, we transform our philosophy into practice. As we succeed, we will share that success with the associations who own the bank. We will also continue to offer products and services as part of their cost of funding.

People depend on the products and services we provide, so we need to remain diligent and manage our business well. Our primary responsibilities are to ensure the long-term health of our collective institutions, to provide for growth necessary to meet the needs of our borrowers, and to reassure investors that the quality of our debt securities remain high. As we look to be good stewards of that responsibility and to serve our marketplace, we have to stay focused on credit quality and make sure that we are leveraging all our authorities by acting as full-service lenders.

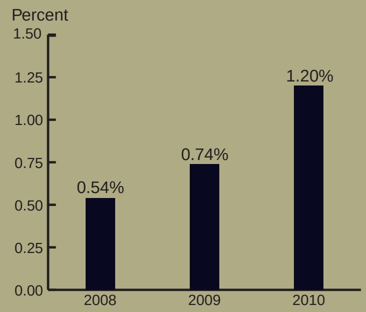
Ralph W. Cortese
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

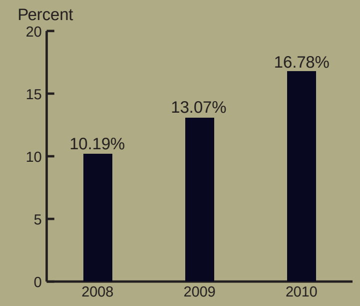
Total Assets Outstanding
at Year End



Return on Average Assets
for the Year



Return on Average Equity
for the Year



2010 FINANCIAL HIGHLIGHTS

For the Year (in thousands)	**2010**	2009	2008
Net interest income	**$212,520**	$ 169,212	$ 119,396
Provision for credit losses	**(28,523)**	(33,648)	(20,529)
Noninterest expense, net	**(15,547)**	(28,956)	(22,134)
Net income	**$168,450**	$ 106,608	$ 76,733
Rate of return on:			
Average assets	**1.20%**	0.74%	0.54%
Average shareholders' equity	**16.78**	13.07	10.19
Cash patronage declared and paid	**$ 73,609**	$ 62,959	$ 51,618

At Year End (in millions)			
Total loans	**$ 10,464**	$ 11,033	$ 11,403
Total assets	**14,108**	13,776	14,761
Total liabilities	**12,957**	12,955	14,016
Total shareholders' equity	**1,151**	821	745
Permanent capital ratio	**22.00%**	15.98%	14.03%
Total surplus ratio	**17.83**	12.47	11.25
Core surplus ratio	**10.67**	7.11	6.40
Net collateral ratio	**107.91**	105.83	105.40


BOBKAT FARMS

BRANCHING OUT IN RURAL AMERICA

At Farm Credit Bank of Texas, our mission is straightforward: to serve rural America by being a reliable source of competitive credit. As a wholesale bank, we are a funding source for our affiliated retail-lending cooperatives. Those cooperatives, in turn, make loans to farmers, ranchers and other rural landowners. Ultimately, the customers who benefit from Farm Credit financing are the reason we do what we do. It is our hope and intention to help enhance the quality of life in rural America through our lending programs and cooperative principles.

OUR LEADERSHIP

If it is true that an organization is only as strong as its leaders, Farm Credit Bank of Texas owes a debt of gratitude to the experienced and steady board members at its helm. The seven-member board oversees the bank's direction and progress, assessing both challenges and opportunities as they relate to the long-term success of the organization.

The board members bring a depth of experience and a variety of backgrounds to their roles. Together, they possess a wealth of knowledge about the bank's business, both from an agricultural and a business perspective, which helps them make informed decisions. Five of the board members are farmers or ranchers, who are elected by the associations that own the bank. Two directors are appointed by the elected board members.

With every decision they make, the Farm Credit Bank of Texas directors continue to push for excellence and operate in the best interest of the borrowers they serve.

BOARD OF DIRECTORS

(Left to right)
Jon M. "Mike" Garnett
Elizabeth G. "Betty" Flores
Ralph W. "Buddy" Cortese, Chairman
William F. Staats
James F. "Jimmy" Dodson, Vice Chairman
Joe R. Crawford
Lester Little

The management team at Farm Credit Bank of Texas experienced several key changes in 2010, including naming new executive officers and expanding the executive committee. Thanks to the foresight and careful planning by the previous leadership team, the transition was seamless and did not cause any disruption in bank functions.

After members of the bank's senior management team relocated or retired, the bank board and CEO tapped the talent of longtime managers at the bank to step into these executive roles. Kurt Thomas, a 29-year Farm Credit veteran, was named chief credit officer in May. Amie Pala, who has worked for the bank for 23 years, became chief financial officer in July. Allen Buckner, another 29-year veteran, assumed the role of chief operations officer, and Stan Ray, who has been with the bank since 1995, became chief administrative officer. Other members of the executive committee include Kyle Pankonien, general counsel, and Susan Wallar, vice president of internal audit, who serves as a non-voting member.

Farm Credit Bank of Texas is fortunate that it had such a deep bench of long-tenured employees who were trained and ready to assume new responsibilities.

SENIOR MANAGEMENT TEAM

(Left to right)
Kurt Thomas, Chief Credit Officer
Amie Pala, Chief Financial Officer
Allen Buckner, Chief Operations Officer
Larry Doyle, Chief Executive Officer
Kyle Pankonien, General Counsel
Susan Wallar, Vice President of Internal Audit
Stan Ray, Chief Administrative Officer

REPORT OF MANAGEMENT

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

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

In the opinion of management, the financial statements are true and correct and fairly state the financial position of the Farm Credit Bank of Texas at December 31, 2010, 2009 and 2008. The independent auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that we have reviewed the December 31, 2010, annual report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Ralph W Cortese

Ralph W. Cortese
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala

Amie Pala
Chief Financial Officer

March 1, 2011

REPORT OF AUDIT COMMITTEE

The audit committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's Web site at www.farmcreditbank.com. In 2010, seven committee meetings were held. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as independent auditors for 2010.

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

In this context, the committee reviewed and discussed the bank's audited financial statements for the year ended December 31, 2010 with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communications With Those Charged With Governance), and both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

The committee discussed with appropriate representatives of PwC the firm's independence from the bank. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the accountant's independence. Furthermore, throughout 2010 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, 2011

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2010. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the bank concluded that as of December 31, 2010, 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, 2010.

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

March 1, 2011

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

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

Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and the related statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit Bank of Texas (Bank) at December 31, 2010, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 1, 2011

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	**2010**	2009	2008	2007	2006
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 457,304**	$ 490,915	$ 189,791	$ 142,102	$ 103,394
Investment securities	**3,076,946**	2,143,485	3,028,468	2,410,999	2,672,242
Loans	**10,464,034**	11,033,114	11,403,113	10,865,991	10,055,428
Less allowance for loan losses	**28,678**	31,602	12,549	1,065	142
Net loans	**10,435,356**	11,001,512	11,390,564	10,864,926	10,055,286
Other assets	**138,597**	140,590	151,678	102,751	84,838
Total assets	**$ 14,108,203**	$ 13,776,502	$ 14,760,501	$ 13,520,778	$ 12,915,760
Obligations with maturities of one year or less	**$ 5,180,268**	$ 4,943,514	$ 6,099,922	$ 4,797,803	$ 4,835,886
Obligations with maturities greater than one year	**7,777,077**	8,011,696	7,916,037	7,994,374	7,415,653
Total liabilities	**12,957,345**	12,955,210	14,015,959	12,792,177	12,251,539
Preferred stock	**482,000**	200,000	200,000	200,000	200,000
Capital stock	**228,399**	237,361	227,212	198,864	161,421
Retained earnings	**418,965**	373,060	343,113	334,394	324,270
Accumulated other comprehensive income (loss)	**21,494**	10,871	(25,783)	(4,657)	(21,470)
Total shareholders' equity	**1,150,858**	821,292	744,542	728,601	664,221
Total liabilities and shareholders' equity	**$ 14,108,203**	$ 13,776,502	$ 14,760,501	$ 13,520,778	$ 12,915,760
Statement of Income Data					
Net interest income	**$ 212,520**	$ 169,212	$ 119,396	$ 99,565	$ 90,341
Provision for credit losses	**(28,523)**	(33,648)	(20,529)	(1,043)	(2,578)
Noninterest expense, net	**(15,547)**	(28,956)	(22,134)	(24,518)	(22,769)
Net income	**$ 168,450**	$ 106,608	$ 76,733	$ 74,004	$ 64,994
Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**1.20%**	0.74%	0.54%	0.55%	0.53%
Average shareholders' equity	**16.78%**	13.07%	10.19%	10.56%	10.07%
Net interest income to average earning assets	**1.57%**	1.22%	0.85%	0.74%	0.74%
Net charge-offs to average loans	**0.30%**	0.12%	0.08%	<.01%	0.03%
Total shareholders' equity to total assets	**8.16%**	5.96%	5.04%	5.39%	5.14%
Debt to shareholders' equity (:1)	**11.26**	15.77	18.82	17.56	18.44
Allowance for loan losses to total loans	**0.27%**	0.29%	0.11%	0.01%	—
Permanent capital ratio	**22.00%**	15.98%	14.03%	13.43%	13.67%
Total surplus ratio	**17.83%**	12.47%	11.25%	11.15%	11.61%
Core surplus ratio	**10.67%**	7.11%	6.40%	6.70%	6.93%
Net collateral ratio	**107.91%**	105.83%	105.40%	105.18%	105.35%
Net Income Distributions					
Net income distributions declared and accrued					
Preferred stock dividends	**$ 45,601**	$ 15,122	$ 15,122	$ 15,122	$ 15,122
Patronage distributions declared					
Cash	**$ 73,609**	$ 62,959	$ 51,618	$ 46,174	$ 37,043
Allocated earnings	**2,489**	2,022	1,786	1,586	1,058

AVERAGE BALANCES AND NET INTEREST EARNINGS

Farm Credit Bank of Texas

(unaudited)

December 31,

	2010			2009			2008		
(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	**$ 2,808,878**	**$ 67,918**	**2.42%**	$ 2,505,456	$ 88,122	3.52%	$ 2,697,953	$ 110,966	4.11%
Loans	**10,746,769**	**415,339**	**3.86**	11,388,895	477,262	4.19	11,317,022	549,724	4.86
Total interest-earning assets	**13,555,647**	**483,257**	**3.56**	13,894,351	565,384	4.07	14,014,975	660,690	4.71
Cash	**403,901**			291,296			10,353		
Accrued interest receivable	**36,051**			40,300			47,643		
Allowance for loan losses	**(32,024)**			(23,133)			(5,669)		
Other noninterest-earning assets	**122,360**			112,769			66,970		
Total average assets	**$ 14,085,935**			$ 14,315,583			$ 14,134,272		
Liabilities and Shareholders' Equity									
Bonds, medium-term notes and subordinated debt, net	**$ 11,488,249**	**$ 262,706**	**2.29%**	$ 11,634,484	$ 376,176	3.23%	$ 11,541,763	$ 502,377	4.35%
Discount notes, net, and other	**1,428,994**	**8,031**	**0.56**	1,696,384	19,996	1.18	1,656,806	38,917	2.35
Total interest-bearing liabilities	**12,917,243**	**270,737**	**2.10**	13,330,868	396,172	2.97	13,198,569	541,294	4.10
Noninterest-bearing liabilities	**164,519**			169,067			182,582		
Total liabilities	**13,081,762**			13,499,935			13,381,151		
Shareholders' equity and retained earnings	**1,004,173**			815,648			753,121		
Total average liabilities and shareholders' equity	**$ 14,085,935**			$ 14,315,583			$ 14,134,272		
Net interest rate spread		**$ 212,520**	**1.46%**		$ 169,212	1.10%		$ 119,396	0.61%
Net interest margin			**1.57%**			1.22%			0.85%

MANAGEMENT'S DISCUSSION & ANALYSIS
(DOLLARS IN THOUSANDS, EXCEPT AS OTHERWISE NOTED)

The following commentary is a discussion and analysis of the financial position and the results of operations of the Farm Credit Bank of Texas (the bank or FCBT) for the years ended December 31, 2010, 2009 and 2008. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (notes) and additional sections of this annual report. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank is part of the Farm Credit Bank of Texas and affiliated associations (district), which is part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2010, the bank served one Federal Land Credit Association (FLCA), 16 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs). The FLCA and ACAs are collectively referred to as associations. See Note 1, "Organization and Operations," for an expanded description of the structure and operations of the bank. In January 2010, four FLCAs restructured to form ACA structures with operating FLCA and Production Credit Association subsidiaries. Effective July 1, 2010, AgCredit of South Texas, ACA headquartered in Weslaco, Texas, was acquired by Texas AgFinance, FCS headquartered in Robstown, Texas. The continuing association uses the Texas AgFinance, FCS name and is headquartered in Robstown, Texas. Effective December 1, 2010, Louisiana Ag Credit, ACA headquartered in Arcadia, Louisiana, was acquired by Southern AgCredit, ACA headquartered in Ridgeland, Mississippi. The continuing association uses the Southern AgCredit, ACA name and is headquartered in Ridgeland, Mississippi.

Forward-Looking Information

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

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

Critical Accounting Policies

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

- **Reserves for credit losses** — The bank records reserves for credit losses, consisting of an allowance for loan losses, reported as a reduction of loans on the bank's balance sheet, and a reserve for losses on standby letters of credit, which is reported as a liability on the bank's balance sheet. These reserves are management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio and letters of credit. The allowance for loan losses and reserves for credit losses are increased through provisions for credit losses and loan recoveries and are decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired. Each of these individual loans is evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. If the present value of expected future cash flows (or, alternatively, the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by making an addition to the allowance for loan losses with a corresponding charge to the provision for credit losses or by similarly adjusting an existing valuation allowance. In addition to these specific allowances, in 2010 the bank recorded a general allowance for loan losses, which reflects expected credit deterioration and inherent losses in that portion of the bank's participation loans that are not individually evaluated. The reserve for losses on stand-by letters of credit reflects the bank's estimated potential losses related to existing standby letters of credit.

- **Valuation methodologies** — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, certain mortgage-related securities, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the bank's results of operations.
- **Pensions** — The bank and its related associations participate in the district's defined benefit (DB) retirement plan. The plan is noncontributory, and benefits are based on salary and years of service. In addition, the bank and its related associations also participate in defined contribution retirement savings plans, and certain qualified individuals in the bank are eligible for participation in a separate nonqualified supplemental defined benefit pension plan or a separate nonqualified 401(k) plan. Pension expense for all plans is recorded as part of salaries and employee benefits.

  The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. Participating employers are jointly and severally liable for their plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets). As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year.

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

OVERVIEW

General

The bank's loan portfolio totaled $10.5 billion at December 31, 2010, a 5.2 percent decrease from the prior year. The bank's $61.8 million increase in net income for 2010 was driven by a 25.6 percent increase in net interest income. The net interest rate spread and net interest margin have improved, as well as the bank's efficiency, gauged by operating expenses as a percentage of net interest income and noninterest income. The improvement in the bank's net interest income was largely due to the bank's debt management, and its ability to call debt and replace it with debt with lower interest rates.

Funding

During 2010, the financial markets began to stabilize and the capital markets showed signs of returning to pre-crisis activity levels. As a result of significant government monetary policy actions, short-term interest rates remained low while medium- and long-term interest rates declined for most of 2010. Even in this low interest rate environment, investor demand for Systemwide debt remained strong.

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 as the financial crisis dissipates and the economy rebounds. District institutions did respond to the credit issues with appropriate actions, including adjusting loan structures and payment terms, and, in appropriate cases, increasing pricing to customers based on risk.

Agricultural Outlook

General and agricultural economic conditions for farming and for livestock production improved during 2010. Net farm income improved in 2010 and is forecast by the U.S. Department of Agriculture to increase 19.8 percent from the 2010 forecast. The debt to asset ratio in the farm business sector is expected to improve, and cash receipts are expected to increase 9.1 percent, with cotton, soybean, wheat and corn receipts showing the largest gains.

In the beef and cattle sector, which constitutes approximately 38 percent of the district's loan portfolio, profitability improved due to strong export demand and feed prices which declined during the first half of 2010. However, the expectation of higher feed costs resulted in heavy commercial cow slaughter, which implies a reduction in the supply of feeder cattle in the future, despite strong global demand for U.S. beef predicted for 2011. High farm prices for corn in the 2010/2011 season reflect the heavy demand which has reduced its projected ending stocks. Continued demand for corn for export and for the production of ethanol and high-fructose corn syrup could significantly increase input costs and put further pressure on livestock and dairy producers.

Dairy producers also enjoyed improvements in profitability during 2010. Strong domestic use, a good export outlook and a moderate expected increase in production suggest strong prices in 2011, but expected input costs could diminish that profitability.

U.S. cotton exports for the 2010/2011 season are expected to increase to the highest level since the record season of 2005/2006, due to a larger exportable U.S. supply and a rising foreign demand. Prices for the 2010/2011 season are expected to be above that of a year ago.

Although the Texas Farm Credit District's agricultural portfolio benefits from geographical and commodity diversity, as well as continued government support programs, credit quality for the bank and for the district has been impacted by stress in the general economy as well as by the effect of volatility in commodity prices on many sectors. Commodity prices are expected to remain strong and should have a positive impact on producers' overall profitability in 2011/2012.

Financial Highlights

- Net income totaled $168.5 million for the year ended December 31, 2010, an increase of 58.0 percent compared to 2009.
- Net interest income for the year ended December 31, 2010, was $212.5 million, a 25.6 percent increase over the year ended December 31, 2009.
- Return on average assets and return on average shareholders' equity for the year ended December 31, 2010, were 1.20 and 16.78 percent, respectively, compared to 0.74 and 13.07 percent for 2009, respectively.
- Patronage distributions declared and earnings allocated totaled $76.1 million in 2010, compared to $65.0 million in 2009. Patronage for 2010 included a 50 basis-point direct note patronage to district associations and OFIs.
- The aggregate principal amount of loans outstanding at December 31, 2010, was $10.5 billion, compared to $11.0 billion at December 31, 2009, reflecting a decrease of 5.2 percent over December 31, 2009.
- In August 2010 the bank issued $300.0 million of Class B non-cumulative subordinated perpetual preferred stock, which is treated as equity and is not mandatorily redeemable.
- In July 2010, Fitch Ratings affirmed the bank's long-term and short-term Issuer Default Ratings at "AA-" and "F1+," respectively, citing solid operating performance, a manageable increase in loan delinquency, and conservative liquidity and capital management.
- Also in July 2010, Moody's Investor Services affirmed the bank's investment-grade of Aa2 issuer rating, A1 subordinated debt rating and A2 preferred stock rating.

RESULTS OF OPERATIONS

Net Income

The bank's net income of $168,450 for the year ended December 31, 2010, reflects an increase of 58.0 percent over 2009, while 2009 income of $106,608 increased by 38.9 percent from 2008. The return on average assets was 1.20 percent for the year ended December 31, 2010, up from 0.74 percent reported for the year ended December 31, 2009. The return on average assets was 0.54 percent for the year ended December 31, 2008. Changes in the major components of net income for the referenced periods are outlined in the table below and discussion on the following page.

	2010 vs. 2009	2009 vs. 2008
Net income (prior period)	$ 106,608	$ 76,733
Increase (decrease) due to:		
Decrease in interest income	(82,127)	(95,306)
Decrease in interest expense	125,435	145,122
Net interest income	43,308	49,816
Provision for credit losses	5,125	(13,119)
Noninterest income	6,434	4,412
Noninterest expense	6,975	(11,234)
Total change in net income	61,842	29,875
Net income	$ 168,450	$ 106,608

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, 2010, was $483,257, a decrease of $82,127, or 14.5 percent, compared to 2009. Total interest income for 2009 was $565,384, a decrease of $95,306, or 14.4 percent, from 2008. The decrease for 2010 and 2009 was due primarily to the decreasing interest rate environment during 2010 and 2009.

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

	Year Ended December 31,	
	2010 vs. 2009	2009 vs. 2008
(Decrease) increase in average earning assets	$ (338,704)	$ (120,624)
Average yield (prior year)	4.07%	4.71%
Interest income variance attributed to change in volume	(13,785)	(5,681)
Average earning assets (current year)	13,555,647	13,894,351
Decrease in average yield	(0.51)%	(0.64)%
Interest income variance attributed to change in yield	(68,342)	(89,625)
Net change in interest income	$ (82,127)	$ (95,306)

Interest Expense

Total interest expense for the year ended December 31, 2010, was $270,737, a decrease of $125,435, or 31.7 percent, compared to the same period of 2009. Total interest expense for 2009 was $396,172, a decrease of $145,122, or 26.8 percent, from 2008. The decrease for both 2010 and 2009 was due primarily to the effects of the decreasing interest rate environment during 2010 and 2009. In addition, during 2010, the bank was able to reduce its interest expense by calling $12.829 billion in debt and replacing it with debt that had lower interest rates and shorter maturities that match earning assets, which resulted in an estimated annualized interest expense savings of approximately $65.8 million, net of related concession expenses. During 2009 the bank called and replaced $10.326 billion in debt, which resulted in a reduction of interest expense of approximately $42.5 million, net of related concession expenses.

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

	Year Ended December 31, 2010 vs. 2009	Year Ended December 31, 2009 vs. 2008
(Decrease) increase in average interest-bearing liabilities	$ (413,625)	$ 132,299
Average rate (prior year)	2.97%	4.10%
Interest expense variance attributed to change in volume	(12,285)	5,424
Average interest-bearing liabilities (current year)	12,917,243	13,330,868
Decrease in average rate	(0.87)%	(1.13)%
Interest expense variance attributed to change in rate	(113,150)	(150,546)
Net change in interest expense	$ (125,435)	$ (145,122)

Net Interest Income

Net interest income, the excess of interest income over interest expense, increased by $43,308 from 2009 to 2010, and increased by $49,816 from 2008 to 2009. The increase in 2010 was due to the effects of a 36-basis-point increase in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt, slightly offset by a $338,704 decrease in average interest-earning assets. Although there was considerable volatility in the financial markets during 2009 and 2010, the bank was able to improve its net interest rate spread and margin. Also, the bank was able to increase its net interest rate spread on its participation loan portfolio and liquidity investment portfolio. The bank's ability to increase the interest rate spread by taking advantage of callable debt features was related primarily to market conditions that existed during 2010. While the debt management in 2010 will continue to have favorable impact on net interest income in the future, the level of these spread increases are not expected to be as significant in the long term.

Net interest income in 2009 was $49,816 greater than 2008. The increase in 2009 was due to a $120.6 million decrease in average interest-earning assets and a 49-basis-point increase in the interest rate spread. During 2009 the bank called and replaced $10.326 billion in debt, securing more favorable terms.

ANALYSIS OF NET INTEREST INCOME

	2010		2009		2008	
	Avg. Balance	**Interest**	Avg. Balance	Interest	Avg. Balance	Interest
Loans	**$ 10,746,769**	**$ 415,339**	$ 11,388,895	$ 477,262	$ 11,317,022	$ 549,724
Investments	**2,808,878**	**67,918**	2,505,456	88,122	2,697,953	110,966
Total earning assets	**13,555,647**	**483,257**	13,894,351	565,384	14,014,975	660,690
Interest-bearing liabilities	**12,917,243**	**270,737**	13,330,868	396,172	13,198,569	541,294
Impact of capital	**$ 638,404**		$ 563,483		$ 816,406	
Net Interest Income		**$ 212,520**		$ 169,212		$ 119,396

	2010 Average Yield	2009 Average Yield	2008 Average Yield
Yield on loans	**3.86%**	4.19%	4.86%
Yield on investments	**2.42%**	3.52%	4.11%
Yield on earning assets	**3.56%**	4.07%	4.71%
Cost of interest-bearing liabilities	**2.10%**	2.97%	4.10%
Interest rate spread	**1.46%**	1.10%	0.61%
Impact of capital	**0.11%**	0.12%	0.24%
Net interest income/average earning assets	**1.57%**	1.22%	0.85%

Provision for Credit Losses

The bank's provision for credit losses for 2010, including provisions for loan losses and provision for losses on standby letters of credit, totaled $28,523, a decrease of $5,125 from the provision for 2009. The decrease is primarily due to a $7.3 million decrease of specific provisions related to certain specific impaired loans and a $556 decrease in provision for credit losses on standby letters of credit, offset by a $2.7 million increase in the general allowance for loan losses. The specific provision reflects credit deterioration primarily in those borrowers impacted by the overall downturn in the general economy, primarily in the land in transition sector, to a large participation interest in an electric services project, and, to a lesser extent, to agricultural sectors that continue to be impacted by volatility in commodity prices, such as livestock and beef. The general provision reflects the growth in the bank's participation loan portfolio and the related expected credit deterioration in existing non-impaired loans. The $314 reserve for losses on unfunded commitments is primarily related to expected losses on certain letters of credit outstanding on December 31, 2010. The provision for 2009 was a $13,119 increase from the $20,529 provision for loan losses recorded in 2008. The increase was primarily due to an $8.4 million increase of specific provisions related to certain specific impaired loans, a $3.5 million increase in the general allowance for loan losses, and an $870 provision for credit losses on standby letters of credit. While the bank does expect to have provisions for credit losses in the future, it does not anticipate the same level of provisions it sustained in 2010 and 2009 due to enhanced credit standards and improved economic conditions.

Noninterest Income

Noninterest income for the year ended December 31, 2010, was $44,746, an increase of $6,434, or 16.8 percent, compared to 2009. The increase is primarily attributable to an $8.0 million in Farm Credit System Insurance Corporation (FCSIC or Insurance Fund) refund distributions of excess reserves from prior periods recorded during the first quarter of 2010, a $4.4 million increase in fees for loan-related services, and a $3.5 million decrease in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," offset by a $7.6 million decrease in gains on sale of investments and a $1.8 million decrease in all other noninterest items, collectively.

Noninterest income for the year ended December 31, 2009, was $38,312, an increase of $4,412, or 13.0 percent, compared to 2008. The increase is primarily attributable to a $5.1 million increase in gains on sale of investments and a $2.7 million increase in fees for loan-related services, offset by a $3.1 million increase in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities. 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 entailed the conversion of certain assets into cash.

Noninterest Expenses

Noninterest expenses totaled $60,293 for 2010, a decrease of $6,975, or 10.4 percent, from 2009. This decrease was primarily due to a $6,919 decrease in premiums to the FCSIC, a $503 increase in gains related to other property owned (OPO), and a $221 decrease in salaries and employee benefits, offset by a $637 increase in occupancy and equipment expenses and a $31 increase in other operating expenses.

The decrease in premiums to the Insurance Fund is primarily due to a premium rate reduction from 20 basis points in 2009 to 5 basis points in 2010.

The $503 increase in gains related to OPO included a $498 increase in gains on disposal of OPO, which included the recognition of $320 in gains which had previously been deferred on a financed sale of OPO pending sufficient performance to meet the requirements for borrower involvement, net of a $5 increase in expenses on OPO.

The $221 decrease in salaries and employee benefits was primarily due to a $312 decrease in compensation and related payroll expenses, and a $909 decrease in pension and retirement expenses, net of a $951 decrease in capitalized salaries and benefits related to the bank's development of new lending systems and a $49 increase in other benefits. The decrease in compensation included a $3.9 million decrease in deferred compensation for the bank's chief executive officer from 2009 (see CEO compensation discussion in the Disclosure Information and Index section), offset by the recognition of $2.9 million in employee annual Success Sharing Plan bonuses in December 2010 in addition to the annual award recognized in January 2010 for 2009 performance and increases in compensation rates. The decrease in pension and retirement benefits was primarily the result of decreased contributions to the district's multi-employer defined benefit pension plan. Contributions from the plan's various employers decreased from the contributions of 2009, which had been heightened in response to declines in market value of the plan's investments during 2008 and to a reduction in the discount rate used to determine the plan's liabilities. As previously discussed, the bank records contributions to the district DB plan as an expense. The pension expense related to the bank's supplemental pension plan increased by $1.9 million due to settlement expenses related to departing participants' withdrawal from the plan. Salaries and benefits capitalized as a part of the bank's new lending systems decreased as a result of the completion and implementation of the first phase of the bank's loan accounting development in July 2010.

The $637 increase in occupancy and equipment expenses includes a $364 increase in depreciation related to the newly implemented lending system, a $340 increase in other computer expenses and a $59 increase in furniture and equipment, offset by a $126 decrease in the cost of space.

The increase in other operating expenses included a $557 increase in professional and contract services and a $361 increase in advertising and member relations expenses, and a $273 increase in all other operating expenses, collectively, offset by a $710 decrease in Funding Corporation assessment fees and a $450 decrease in communication expenses. The increase in professional and contract services reflects increased fees for monitoring association credit functions and consultant fees related to the bank's loan accounting systems development. Assessments from the Funding Corporation decreased primarily due to a $687 special assessment in January 2009 to address the Funding Corporation's pension obligation shortfalls.

Noninterest expenses totaled $67,268 for 2009, an increase of $11,234, or 20.0 percent, from 2008. This increase was primarily due to a $4,658 increase in salaries and employee benefits, a $2,995 increase in premiums to the FCSIC, a $2,831 increase in other operating expenses, a $718 increase in occupancy and equipment expenses, and a $32 increase in losses and expenses related to other property owned. The $4.7 million increase in salaries and employee benefits was primarily due to a $5.7 million increase in compensation and related payroll expenses and a $127 increase in other benefits, offset by a $1.2 million increase in capitalized salaries and benefits related to the bank's development of new lending systems. Depreciation on these systems will commence when the specific system is implemented. Compensation increased due to a $3.9 million accrual of deferred compensation for the bank's chief executive officer (see CEO compensation discussion in the Disclosure Information and Index section), increases in the number of employees and increases in compensation rates. The increase in pension and retirement benefits was primarily the result of increased contributions to the district's multi-employer defined benefit pension plan. Contributions from the plan's various employers were increased in response to declines in market values of the plan's investments during 2008 and to a reduction in the discount rate used to determine plan liabilities. As previously discussed, the bank records contributions to the district DB plan as an expense. The increase in premiums to the Insurance Fund is primarily due to the change to the FCSIC's new premium structure, assessed primarily on outstanding Systemwide debt effective July 1, 2008, and to an increase in premium rates in 2009. Premiums were previously assessed on loan volume. The increase in other operating expenses included a $1,832 increase in professional and contract services and a $1,126 increase in Funding Corporation assessment fees, offset by a $127 decrease in all other operating expenses, collectively. The increase in professional and contract services reflects increased fees for monitoring association credit functions and consultant fees related to the bank's loan accounting systems development. Assessments from the Funding Corporation increased primarily due to a $687 special assessment in January 2009 to address the Funding Corporation's pension obligation shortfalls, a $365 increase in the assessment for the Contingency Funding Plan, and an increase of $74 in allocated System expenses.

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,

	2010	2009	2008
Excess of net interest income over operating expense	**$ 151,736**	$101,956	$63,342
Operating expense as a percentage of net interest income	**28.6%**	39.7%	46.9%
Operating expense as a percentage of net interest income and noninterest income	**23.6**	32.4	36.6
Operating expense as a percentage of average loans	**0.57**	0.59	0.50
Operating expense as a percentage of average earning assets	**0.45**	0.48	0.40

The bank's net interest income has increased 25.6 percent and 41.7 percent for the years ended December 31, 2010 and 2009, respectively, while operating expenses decreased 9.6 percent in 2010 and increased 20.0 percent in 2009. Average loans decreased 5.6 percent in 2010 and increased 0.6 percent in 2009. Average investments increased 12.1 percent in 2010 and decreased 7.1 percent in 2009, respectively. Average earning assets decreased 2.4 percent in 2010 and decreased 0.9 percent in 2009.

CORPORATE RISK PROFILE

Overview

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

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

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

Structural Risk Management

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

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

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

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

Under the MAA, if certain financial criteria are not met, a bank may be placed in one of three categories, each of which imposes certain requirements and/or restrictions on the affected bank. The criteria under the MAA are the CIPA scores, the net collateral ratio and the permanent capital ratio of a bank. The bank net collateral ratio is net collateral (primarily earning assets) divided by total liabilities, and the bank permanent capital ratio is primarily the bank's common stock, preferred stock 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, 2010, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2010, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2010, 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. None of the banks were placed in any of the three categories designated for banks failing to meet the MAA's specified financial criteria.

Credit Risk Management

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

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

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

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

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

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

Loans

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

Gross loan volume of $10.464 billion at December 31, 2010, reflected a decrease of $569.1 million, or 5.2 percent, from December 31, 2009. The balance of $11.033 billion at December 31, 2009, reflected a decrease of $370.0 million, or 3.2 percent, from the $11.403 billion balance at December 31, 2008. The decrease in the loan portfolio from 2009 to 2010 is mainly attributable to a $774.4 million decrease in the bank's direct loans to associations and other financing institutions, offset by a $190.1 million increase in the bank's participation loan portfolio and a $15.2 million increase in other bank-owned loans. Direct notes to associations have decreased as enhanced credit standards and repayments on existing loans have reduced the size of their loan portfolios. The $15.2 million increase in other bank-owned loans includes loans the bank purchased in March 2010 which had experienced credit deterioration, along with other property owned, from a district association. The purchase of the loan assets and other property owned by the bank was completed to ensure the district association remained a viable stand-alone institution. This purchase activity avoided a nonaccrual classification of a district association direct note receivable and protected the bank's charter in the state where the district association was located and has lending authorities. The loans, which had book balances at the association totaling $40,069, were purchased at fair value of $32,822. The fair value was derived by discounting the total estimated cash flows of $36,341 using appropriate yield curves, resulting in an accretable discount of $3,519. The bank recognized additional provisions for loan losses totaling $2,001 related to these loans during 2010, the effect of which also slightly reduces the resulting accretable discount, which will be accreted into interest income on a level-yield basis over the life of the loans. At December 31, 2010, after the pay-off of one of the loans and the transfer of loans to two borrowers to OPO, the balance of these loans, net of the unaccreted discount, was $21,911. In addition to these loans, the bank also purchased other property owned related to three other loans from the association at fair value of $2,917. The financial impact of these purchases to the bank is negligible due to the size of the bank's balance sheet and its financial strength. Because the assets were purchased at fair value, the transaction should not adversely impact future earnings as the assets are liquidated, refinanced or restructured over the next two to three years.

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

	December 31,		
	2010	2009	2008
Direct notes receivable from district associations and OFIs	**71.9%**	75.3%	73.7%
Participations purchased	**27.8**	24.6	26.2
Other bank-owned loans	**0.3**	0.1	0.1
Total	**100.0%**	100.0%	100.0%

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

	2010	2009	2008
Acceptable	**78.4%**	88.0%	97.2%
Special mention	**14.4**	6.9	1.7
Substandard	**7.2**	5.1	1.1
Total	**100.0%**	100.0%	100.0%

Bank credit quality has remained relatively strong despite the downturn in the general economy, with association and OFI direct notes rated (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" being 92.7, 95.8 and 100.0 percent of total direct notes at December 31, 2010, 2009 and 2008, respectively. The decline in acceptable from December 31, 2009, to December 31, 2010, was primarily attributable to two associations with a combined direct note balance of $1.12 billion that were downgraded to special mention and one association's direct note of $179.4 million that was downgraded to substandard. In addition, one association's direct note of $213.0 million was downgraded from special mention to substandard. The bank has a first lien position on the assets of the associations and the earnings, capital and loan loss reserves of the associations serve as an additional layer of protection against losses. As a result, while the downgrades reflect credit deterioration in the underlying retail loans held by the association, it is not indicative of an increased risk of loss related to the bank's direct notes to the associations. No provision for loan losses has been recorded on any of the direct notes to associations, and the bank does not anticipate any further material deterioration in the credit quality of its direct notes to affiliated associations.

During 2009, the bank purchased $100.0 million of district association direct notes that it had previously sold to another System bank, leaving net association direct notes sold at $3.4 billion at December 31, 2010. Credit quality for all loans other than direct notes to associations and OFIs classified as “acceptable” or “other assets especially mentioned” as a percentage of total loans and accrued interest receivable was 93.0, 92.2 and 95.8 percent at December 31, 2010, 2009 and 2008, respectively. The bank anticipates some stabilization in its overall credit quality due to improved expectations about the general economy and the return to profitability of certain commodity producers.

Association Direct Notes

As the preceding table illustrates, 72.0 percent of the bank’s portfolio consisted of direct notes from associations and OFIs at December 31, 2010. Terms of loans to associations and OFIs are specified in a separate general financing agreement between each association and OFI and the bank, and all assets of each association secure the direct notes to the bank. Each association is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). See Note 1, “Organization and Operations,” for further discussion of the Farm Credit System.

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

As of December 31, 2010, the bank had five associations that have triggered non-monetary defaults within the general financing agreement between the bank and the associations. The non-monetary defaults were primarily triggered by increases in substandard loans at these associations and a corresponding increase in their provision for loan losses resulting in a default of the return on assets and adverse assets to risk funds covenants for these respective associations for 2010. The bank has issued limited waivers for these covenant defaults subject to the associations taking certain actions to correct the defaults.

District association loans totaled $12.595 billion at December 31, 2010, a decrease of $721.8 million, or 5.4 percent, from loan volume at December 31, 2009. This decline of loan volume is primarily related to general economic conditions, which resulted in a decline of demand for rural real estate, and enhanced credit standards. In 2009, association loan volume decreased by $152.1 million, and in 2008 association loan volume increased by $1.168 billion. The growth in 2008 was attributed to increased focus on market share and opportunities within the territory due to strong demand for rural real estate, competitive pricing offered by the bank and associations, increased marketing and customer service efforts by the associations, and continued activity in loan participations with district and outside entities. Loan volume in the associations is funded substantially by, and therefore results in, association direct note growth at the bank. Although government support of agriculture, the availability of off-farm income sources and utilization of guarantees have helped to diminish the effects of adverse economic conditions for the district’s associations, current economic conditions have affected association credit quality and high-risk loan volume.

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

	Percentage of Portfolio		
Commodity Group	**2010**	2009	2008
Livestock	**38%**	38%	38%
Crops	**13**	14	14
Timber	**11**	11	11
Cotton	**5**	5	5
Poultry	**3**	4	4
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**26**	24	24
Total	**100%**	100%	100%

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

	December 31,		
	2010	2009	2008
Texas	**59%**	60%	59%
Alabama	**8**	7	7
Mississippi	**7**	6	6
Louisiana	**4**	4	4
Florida	**2**	2	3
All other states	**20**	21	21
Total	**100%**	100%	100%

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

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

Size (thousands)	2010	2009	2008
< $250	**27%**	27%	27%
$250-$500	**13**	13	12
$500-$1,000	**13**	13	13
$1,000-$5,000	**26**	27	27
$5,000-$25,000	**17**	17	17
$25,000-$100,000	**4**	3	4
Total	**100%**	100%	100%

Credit quality at the district's associations at December 31, 2010, 2009 and 2008 experienced some deterioration but remained solid, with greater than 93 percent classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans for each of the three year ends. Association non-earning assets as a percentage of total loans at December 31, 2010, were 5.2 percent, compared to 3.7 percent and 1.8 percent at December 31, 2009 and 2008, respectively. The increase in association non-earning assets is reflective of the adverse conditions in the agricultural and general economy and to volatility in the agricultural commodity market which has resulted in higher risk profiles for land in transition, dairy, livestock, and borrowers who use corn and other grains in their products, primarily ethanol.

High-Risk Assets

Nonperforming loan volume is composed of nonaccrual loans, restructured loans, and loans 90 days or more past due and still accruing interest and are referred to as impaired loans. High risk assets consisted of impaired loans and other property owned.

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

	2010	2009	2008
Nonaccrual loans	**$ 120,199**	$ 111,915	$ 109,662
Formally restructured loans	**354**	647	690
Loans past due 90 days or more and still accruing interest	**—**	—	—
Other property owned, net	**2,838**	639	—
Total	**$ 123,391**	$ 113,201	$ 110,352

High-risk assets increased by $10,190 from December 31, 2009, to $123,391 at December 31, 2010. The increase in nonaccrual loans and OPO is attributable to loans purchased with evidence of credit deterioration from a district association, discussed previously, and to increases in the ethanol, livestock, telecommunications and land in transition sectors. The increase is net of the effect of repayments on other nonaccrual loans. During 2010, the bank recorded charge-offs totaling $33.2 million against the allowance for loan losses due to known losses, primarily related to loans in the land in transition, ethanol and telecommunication sectors. At December 31, 2010, $55,131, or 45.9 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $66,608 (59.5 percent) and $93,333 (85.1 percent) at December 31, 2009 and 2008, respectively. The overall downturn in the general economy impacted some sectors of the bank's loan portfolio, primarily the land in transition sector. Volatility in the agricultural commodity market and increases in farm input costs resulted in higher risk profiles for livestock and other borrowers who use corn and other grains in their products during 2010. Due to expected improvements related to these higher risk profiles and in the general economic environment, the bank anticipates credit quality of the loan portfolio will stabilize in 2011.

Allowance and Reserve for Credit Losses

The allowance for loan losses at December 31, 2010, was $28,678, compared to $31,602 at December 31, 2009 and $12,549 at December 31, 2008. The reserve for credit losses on stand-by letters of credit and unfunded commitments was $314, $870 and $121 at December 31, 2010, 2009 and 2008, respectively. Because analysis indicates that an allowance on the association direct notes is not warranted, the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participations and other bank-owned loan portfolios.

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

	2010	2009	2008
Allowance and reserve for credit losses as a percentage of:			
Average loans	**0.27%**	0.29%	0.11%
Loans at year end			
Total loans	**0.27**	0.29	0.11
Participations	**0.99**	1.20	0.42
Nonaccrual loans	**23.86**	29.01	11.44
Total high-risk loans	**23.79**	28.85	11.37
Net charge-offs to average loans	**0.30**	0.12	0.08
Provision expense to average loans	**0.27**	0.30	0.18

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

Interest Rate Risk Management

Asset/liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the bank's and district's interest-rate-sensitive assets and liabilities. The bank is able to manage the balance sheet composition by using various debt issuance strategies and hedging transactions to match its asset structure. Management's objective is to generate adequate and stable net interest income in a changing interest rate environment.

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

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages district interest rate risk through its direct loan pricing and funding processes. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members.

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

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

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

FCBT uses complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities, including gap and simulation analyses. The following interest rate gap analysis sets forth the bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2010, which are expected to mature or reprice in each of the future time periods shown:

INTEREST RATE GAP ANALYSIS

as of December 31, 2010

	Interest-Sensitive Period						
	One Month or Less	More Than One Through Six Months	More Than Six Through Twelve Months	**Total Twelve Months or Less**	More Than One Year but Less Than Five Years	More Than Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 1,821,145	$ 2,005,416	$ 1,494,004	**$ 5,320,565**	$ 4,487,093	$ 656,376	**$ 10,464,034**
Total investments	1,400,144	325,720	311,436	**2,037,300**	812,174	247,910	**3,097,384**
Total interest-earning assets	3,221,289	2,331,136	1,805,440	**7,357,865**	5,299,267	904,286	**13,561,418**
Interest-Bearing Liabilities							
Total interest-bearing funds*	2,629,200	2,488,173	2,764,720	**7,882,093**	4,111,020	836,819	**12,829,932**
Excess of interest-earning assets over interest-bearing liabilities	—	—	—	**—**	—	731,486	**731,486**
Total interest-bearing liabilities	2,629,200	2,488,173	2,764,720	**7,882,093**	4,111,020	1,568,305	**$ 13,561,418**
Interest rate sensitivity gap	$ 592,089	$ (157,037)	$ (959,280)	**$ (524,228)**	$ 1,188,247	$ (664,019)	
Cumulative interest rate sensitivity gap	$ 592,089	$ 435,052	$ (524,228)	**$ (524,228)**	$ 664,019		

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

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

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

Interest rate risk exposure as measured by simulation modeling calculates the bank's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors its financial exposure to multiple interest rate scenarios. The bank's policy guideline for the maximum negative impact as a result of a 200-basis-point change in interest rates is 16 percent for net interest income and 20 percent for market value of equity. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. The bank manages its interest rate risk exposure well within these guidelines. As of December 31, 2010, projected annual net interest income would increase by $18,569, or 8.26 percent, if interest rates were to increase by 100 basis points, and would decrease by $2,668, or 1.20 percent, if interest rates were to decrease by 6 basis points. This favorable performance is due to the bank's ability to exercise call options on debt currently outstanding and considerably lower interest rates. Market value of equity is projected to decline by 2.22 percent as a result of a 100-basis-point increase in interest rates and increase by 0.04 percent if interest rates were to decline by 6 basis points as of December 31, 2010.

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2010, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2010.

Net Interest Income

Scenario	Net Interest Income	% Change
+ 200 BP Shock	$250,372	11.43%
+ 100 BP Shock	243,265	8.26
0 BP	224,696	—
– 6 BP Shock*	222,028	(1.20)

Market Value of Equity

Scenario	Assets	Liabilities	Equity	% Change
Book value	$14,108,203	$12,957,345	$1,150,858	(2.95)%
+ 200 BP Shock	13,612,619	12,510,390	1,102,229	(7.05)
+ 100 BP Shock	13,934,636	12,775,208	1,159,428	(2.22)
0 BP Shock	14,231,577	13,045,766	1,185,811	—
– 6 BP Shock*	14,248,164	13,061,853	1,186,311	0.04

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

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

At December 31, 2010, the bank had three fair value interest rate swap contracts with a total notional amount of $150.0 million. The interest rate swap contracts had a net fair value of $1.8 million. In addition, at December 31, 2010, the bank held interest rate caps with a notional amount of $645.0 million and a fair value of $4.7 million. See Note 15, "Derivative Instruments and Hedging Activity," for further discussion. Unrealized losses on interest rate caps, the difference between their amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument, and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank monitors the credit ratings of its counterparties and has bilateral collateral agreements with counterparties. At December 31, 2010, the bank had credit risk to five counterparties on derivative contracts totaling $6.5 million. The bank's activity in derivative financial instruments for 2010 is summarized in the table below:

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance at December 31, 2009	$ 255
Additions	1,240
Maturities/calls	(700)
Balance at December 31, 2010	**$ 795**

Liquidity Risk Management

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

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

FCA regulations require each bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing Systemwide debt securities and other bonds with the total amount of cash, investments and other liquid assets maintained by the bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale. At December 31, 2010, the bank had 177 days of liquidity coverage, as compared with 144 days at December 31, 2009.

The System banks have worked together to enhance liquidity within the Farm Credit System. As of December 31, 2009, the bank implemented new internal liquidity guidelines to maintain a minimum of 120 days of liquidity with the first 15 days of liquidity comprised of cash, cash equivalents and Treasury securities, and an additional 30 days comprised of high-quality government guaranteed securities, resulting in a total of 45 days of high-quality liquidity. These guidelines were designed to allow the bank to continue normal operations should a market disruption occur that would prevent the bank from accessing the Systemwide debt market. As of December 31, 2010, the bank had 19 days of liquidity coverage from cash and cash equivalents and an additional 105 days of liquidity coverage from government guaranteed securities. In total the bank maintained 177 days of liquidity coverage at December 31, 2010.

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

Funding Sources

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

The types and characteristics of securities are described in Note 7, "Bonds and Notes." As a condition of the bank's participation in the issuance of Systemwide debt securities, the bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the bank is liable. At December 31, 2010, the bank had excess collateral of $1.2 billion. Management expects the bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

In September 2008, the bank issued $50.0 million in subordinated debt in a private placement to one investor. The debt is a 10-year instrument with a coupon rate of 8.406 percent. Prior to the bank's issuance of its Class B non-cumulative subordinated perpetual preferred stock (Class B) in August 2010, the subordinated debt received preferential regulatory capital and collateral treatment, being includible in portions of permanent capital and total surplus and being excludible from total liabilities for purposes of net collateral ratio calculation. Regulatory conditions related to the issuance of the Class B preferred stock effectively eliminated these preferential ratio treatments, which would previously have been ratably removed 20.0 percent per year during years six to 10 of the debt's term.

The bank receives ratings from two rating agencies. On July 2, 2010, Fitch Ratings affirmed the bank's long-term and short-term Issuer Default Ratings at "AA-" and "F1+," respectively, citing solid operating performance, a manageable increase in loan delinquency, and conservative liquidity and capital management. On July 9, 2010, Moody's Investor Services affirmed the bank's investment-grade of Aa2 issuer rating, A1 subordinated debt rating and A2 preferred stock rating.

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

	December 31,		
(dollars in millions)	**2010**	2009	2008
Bonds and term notes outstanding	**$ 10,708**	$ 11,847	$ 11,335
Average effective interest rates	**1.74%**	2.46%	3.89%
Average remaining life (years)	**2.9**	2.8	3.4
Subordinated debt outstanding	**$ 50**	$ 50	$ 50
Average effective interest rates	**8.41%**	8.41%	8.41%
Average remaining life (years)	**7.8**	8.8	9.8
Discount notes outstanding	**$ 2,072**	$ 922	$ 2,467
Average effective interest rates	**0.25%**	0.29%	1.37%
Average remaining life (days)	**122**	76	107

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

	For the years ended December 31,		
	2010	2009	2008
Average interest-bearing liabilities outstanding	**$ 12,917**	$ 13,331	$ 13,199
Average interest rates on interest-bearing liabilities	**2.10%**	2.97%	4.10%

Investments

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

FCA regulations also define eligible investments by specifying credit rating criteria, final maturity limit and percentage of investment portfolio limit for each investment type. Generally, the bank's investments must be highly rated by at least one Nationally Recognized Statistical Rating Organization, such as Moody's Investors (Moody's) Service, Standard & Poor's or Fitch Ratings. If an investment no longer meets the credit rating criteria, the investment becomes ineligible. A bank must dispose of an investment that becomes ineligible within six months, unless the FCA grants permission to divest the instrument over a longer period of time.

The bank's liquidity investment portfolio consisted of the following at December 31:

	2010		2009	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Corporate debt	**$ 300,531**	**$ 302,091**	$ 131,815	$ 133,733
Federal agency collateralized mortgage-backed securities	**2,524,022**	**2,559,429**	1,843,894	1,871,339
Other collateralized mortgage-backed securities	**71,192**	**64,918**	123,315	110,106
Asset-backed securities	**11,493**	**10,005**	31,658	28,307
Total liquidity investments	**$ 2,907,238**	**$ 2,936,443**	$ 2,130,682	$ 2,143,485

The bank's other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased in June 2010 from two district associations for $159.4 million as a part of the bank's Capitalized Participation Pool (CPP) program. As a part of the CPP program, any positive impact to the net interest income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

Farmer Mac is a government-sponsored enterprise and is examined and regulated by FCA. It provides secondary market arrangements for agricultural and rural home mortgage loans that meet certain underwriting standards. Farmer Mac is authorized to provide loan guarantees or be a direct pooler of agricultural mortgage loans. Farmer Mac is owned by both System and non-System investors and its board of directors has both System and non-System representation. Farmer Mac is not liable for any debt or obligation of any System institution and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac.

The bank's other investment portfolio consisted of Farmer Mac AMBS securities at December 31:

	2010		2009	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 145,122**	**$ 140,503**	$ —	$ —

The bank's available-for-sale investments are reflected at fair value.

The bank's increases in federal agency collateralized mortgage-backed securities during 2010 have been in Government National Mortgage Association (GNMA) mortgage-backed securities. Demand for agency securities remains strong due to the Federal Reserve's mortgage-backed securities purchase program, stabilization in the agency market, and increased demand for quality GNMA structures.

At December 31, 2010, the bank had 12 investments which were ineligible for liquidity purposes as a result of credit downgradings. These investments had credit ratings at December 31, 2010 that were below AAA by Moody's, Standard & Poor's and Fitch Ratings. These investments had an amortized cost of $57.1 million and a fair value of $50.5 million, with an unrealized loss of $6.6 million at December 31, 2010. The downgrading of the investment securities requires a submission of a plan of divestiture to the FCA and their formal approval. The FCA has approved, with conditions, plans submitted by the bank to continue to hold all ineligible investments at this time. To date, the FCA has not required disposition of any of these securities. 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 2010, the bank recognized credit losses on six other-than-temporarily impaired investment securities totaling $1.8 million. Noncredit losses on these investments, totaling $5.4 million, are included as a charge against accumulated other comprehensive income at December 31, 2010. Due to the continued deterioration in the mortgage markets, the bank may incur additional other-than-temporary impairments on non-guaranteed mortgage- and asset-backed securities.

The following table sets forth the bank's portfolio of liquidity investments at fair value by credit rating:

	Eligible		Ineligible								
December 31, 2010	AAA/Aaa	Split Rated	AA/Aa	AA/BBB Split Rated	A-/BB- Split Rated	B3/BBB/B Split Rated	BBB/Baa	BB/Ba	B3/CCC/CC	CCC/Caa	Total
FDIC-guaranteed corporate debt	$ 302,091	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 302,091
Federal agency collateralized mortgage-backed securities	2,559,429	—	—	—	—	—	—	—	—	—	2,559,429
Other collateralized mortgage-backed securities	5,918	10,896	11,745	—	—	—	—	6,953	6,293	23,113	64,918
Asset-backed securities	3,294	4,305	—	—	—	—	418	1,668	—	320	10,005
Total	$ 2,870,732	$ 15,201	$ 11,745	$ —	$ —	$ —	$ 418	$ 8,621	$ 6,293	$ 23,433	$ 2,936,443

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

Capital Adequacy

Total shareholders' equity at December 31, 2010, was $1,150,858, compared to $821,292 and $744,542 at December 31, 2009 and 2008, respectively. The increase during 2010 was due primarily to net income of $168.5 million, a $300.0 million issuance of Class B non-cumulative subordinated perpetual preferred stock net of costs of issuance totaling $3.4 million, an increase in unrealized net gains on investment securities totaling $11.8 million, a $3.2 million issuance of capital stock, and an $841 amortization related to retirement benefits, offset by dividends accrued on preferred stock totaling $21.9 million, dividends paid on preferred stock totaling $23.7 million, patronage declared of $76.1 million, an $18.0 million repurchase of Class A cumulative perpetual preferred stock net of a net premium and costs on redemption of $529, a $2.0 million unrealized loss on cash flow hedge instruments, and an $11.6 million retirement of capital stock. The bank issued $300.0 million of Class B non-cumulative subordinated perpetual preferred stock on August 26, 2010, with a closing of August 31, 2010. The bank's $76.1 million in declared patronage included $56.6 million in direct loan patronage, $12.1 million patronage on certain participations, $5.7 million patronage based on the associations' and OFIs' stock investment in the bank and Capitalized Participation Pool (CPP) patronage of $1.7 million. The bank does not anticipate paying direct loan patronage to its affiliated associations and OFIs in 2011 and future years at the same basis point level as paid in 2010, which was 50 basis points of average direct note volume. The accrued preferred stock dividends is an accrual of the amount payable on the next dividend date, June 15, 2011, which is required by "dividend/patronage stopper" clauses in the preferred stock offerings. The clauses require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and was required before payment of the December 31, 2010, bank investment and direct note patronage to associations and OFIs could be paid.

For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. The net proceeds from the August sale of the Class B perpetual stock were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are non-cumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock ranks junior, both as to dividends and upon liquidation to our Class A preferred stock, and senior to all of our outstanding common stock and participation certificates.

Accumulated other comprehensive income increased $10.6 million, or 97.7 percent, to $21.5 million at December 31, 2010, from a $10.9 million gain at December 31, 2009, due to an increase of $11.8 million in unrealized net gains on the bank's investments, and a charge to accumulated other comprehensive income of $841 related to amortization on balances related to retirement benefits, net of an increase of $2.0 million in unrealized losses on the bank's cash flow hedges. The increase in unrealized net gains on investments was primarily attributable to the effects of lower market interest rates on the bank's agency fixed-rate mortgage-backed securities' portfolio and reductions in holdings of non-agency collateral mortgage-backed securities. The $2.0 million increase of unrealized losses on cash flow hedges is the result of maturities and unwinding of cash flow interest rate swaps and the purchase of the interest rate caps the bank held at December 31, 2010.

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

	2010	2009	2008	Regulatory Minimum
Permanent capital ratio	**22.00%**	15.98%	14.03%	7.00%
Total surplus ratio	**17.83**	12.47	11.25	7.00
Core surplus ratio	**10.67**	7.11	6.40	3.50
Collateral ratio	**107.91**	105.83	105.40	103.00

The regulatory minimum for the collateral ratio is 103.00 or, if there is outstanding subordinated debt, 104.00. The required minimum for the bank in 2010, 2009 and 2008 was 104.00. For additional information about the bank's capital, see Note 8, "Shareholders' Equity."

Operational Risk Management

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

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

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

Political Risk Management

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

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

Recent Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not have an impact on the bank's financial condition or results of operations, but did result in additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard had no impact on the bank's financial condition and results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The bank reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010 was immaterial to the bank's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. The bank reviewed its transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010 was immaterial to the bank's financial condition and results of operations.

Regulatory Matters

As of December 31, 2010, the Farm Credit Administration had enforcement actions in place against three associations in the district, which have not had, and are not expected to have, a significant impact on the bank.

On April 12, 2010, FCA published a final rule that consolidates general election procedures, clarifies the role of nominating committees, enhances the eligibility and disclosure requirements for director candidates, improves annual meeting information statement instructions, and adds new regulations on floor nominations and meetings of stockholders. This regulation became effective May 24, 2010.

On May 18, 2010, FCA published a proposed rule that would amend its rules on loan policies to permit System institutions with direct lending authority to purchase from the Federal Deposit Insurance Corporation (FDIC) loans to farmers, ranchers, producers or harvesters of aquatic products and cooperatives that meet eligibility and scope of financing requirements in order to provide liquidity and a stable source of funding and credit for borrowers in rural areas affected by the failure of lending institutions insured by the FDIC. The comment period for this proposed rule expired on July 19, 2010, and was re-opened on September 16, 2010. This second comment period expired on October 18, 2010.

On July 8, 2010, the FCA published an advance notice of proposed rulemaking to facilitate the development of capital adequacy regulations that would more closely align the minimum capital requirements for the System with the Tier 1/Tier 2 capital structure delineated in the new Basel Accord and the capital requirements of the other Federal banking regulators. FCA has extended the deadline for comments until May 4, 2011.

On July 28, 2010, FCA, together with the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the National Credit Union Administration, published a joint final rule to implement the requirement of the Secure and Fair Enforcement for Mortgage Licensing Act to develop and maintain a system for registering mortgage loan originators employed by institutions regulated by these agencies. The rule became effective October 1, 2010, and compliance becomes mandatory on July 29, 2011.

On August 18, 2010, the FCA published a proposed rule that would lower the current limit on extensions of credit to a single borrower for each System institution operating under title I or II, and would require each System institution to adopt written policies that effectively identify, limit, measure and monitor their exposures to loan and lease concentration risks. The comment period for this proposed rule expired on October 18, 2010.

On November 18, 2010, FCA published an advance notice of proposed rulemaking requesting comments on ways to clarify and enhance FCA's regulations related to System institutions' disclosures to shareholders and investors on compensation, retirement programs and related benefits for senior officers, highly compensated individuals, and certain individual employees or other groups of employees. Comments on this proposed rule are due March 18, 2011.

In addition to the above regulations, FCA issued three bookletters in 2010: BL-062, dated May 13, 2010, providing guidance for the pricing and structure of loans to ensure earnings performance; BL-063, dated July 8, 2010, communicating FCA's expectations for the submission of proposals to merge System banks; and BL-064, dated December 9, 2010, providing clarification and guidance regarding FCA's regulations and expectations with respect to the key elements of an investment asset management framework that each System institution should establish to prudently manage its investments.

Also, on August 18, 2010, FCA published for comment a Joint and Several Liability Reallocation Agreement ("Reallocation Agreement") to be entered into by all of the System banks that would establish a procedure for non-defaulting banks to pay maturing Systemwide debt obligations on behalf of defaulting banks based upon a bank's pro-rata share of outstanding Systemwide indebtedness prior to a statutory joint and several liability call by FCA based on a bank's share of available collateral. On October 20, 2010, FCA published notice of its approval of the Reallocation Agreement. On December 9, 2010, FCA published notice of its approval of an amendment to the Amended and Restated Market Access Agreement to be entered into by all System banks that conforms that agreement to the amended Reallocation Agreement.

Other

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the act are not applicable to the System. While the act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to regulatory jurisdiction, it largely preserves the authority of the Farm Credit Administration as the System's independent federal regulator by excluding System institutions from consideration as non-bank financial companies. The act also provides other exemptions and exclusions from certain of the law's provisions. The Dodd-Frank Act's provisions pertaining to the regulation of over-the-counter derivatives, requiring more of these transactions to utilize third-party clearinghouses and cash collateral, may make these transactions more costly and less attractive as risk management tools for System institutions. Certain provisions within the act call for studies and recommendations related to the future of other housing government-sponsored enterprises (GSEs), and while they do not specifically include or relate to the System, a potential risk exists that the System, as a GSE, may directly or indirectly be impacted by decisions yet to be made by Congress.

In January 2010 four FLCAs restructured to form ACA structures with operating FLCA and Production Credit Association subsidiaries. In 2010 there were two mergers affecting four associations affiliated with FCBT. Effective July 1, 2010, Texas AgFinance, FCS acquired AgCredit of South Texas, ACA, and, effective December 1, 2010, Southern AgCredit, ACA purchased Louisiana Ag Credit, ACA. Both acquisitions were accounted for under the acquisition method of accounting under generally accepted accounting principles. As of December 31, 2010, there were 16 ACAs and one FLCA, totaling 17 associations within the district.

BALANCE SHEETS

Farm Credit Bank of Texas

(dollars in thousands)	2010	December 31, 2009	2008
Assets			
Cash	**$ 436,866**	$ 470,425	$ 13,093
Federal funds sold and overnight investments	**20,438**	20,490	176,698
Investment securities	**3,076,946**	2,143,485	3,028,468
Loans	**10,464,034**	11,033,114	11,403,113
Less allowance for loan losses	**28,678**	31,602	12,549
Net loans	**10,435,356**	11,001,512	11,390,564
Accrued interest receivable	**45,298**	48,709	63,632
Other property owned, net	**2,838**	639	—
Premises and equipment, net	**15,833**	12,348	6,772
Other assets	**74,628**	78,894	81,274
Total assets	**$ 14,108,203**	$ 13,776,502	$ 14,760,501
Liabilities and Shareholders' Equity			
Liabilities			
Bonds and notes, net	**$ 12,779,932**	$ 12,769,479	$ 13,802,205
Subordinated debt	**50,000**	50,000	50,000
Accrued interest payable	**43,869**	68,106	96,847
Reserve for credit losses	**314**	870	121
Preferred stock dividends payable	**21,881**	—	—
Other liabilities	**61,349**	66,755	66,786
Total liabilities	**12,957,345**	12,955,210	14,015,959
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Preferred stock	**482,000**	200,000	200,000
Capital stock	**228,399**	237,361	227,212
Allocated retained earnings	**11,144**	8,029	6,114
Unallocated retained earnings	**407,821**	365,031	336,999
Accumulated other comprehensive income (loss)	**21,494**	10,871	(25,783)
Total shareholders' equity	**1,150,858**	821,292	744,542
Total liabilities and shareholders' equity	**$ 14,108,203**	$ 13,776,502	$ 14,760,501

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

STATEMENTS OF INCOME

Farm Credit Bank of Texas

(dollars in thousands)	2010	Year Ended December 31, 2009	2008
Interest Income			
Investment securities	**$ 67,918**	$ 88,122	$ 110,966
Loans	**415,339**	477,262	549,724
Total interest income	**483,257**	565,384	660,690
Interest Expense			
Bonds, notes and subordinated debt	**270,737**	396,172	541,294
Net Interest Income	**212,520**	169,212	119,396
Provision for credit losses	**28,523**	33,648	20,529
Net interest income after provision for credit losses	**183,997**	135,564	98,867
Noninterest Income			
Patronage income	**16,643**	17,136	17,471
Fees for services to associations	**8,557**	9,039	9,435
Fees for loan-related services	**13,094**	8,725	6,051
Gain from sale of investment securities	**—**	7,607	2,556
Refunds from Farm Credit System Insurance Corporation	**7,982**	—	—
Miscellaneous income, net	**300**	1,098	625
Impairment losses on investments			
Total other-than-temporary impairment losses	**(2,743)**	(11,804)	(2,238)
Less: portion of loss recognized in other comprehensive income	**913**	6,511	—
Net impairment loss recognized in earnings	**(1,830)**	(5,293)	(2,238)
Total noninterest income	**44,746**	38,312	33,900
Noninterest Expenses			
Salaries and employee benefits	**33,392**	33,613	28,955
Occupancy and equipment	**6,494**	5,857	5,139
Insurance Fund premiums	**2,044**	8,963	5,968
(Gains) loss on other property owned	**(491)**	12	(20)
Other operating expenses	**18,854**	18,823	15,992
Total noninterest expenses	**60,293**	67,268	56,034
Net Income	**$ 168,450**	$ 106,608	$ 76,733

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Farm Credit Bank of Texas

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2007	$ 200,000	$ 198,864	$ 5,196	$ 329,198	$ (4,657)	$ 728,601
Adjustment for accounting changes:						
Change in benefits measurement date	—	—	—	(406)	—	(406)
Balance at January 1, 2008	200,000	198,864	5,196	328,792	(4,657)	728,195
Comprehensive income						
Net income	—	—	—	76,733	—	76,733
Change in pension and postretirement benefit plans	—	—	—	—	(934)	(934)
Net change in unrealized net losses on investment securities	—	—	—	—	(16,071)	(16,071)
Net change in unrealized net losses on cash flow hedge derivatives	—	—	—	—	(4,121)	(4,121)
Total comprehensive income	—	—	—	76,733	(21,126)	55,607
Capital stock issued	—	28,420	—	—	—	28,420
Capital stock and allocated retained earnings retired	—	(72)	(868)	—	—	(940)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(51,618)	—	(51,618)
Shareholders' equity	—	—	1,786	(1,786)	—	—
Balance at December 31, 2008	200,000	227,212	6,114	336,999	(25,783)	744,542
Noncredit portion of previous other-than-temporary impairment losses	—	—	—	1,527	(1,527)	—
Balance at January 1, 2009	200,000	227,212	6,114	338,526	(27,310)	744,542
Comprehensive income						
Net income	—	—	—	106,608	—	106,608
Change in pension and postretirement benefit plans	—	—	—	—	55	55
Net change in unrealized net gains on investment securities	—	—	—	—	41,868	41,868
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	(6,511)	(6,511)
Net change in unrealized net gains on cash flow hedge derivatives	—	—	—	—	2,769	2,769
Total comprehensive income	—	—	—	106,608	38,181	144,789
Capital stock issued	—	10,461	—	—	—	10,461
Capital stock and allocated retained earnings retired	—	(312)	(107)	—	—	(419)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(62,959)	—	(62,959)
Shareholders' equity	—	—	2,022	(2,022)	—	—
Balance at December 31, 2009	200,000	237,361	8,029	365,031	10,871	821,292
Comprehensive income						
Net income	—	—	—	168,450	—	168,450
Change in pension and postretirement benefit plans	—	—	—	—	841	841
Net change in unrealized net gains on investment securities	—	—	—	—	12,697	12,697
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	(913)	(913)
Net change in unrealized net losses on cash flow hedge derivatives	—	—	—	—	(2,002)	(2,002)
Total comprehensive income	—	—	—	168,450	10,623	179,073
Issuance of Class B preferred stock	300,000	—	—	—	—	300,000
Issuance costs on preferred stock	—	—	—	(3,432)	—	(3,432)
Repurchase of Class A preferred stock	(18,000)	—	—	—	—	(18,000)
Net premium and costs on repurchase of preferred stock	—	—	—	(529)	—	(529)
Capital stock and allocated retained earnings issued	—	2,609	626	—	—	3,235
Capital stock retired	—	(11,571)	—	—	—	(11,571)
Preferred stock dividends accrued	—	—	—	(21,881)	—	(21,881)
Cash dividends – preferred stock	—	—	—	(23,720)	—	(23,720)
Patronage						
Cash	—	—	—	(73,609)	—	(73,609)
Shareholders' equity	—	—	2,489	(2,489)	—	—
Balance at December 31, 2010	**$ 482,000**	**$ 228,399**	**$ 11,144**	**$ 407,821**	**$ 21,494**	**$ 1,150,858**

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

STATEMENTS OF CASH FLOWS

Farm Credit Bank of Texas

(dollars in thousands)	Year Ended December 31, 2010	2009	2008
Cash Flows From Operating Activities			
Net income	**$ 168,450**	$ 106,608	$ 76,733
Reconciliation of net income to net cash provided by operating activities			
Provision for credit losses	**28,523**	33,648	20,529
Depreciation and amortization on premises and equipment	**1,946**	1,485	1,153
Accretion of net discount on loans	**(130)**	(337)	(348)
Amortization and accretion on debt instruments	**(4,821)**	(4,045)	(2,240)
Accretion of net (discount) premium on investments	**(6,938)**	4,343	(1,405)
Gain on sale of investment securities	**—**	(7,607)	(2,556)
Loss on impairment of available-for-sale investments	**1,830**	5,293	2,238
Allocated equity patronage from System bank	**(12,476)**	(11,762)	(6,408)
Gain on sales of other property owned, net	**(513)**	(14)	(20)
(Gain) loss from sales of premises and equipment	**—**	—	(2)
Decrease in accrued interest receivable	**3,411**	14,923	3,157
Decrease (increase) in other assets, net	**8,672**	(3,708)	(9,675)
Decrease in accrued interest payable	**(24,237)**	(28,741)	(13,341)
(Decrease) increase in other liabilities, net	**(13,262)**	9,143	3,181
Net cash provided by operating activities	**150,455**	119,229	70,996
Cash Flows From Investing Activities			
Net decrease (increase) in federal funds sold	**52**	156,208	(51,196)
Investment securities			
Purchases	**(1,888,081)**	(1,391,158)	(4,319,450)
Proceeds from maturities, calls and prepayments	**971,512**	2,195,367	3,570,847
Proceeds from sales	**—**	106,331	116,785
Redemption of investment in Farmer Mac preferred stock	**7,000**	—	(7,000)
Decrease (increase) in loans, net	**575,779**	444,925	(1,346,476)
(Expenditures) proceeds from (purchase) sale of loans	**(32,822)**	(100,000)	800,000
Proceeds from sales of other property owned, net	**1,276**	9	—
Proceeds from sales of premises and equipment	**—**	—	2
Expenditures for premises and equipment	**(5,431)**	(7,061)	(5,206)
Net cash (used in) provided by investing activities	**(370,715)**	1,404,621	(1,241,694)
Cash Flows From Financing Activities			
Bonds and notes issued	**19,497,527**	42,684,817	57,398,132
Subordinated debt issued, net of cost	**—**	—	49,458
Bonds and notes retired	**(19,483,209)**	(43,682,950)	(56,243,332)
Preferred stock issued	**300,000**	—	—
Issuance costs on preferred stock	**(3,432)**	—	—
Preferred stock repurchased	**(18,000)**	—	—
Net premium and costs on repurchase of preferred stock	**(529)**	—	—
Capital stock issued	**3,235**	10,461	28,420
Capital stock retired and allocated retained earnings distributed	**(11,571)**	(419)	(940)
Cash dividends on preferred stock	**(23,720)**	(15,122)	(15,122)
Cash patronage distributions paid	**(73,600)**	(63,305)	(49,425)
Net cash provided by (used in) financing activities	**186,701**	(1,066,518)	1,167,191
Net (decrease) increase in cash	**(33,559)**	457,332	(3,507)
Cash at beginning of year	**470,425**	13,093	16,600
Cash at End of Year	**$ 436,866**	$ 470,425	$ 13,093
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ —**	$ 8,109	$ —
Loans transferred to other property owned	**2,962**	648	—
Net increase (decrease) in unrealized gains on investment securities	**11,783**	33,830	(16,071)
Preferred stock dividends payable	**21,881**	—	—
Patronage distributions payable	**9,658**	9,649	9,994
Traded but not settled participation loan sales	**—**	12,973	—
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
Increase (decrease) in bonds and notes	**$ 956**	$ (30,548)	$ 25,630
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 294,974**	$ 424,913	$ 554,635

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

Farm Credit Bank of Texas

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

Note 1 — Organization and Operations

A. Organization:

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

The United States is served by four Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB) — collectively, the "System banks" — which has nationwide lending authority for lending to cooperatives. The ACB also has the lending authorities of an FCB within its chartered territories. The bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district's one FLCA, 16 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, 2010. The FLCA and ACAs collectively are referred to as associations.

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the bank and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

B. Operations:

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

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

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

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

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

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

- Farm Credit System Association Captive Insurance Company — as a reciprocal insurer, provides insurance services to its member organizations.

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used to (1) insure the timely payment of principal and interest on Systemwide debt obligations (insured debt), (2) ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses, by the Insurance Corporation, of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the associations, into the Insurance Fund based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions.

Note 2 — Summary of Significant Accounting Policies

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

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

A. Cash:

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

B. Investment Securities and Federal Funds:

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

Most of the bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2010, 2009 and 2008. 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 these 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. Impairment is 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. In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the bank would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value. Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Neither the banks nor the associations hold investments for trading purposes. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues.

The bank may also hold additional investments in accordance with mission-related investment programs, approved by the

Farm Credit Administration. These programs allow the bank to make investments that further the System's mission to serve rural America. Mission-related investments are not included in the bank's liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mission-related investments for which the bank had the intent and ability to hold to maturity were classified as held-to-maturity prior to 2010 and carried at cost, adjusted for the amortization of premiums and accretion of discounts. In May 2008 the bank purchased mission-related rural housing mortgage-backed securities which constituted the bank's held-to-maturity investment portfolio. These securities had an amortized cost basis of $50.5 million and a fair market value of $51.6 million at December 31, 2008. In December 2009, these securities, which had an amortized cost basis of $39.4 million, were sold for a gain of $2.1 million to enhance the bank's liquidity position.

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

C. Loans and Reserves for Credit Losses:

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

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

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

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

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

The bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. In 2010, the bank began capitalizing origination fees, premiums and discounts and amortizing them over the lives of the related loans on a straight-line basis, which does not yield results that are materially different from the effective interest method. In 2009 and 2008, the bank capitalized origination fees, premiums and discounts in excess of $50 thousand and amortized them over the lives of the related loans on a straight-line basis.

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

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

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

D. Other Property Owned:

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value, established by appraisal, less cost to sell, are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in losses (gains) on other property owned, net.

E. Premises and Equipment:

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

F. Other Assets and Other Liabilities:

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

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at December 31, 2010, 2009 and 2008.

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

G. Employee Benefit Plans:

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

The structure of the district's defined benefit plan (DB plan) is characterized as multi-employer, since neither the assets, liabilities nor cost of the plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. Participating employers are jointly and severally liable for their plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets). As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year.

As described more fully in Note 9, "Employee Benefit Plans," the bank's supplemental pension plan is accounted for and reported in accordance with authoritative accounting guidance. Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the bank's supplemental pension plan which is a nonqualified defined benefit deferred compensation plan. By terminating the supplemental pension plan, no further vesting or benefit accrual shall occur under the plan following January 16, 2011, for the respective participants. All remaining unpaid vested benefits shall be distributed in a cash lump sum payment to the participating bank employees after the one year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the plan is not expected to be material to the bank's financial results and will be reflected in the December 31, 2011 financial results of the bank.

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

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

H. Income Taxes:

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

I. Derivative Instruments and Hedging Activity:

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

In accordance with authoritative accounting guidance, for fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value. For cash flow hedges, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative will generally be offset by an entry to accumulated other comprehensive income in shareholders' equity. The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific liabilities on the balance sheet. The bank uses interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively if it was determined that a hedge has not been or is not expected to be effective as a hedge. In the event that hedge accounting were discontinued and the derivative remained outstanding, the bank would carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

J. Fair Value Measurements:

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value and 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. Included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes the bank's Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), non-agency securities, certain loans and other property owned.

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

K. Recently Issued or Adopted Accounting Pronouncements:

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not have an impact on the bank's financial condition or results of operations, but did result in additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard had no impact on the bank's financial condition and results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The bank reviewed its loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010 was immaterial to the bank's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. The bank reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010 was immaterial to the bank's financial condition and results of operations.

L. Off-Balance-Sheet Credit Exposures:

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and the third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Note 3 — Investment Securities

The bank's available for sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of FDIC-guaranteed corporate debt instruments, mortgage-backed investments and asset-backed investments. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations during the second quarter of 2010 as a part of the bank's Capitalized Participation Pool (CPP) program. In accordance with this program, any positive impact to the net interest income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

Investments in the available-for-sale liquidity portfolio at December 31, 2010, 2009 and 2008, follow:

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	**$ 300,531**	**$ 1,724**	**$ (164)**	**$ 302,091**	**0.84%**
Federal agency collateralized mortgage-backed securities	**2,524,022**	**36,453**	**(1,046)**	**2,559,429**	**2.00**
Other collateralized mortgage-backed securities	**71,192**	**68**	**(6,342)**	**64,918**	**5.97**
Asset-backed securities	**11,493**	**1**	**(1,489)**	**10,005**	**3.13**
Total liquidity investments	**$ 2,907,238**	**$38,246**	**$ (9,041)**	**$ 2,936,443**	**1.97%**

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-backed securities	1,843,894	32,866	(5,421)	1,871,339	3.16
Other collateralized mortgage-backed securities	123,315	12	(13,221)	110,106	6.87
Asset-backed securities	31,658	—	(3,351)	28,307	3.50
Total liquidity investments	$ 2,130,682	$34,796	$(21,993)	$ 2,143,485	3.30%

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

Investments in the available-for-sale other investments portfolio follow:

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	**$ 145,122**	**$ —**	**$ (4,619)**	**$ 140,503**	**5.07%**

There were no investments in the available-for-sale other investments portfolio at December 31, 2009 or December 31, 2008. There were no investments in the held-to-maturity portfolio at December 31, 2010 or December 31, 2009.

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of available-for-sale liquidity portfolio at December 31, 2010, 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
FDIC-guaranteed corporate debt	$131,785	$ 170,306	$ —	$ —	$ 302,091
Federal agency collateralized mortgage-backed securities	—	51,257	197,872	2,310,300	2,559,429
Other collateralized mortgage-backed securities	—	—	3,891	61,027	64,918
Asset-backed securities	—	3,245	—	6,760	10,005
Total	$131,785	$ 224,808	$ 201,763	$ 2,378,087	$ 2,936,443
Total amortized cost	$130,081	$ 223,153	$ 198,437	$ 2,355,567	$ 2,907,238
Weighted average yield	1.57%	1.25%	2.68%	2.01%	1.97%

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, 2010, the CMO portfolio had a weighted average remaining life of approximately two years.

Investments in the available-for-sale other investments portfolio follow:

	Due in one year or less	Due after one year through five years	Total
Fair value of agricultural mortgage-backed securities	$ 124,715	$ 15,788	$ 140,503
Total amortized cost	$ 128,930	$ 16,192	$ 145,122
Weighted average yield	4.99%	5.70%	5.07%

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, 2010, the bank held 12 investments that were ineligible for liquidity purposes by FCA standards. Those ineligible securities had an amortized cost basis of $57.1 million and a fair value of $50.5 million at December 31, 2010. The bank has received approval from the FCA to continue to hold these investments.

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

	Year Ended December 31, 2010	2009	2008
Proceeds on sales	**$ —**	$ 153,119	$ 114,424
Realized gains on sales	**—**	7,607	2,556
Realized losses due to impairment	**1,830**	5,293	2,238

At December 31, 2010, the bank had 46 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. The continuous loss position is based on the date the impairment occurred.

	December 31, 2010					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FDIC-guaranteed corporate debt	**$ 199,490**	**$ (164)**	**$ —**	**$ —**	**$ 199,490**	**$ (164)**
Federal agency collateralized mortgage-backed securities	**514,760**	**(1,046)**	**—**	**—**	**514,760**	**(1,046)**
Other collateralized mortgage-backed securities	**9,647**	**(626)**	**50,691**	**(5,716)**	**60,338**	**(6,342)**
Asset-backed securities	**—**	**—**	**6,342**	**(1,489)**	**6,342**	**(1,489)**
Total	**$ 723,897**	**$ (1,836)**	**$ 57,033**	**$ (7,205)**	**$ 780,930**	**$ (9,041)**

	December 31, 2009					
	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-backed securities	$ 506,742	$ (5,240)	$ 33,840	$ (182)	$ 540,582	$ (5,422)
Other collateralized mortgage-backed securities	2,233	(4)	103,708	(13,216)	105,941	(13,220)
Asset-backed securities	—	—	28,307	(3,351)	28,307	(3,351)
Total	$ 508,975	$ (5,244)	$ 165,855	$ (16,749)	$ 674,830	$ (21,993)

	December 31, 2008					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage-backed securities	$ 404,984	$ (23,836)	$ 60,853	$ (13,351)	$ 465,837	$ (37,187)
Commercial paper	99,988	(12)	77,867	(2,133)	177,855	(2,145)
Asset-backed securities	—	—	67,041	(6,458)	67,041	(6,458)
Total	$ 504,972	$ (23,848)	$ 205,761	$ (21,942)	$ 710,733	$ (45,790)

Although net unrealized gain on investment securities has increased by $11.8 million, the fair value of some investments in the portfolios has been impacted as a result of turmoil in the credit markets. As more fully discussed in Note 2, the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (iii) whether an entity does not expect to recover the security's entire amortized cost basis (even if it does not intend to sell).

The bank performs an evaluation quarterly on a security-by-security basis considering all available information. If the bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss would equal the full difference between amortized cost and fair value of the security. When the bank does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. A bank uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considers 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 two asset-backed investments during 2010. The credit portion of the impairment losses, totaling $1.8 million for 2010, was recognized as a loss in earnings of $1.3 million in the first quarter, $474 in the second quarter, and $14 in the fourth quarter. The non-credit-related impairment losses on the six investments, totaling $913, 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 2010. To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank utilizes an independent third party'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, 2010, ranged from 3.2 percent to 10.5 percent for non-agency mortgage-backed securities and ranged from 7.3 percent to 13.3 percent for the asset-backed securities. Prepayment rate assumptions are based on historical prepayment rates and ranged from 3.5 percent to 16.0 percent for non-agency mortgage-backed securities and ranged from 2.3 percent to 2.9 percent for the asset-backed securities at December 31, 2010. At December 31, 2010, the loss severity assumptions ranged from 33.6 percent to 52.1 percent for non-agency mortgage-backed securities and ranged from 57.9 percent to 68.4 percent for the asset-backed securities. 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 for the past two years:

Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at December 31, 2009	$ 6,005
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	300
Increase to amount related to credit loss for which other-than temporary impairment was previously recognized when it did not intend to sell and it is not more likely than not that it will be required to sell	1,529
Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at December 31, 2010	$ 7,834
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 was previously recognized when it did not intend to sell and it is not more likely than not that it will be required to sell	1,699
Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at December 31, 2009	$ 6,005

Note 4 — Loans and Reserves for Credit Losses

Loans comprised the following categories at December 31:

	2010	2009	2008
Direct notes receivable from district associations and OFIs	**$ 7,530,019**	$ 8,304,420	$ 8,402,595
Participations purchased	**2,905,985**	2,715,889	2,984,414
Other bank-owned loans	**28,030**	12,805	16,104
Total loans	**$ 10,464,034**	$ 11,033,114	$ 11,403,113

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

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

Commodity	**2010**	2009	2008
Livestock	**38%**	38%	38%
Crops	**13**	14	14
Timber	**11**	11	11
Cotton	**5**	5	5
Poultry	**3**	4	4
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**26**	24	24
Total	**100%**	100%	100%

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

In March 2010, the bank purchased loans which had experienced credit deterioration and other property owned from a district association. The purchase of the loan assets and other property owned by the bank was completed to ensure the district association remained a viable stand-alone institution. This purchase activity avoided a nonaccrual classification of a district association direct note receivable and protected the bank's charter in the state where the district association was located and has lending authorities. The loans, which had book balances at the association totaling $40,069, were purchased at fair value of $32,822. The fair value was derived by discounting the total estimated cash flows of $36,341 using appropriate yield curves, resulting in an accretable discount of $3,519. The bank recognized additional provisions for loan losses totaling $2,001 related to these loans during 2010, the effect of which reduces the resulting accretable discount, which will be accreted into interest income on a level-yield basis over the life of the loans. At December 31, 2010, after the pay-off of one of the loans in December 2010 and the transfer of loans to two borrowers to other property owned (OPO) in November 2010, the balance of these loans, net of the unaccreted discount of $1,814, was $21,911. In addition to these loans, the bank also purchased other property owned related to three other loans from the association at fair value of $2,917. In December 2010, one of the acquired properties was disposed of, leaving a balance of $2,838 in other property owned at December 31, 2010. The financial impact of the purchases to the bank is negligible due to the size of the bank's balance sheet and its financial strength. Because the assets were purchased at fair value, the transaction should not adversely impact future earnings as the assets are liquidated or refinanced over the next two to three years.

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties. The bank's impaired loans consisted of participations purchased and other bank-owned loans; no direct notes to district associations were impaired at December 31, 2010, 2009 and 2008.

	December 31,		
	2010	2009	2008
Nonaccrual loans			
Current as to principal and interest	**$ 55,131**	$ 66,608	$ 93,333
Past due	**65,068**	45,307	16,329
Total nonaccrual loans	**120,199**	111,915	109,662
Impaired accrual loans			
Restructured accrual loans	**354**	647	690
Accrual loans 90 days or more past due	**—**	—	—
Total impaired accrual loans	**354**	647	690
Total impaired loans	**$ 120,553**	$ 112,562	$ 110,352

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	December 31, 2010	December 31, 2009	December 31 2008
Nonaccrual loans:			
Real estate mortgage	**$ 77,120**	$ 44,452	$ 26,291
Production and intermediate term	**17,551**	15,954	56,195
Agribusiness	**21,291**	43,086	25,555
Communication	**4,237**	6,872	1,567
Rural residential real estate	**—**	7	11
Energy & water/ waste disposal	**—**	1,544	43
Total nonaccrual loans	**120,199**	111,915	109,662
Accruing restructured loans:			
Real estate mortgage	**354**	647	690
Total accruing restructured loans	**354**	647	690
Total nonperforming loans	**120,553**	112,562	110,352
Other property owned	**2,838**	639	—
Total nonperforming assets	**$ 123,391**	$ 113,201	$ 110,352

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2010	2009	2008
Real estate mortgage:			
Acceptable	**69.0%**	80.5%	89.8%
OAEM	**3.1**	1.9	6.1
Substandard/Doubtful	**27.9**	17.6	4.1
	100.0%	100.0%	100.0%
Production and intermediate-term:			
Acceptable	**84.9%**	78.6%	87.8%
OAEM	**8.1**	14.2	—
Substandard/Doubtful	**7.0**	7.2	12.2
	100.0%	100.0%	100.0%
Agribusiness:			
Acceptable	**86.7%**	81.4%	93.9%
OAEM	**9.1**	8.8	1.9
Substandard/Doubtful	**4.2**	9.8	4.2
	100.0%	100.0%	100.0%
Energy & water/waste disposal:			
Acceptable	**98.9%**	99.8%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**1.1**	0.2	—
	100.0%	100.0%	100.0%
Communication:			
Acceptable	**97.9%**	96.3%	99.5%
OAEM	**—**	—	—
Substandard/Doubtful	**2.1**	3.7	0.5
	100.0%	100.0%	100.0%
Rural residential real estate:			
Acceptable	**100.0%**	99.4%	99.0%
OAEM	**—**	0.2	0.4
Substandard/Doubtful	**—**	0.4	0.6
	100.0%	100.0%	100.0%
Lease receivables:			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Direct notes to associations:			
Acceptable	**74.3%**	88.1%	98.4%
OAEM	**18.4**	7.7	1.6
Substandard/Doubtful	**7.3**	4.2	—
	100.0%	100.0%	100.0%
Loans to other financing institutions:			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Mission related:			
Acceptable	**87.3%**	100.0%	100.0%
OAEM	**0.9**	—	—
Substandard/Doubtful	**11.8**	—	—
	100.0%	100.0%	100.0%
Total loans:			
Acceptable	**78.4%**	88.0%	97.2%
OAEM	**14.4**	6.9	1.7
Substandard/Doubtful	**7.2**	5.1	1.1
	100.0%	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2010:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ —	$ 45,805	$ 45,805	$ 383,754	$ 429,559	$ —
Production and intermediate term	6,069	16,210	22,279	324,682	346,961	—
Agribusiness	3,057	—	3,057	1,079,860	1,082,917	—
Energy & water/waste disposal	—	—	—	866,658	866,658	—
Communication	—	—	—	199,188	199,188	—
Rural residential real estate	—	—	—	1,800	1,800	—
Direct notes to associations	—	—	—	7,477,321	7,477,321	—
Loans to OFIs	—	—	—	75,892	75,892	—
Mission Related	—	—	—	22,392	22,392	—
Total	$ 9,126	$ 62,015	$ 71,141	$ 10,431,547	$ 10,502,688	$ —

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2010	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 48,556	$ 53,677	$ 15,879	$ 40,118	$ 168
Production and intermediate term	991	2,952	480	10,197	43
Processing and marketing	18,840	19,362	2,973	11,225	47
Farm-related business	—	—	—	6,034	25
Energy & water/waste disposal	—	—	—	—	—
Communication	4,237	2,587	3,000	2,689	11
Rural residential real estate	—	—	—	2	—
Total	$ 72,624	$ 78,578	$ 22,332	$ 70,265	$ 294
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 28,918	$ 38,625	$ —	$ 35,503	$ 1,135
Production and intermediate term	16,560	17,347	—	8,668	36
Processing and marketing	2,451	5,488	—	9,542	40
Farm-related business	—	—	—	5,129	22
Energy & water/waste disposal	—	8,832	—	—	—
Communication	—	1,725	—	2,286	9
Rural residential real estate	—	—	—	2	—
Total	$ 47,929	$ 72,017	$ —	$ 61,130	$ 1,242
Total impaired loans:					
Real estate mortgage	$ 77,474	$ 92,302	$ 15,879	$ 75,621	$ 1,303
Production and intermediate term	17,551	20,299	480	18,865	79
Processing and marketing	21,291	24,850	2,973	20,767	87
Farm-related business	—	—	—	11,163	47
Energy & water/waste disposal	—	8,832	—	—	—
Communication	4,237	4,312	3,000	4,975	20
Rural residential real estate	—	—	—	4	—
Total	$ 120,553	$ 150,595	$ 22,332	$ 131,395	$ 1,536

* Unpaid principal balance represents the contractual obligations of the loans

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

	2010	2009	2008
Interest income which would have been recognized under the original loan terms	**$ 5,839**	$ 8,288	$ 3,693
Less: interest income recognized	**1,536**	4,200	215
Foregone interest income	**$ 4,303**	$ 4,088	$ 3,478

A summary of changes in the allowance and reserves for credit losses and period end recorded investment (including accrued interest) in loans follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Direct Notes to Associations	Loans to OFIs	Mission Related	Total
Allowance for Credit Losses:										
Balance at December 31, 2009	$ 15,688	$ 2,731	$ 6,658	$ 4,325	$ 2,200	$ —	$ —	$ —	$ —	$ 31,602
Charge-offs	(18,644)	(1,924)	(1,616)	(1,601)	(9,390)	—	—	—	—	(33,175)
Recoveries	94	—	5	243	831	—	—	—	—	1,173
Provision for loan losses	19,190	516	195	450	8,168	4	—	—	—	28,523
Other	555	—	—	—	—	—	—	—	—	555
Balance at December 31, 2010	$ 16,883	$ 1,323	$ 5,242	$ 3,417	$ 1,809	$ 4	$ —	$ —	$ —	$ 28,678
Ending Balance: individually evaluated for impairment	$ 14,189	$ 480	$ 2,973	$ 3,000	$ —	$ —	$ —	$ —	$ —	$ 20,642
Ending Balance: collectively evaluated for impairment	$ 943	$ 728	$ 2,269	$ 417	$ 1,809	$ 4	$ —	$ —	$ —	$ 6,170
Ending Balance: loans acquired with deteriorated credit quality	$ 1,751	$ 115	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,866
Recorded Investments in Loans Outstanding										
Balance at December 31, 2010	$ 429,559	$ 346,961	$ 1,082,917	$ 199,188	$ 866,658	$ 1,800	$ 7,477,321	$ 75,892	$ 22,392	$ 10,502,688
Ending Balance for loans individually evaluated for impairment	$ 64,293	$ 15,817	$ 21,291	$ 4,237	$ —	$ —	$ —	$ —	$ —	$ 105,638
Ending Balance for loans collectively evaluated for impairment	$ 352,085	$ 329,410	$ 1,061,626	$ 194,951	$ 866,658	$ 1,800	$ 7,477,321	$ 75,892	$ 22,392	$ 10,382,135
Ending Balance for loans acquired with deteriorated credit quality	$ 13,181	$ 1,734	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 14,915

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on letters of credit and unfunded commitments. At December 31, 2010, 2009 and 2008, the bank had a reserve for losses on letters of credit and unfunded commitments of $314, $870 and $121, respectively, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

At December 31, 2010, the bank had a total of $3.4 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.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31, 2010	2009	2008
Leasehold improvements	**$ 1,147**	$ 1,142	$ 1,056
Furniture and equipment	**23,582**	18,614	11,856
	24,729	19,756	12,912
Accumulated depreciation	**(8,896)**	(7,408)	(6,140)
Total	**$ 15,833**	$ 12,348	$ 6,772

Included in the bank's property and equipment at December 31, 2010, is $12.6 million in capitalized costs related to the bank's development of new lending systems, reflecting an increase of $3.5 million from the $9.1 million included in 2009. The first phase of the lending systems, designed for participation loans and direct notes, was implemented effective July 2010. Depreciation on those systems began upon implementation. Depreciation on the second phase of the lending systems, designed for association retail loans, will begin when implemented. The new systems are designed to enhance the accounting and informational capabilities related to district association lending as well as the bank's capital markets loan portfolios.

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 was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space. Under the terms of the lease amendment, the bank will pay annual base rental ranging from $18 per square foot in the first year to $26 per square foot in the last year. Annual lease expenses for the facility, including certain operating expenses passed through from the landlord, were $2.6 million, $2.8 million and $2.7 million for 2010, 2009 and 2008, respectively.

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

	Minimum Lease Payments
2011	$ 2,036
2012	2,119
2013	1,589
2014	1,060
2015	1,654
Thereafter	22,043
Total minimum lease payments	$ 30,501

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2010	2009	2008
Investment in other System bank	**$ 34,979**	$ 22,504	$ 10,742
Other accounts receivable	**19,435**	19,594	17,414
Unamortized debt issue costs	**9,242**	10,017	10,680
Fair value of derivatives	**6,512**	2,526	31,439
Receivable on loan sales	**—**	12,973	—
Farmer Mac preferred stock	**—**	7,000	7,000
Other, net	**4,460**	4,280	3,999
Total	**$ 74,628**	$ 78,894	$ 81,274

Other liabilities comprised the following at December 31:

	2010	2009	2008
Accounts payable	**$ 31,165**	$ 25,587	$ 27,308
Patronage payable	**9,658**	9,649	9,994
Obligation for non-pension postretirement benefits	**8,153**	7,212	7,132
Mortgage life additional reserve	**3,393**	3,393	3,318
FCSIC premium payable	**2,044**	8,963	5,968
Supplemental pension	**1,905**	6,018	5,219
Accrued building lease payable	**1,250**	1,497	1,697
Fair value of derivatives	**5**	30	3,074
Other, net	**3,776**	4,406	3,076
Total	**$ 61,349**	$ 66,755	$ 66,786

Note 7 — Bonds and Notes

Systemwide Debt Securities:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Systemwide bonds, medium-term notes and discount notes (Systemwide debt securities) are the joint and several liability of the System banks. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2010, the bank had such specified eligible assets totaling $14.0 billion and obligations and accrued interest payable totaling $12.8 billion, resulting in excess eligible assets of $1.2 billion.

The System banks and the Funding Corporation have entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. (At December 31, 2010, the bank was, and currently remains, in compliance with the conditions and requirements of the System banks' and the Funding Corporation's MAA.)

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

The bank's participation in Systemwide debt securities at December 31, 2010, follows *(dollars in millions)*:

	Systemwide							
	Bonds		Medium-Term Notes		Discount Notes		Total	
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2011	$ 2,930.5	1.13%	$ —	—%	$ 2,072.3	0.25%	$ 5,002.8	0.77%
2012	2,162.6	1.09	—	—	—	—	2,162.6	1.09
2013	1,616.4	1.40	—	—	—	—	1,616.4	1.40
2014	1,293.8	1.81	—	—	—	—	1,293.8	1.81
2015	1,042.2	2.33	—	—	—	—	1,042.2	2.33
Subsequent years	1,662.1	3.55	—	—	—	—	1,662.1	3.55
Total	$ 10,707.6	1.74%	$ —	—%	$ 2,072.3	0.25%	$ 12,779.9	1.50%

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

Systemwide bonds, medium-term notes, 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, 2010, was 122 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2010 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2011	$ 200,000	1/6/2011-1/28/2011
2012	1,135,000	1/4/2011-6/14/2011
2013	1,160,000	1/3/2011-12/16/2011
2014	1,005,000	1/2/2011-9/2/2011
2015	870,000	1/16/2011-7/27/2012
Subsequent years	948,000	1/1/2011-6/22/2015
Total	$ 5,318,000	1/1/2011-6/22/2015

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

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and Systemwide debt securities (insured debt) of insured System banks to the extent net assets are available in the Insurance Fund. All other liabilities in the financial statements are uninsured. At December 31, 2010, the assets of the Insurance Fund aggregated $3.23 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal and interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

Subordinated Debt:

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

Other:

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

Note 8 — Shareholders' Equity

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

A. Description of Bank Equities:

Class A Cumulative Perpetual Preferred Stock (Class A preferred stock) – On November 7, 2003, the bank issued 100,000 shares of $1,000 per share par value Class A preferred stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate is 7.561 percent, payable semi-annually to December 15, 2013, after which dividends are payable quarterly at a rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of cumulative perpetual preferred stock with the same terms. During 2010, the bank repurchased $18.0 million par value of the Class A preferred stock at a net premium and costs of $529. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. Dividends on preferred stock are recorded as declared. The preferred stock ranks, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the bank. In 2010, Class A preferred stock dividends of $21,851 were declared, of which $14,970 were paid and $6,881 were payable at December 31, 2010, which is an accrual of the amount payable on the next dividend date, June 15, 2011, required by "dividend/patronage stopper" clauses in the preferred stock offerings. The clauses require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and was required before payment of the December 31, 2010, bank investment and direct note patronage to associations and OFIs could be paid.

Class B Non-cumulative Subordinated Perpetual Preferred Stock (Class B preferred stock) – On August 26, 2010, the bank issued $300.0 million of Class B non-cumulative subordinated perpetual preferred stock, representing three hundred thousand shares at $1,000 per share par value for net proceeds of $296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are non-cumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B preferred stock ranks junior, both as to dividends and upon liquidation to our Class A preferred stock, and senior to all of our outstanding capital stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. In 2010, Class B preferred stock dividends of $23,750 were declared, of which $8,750 were paid and $15,000 were payable at December 31, 2010, which is an accrual of the amount payable on the next dividend date, June 15, 2011, required by "dividend/patronage stopper" clauses in the preferred stock offerings. The clauses require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and was required before payment of the December 31, 2010, bank investment and direct note patronage to associations and OFIs could be paid.

Class A Voting Common Stock – According to the bank's bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCA are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the associations is 2 percent of their average borrowings from the bank. There were 45,326 shares, 47,078 shares and 45,044 shares of Class A voting common stock issued and outstanding at December 31, 2010, 2009 and 2008, respectively. Class A voting common stock includes 489 shares purchased by district associations as a condition of the bank's Capitalized Participation Pool (CPP) program. Under the CPP program, the stock investment that the bank requires is 8 percent of each pool.

Class A Nonvoting Common Stock – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the bank based on a minimum and maximum of 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of the OFIs' average borrowings from the bank. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 354 shares, 395 shares and 399 shares of Class A nonvoting common stock issued and outstanding at December 31, 2010, 2009 and 2008, respectively.

Allocated retained earnings of $11,144 at December 31, 2010, consisted of $1,353 of patronage refunds allocated to certain PCAs, and $9,791 allocated for the payment of patronage on loans participated with another System bank.

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

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

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

	2010	2009	2008
Class A voting common stock – Associations	**$ 226,630**	$ 235,388	$ 225,218
Class A nonvoting common stock – Other Financing Institutions	**1,769**	1,973	1,994
Total common stock	**228,399**	237,361	227,212
Preferred stock	**482,000**	200,000	200,000
Allocated retained earnings			
Associations	**1,353**	727	834
Other entities	**9,791**	7,302	5,280
Total allocated retained earnings	**11,144**	8,029	6,114
Total capital stock and allocated retained earnings	**$ 721,543**	$ 445,390	$ 433,326

Patronage may be paid to the holders of Class A voting common stock and allocated retained earnings of the bank, as the board of directors may determine by resolution, subject to the capitalization requirements defined by the FCA. During 2010, $73,609 in cash patronages was declared to district associations, OFIs and other entities, compared to $62,959 in 2009 and $51,618 in 2008.

B. Regulatory Capitalization Requirements and Restrictions:

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

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

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

	2010	2009	2008	Regulatory Minimum
Permanent capital ratio	**22.00%**	15.98%	14.03%	7.00%
Total surplus ratio	**17.83**	12.47	11.25	7.00
Core surplus ratio	**10.67**	7.11	6.40	3.50
Collateral ratio	**107.91**	105.83	105.40	103.00

C. Accumulated Other Comprehensive (Income) Loss:

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

	2010	2009	2008
Unrealized losses on other-than-temporarily impaired investments	**$ 5,428**	$ 8,038	$ —
Unrealized (gains) losses on other investments available-for-sale, net	**(30,014)**	(20,840)	21,029
Supplemental pension and other postretirement benefit plans	**786**	1,627	1,681
Unrealized losses on cash flow interest rate caps	**2,306**	304	—
Unrealized losses (gains) on cash flow interest rate swaps, net	**—**	—	3,073
Total	**$ (21,494)**	$ (10,871)	$ 25,783

Note 9 — Employee Benefit Plans

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

The structure of the district's DB plan is characterized as 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. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year.

The DB plan is noncontributory and benefits are based on salary and years of service. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Additionally, certain qualified individuals in the bank may participate in a separate, nonqualified defined benefit supplemental pension plan. The bank accrues the cost and liability of the supplemental pension plan as incurred, and not as contributions are required. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2010. Actuarial information regarding the bank's nonqualified supplemental pension plan's benefit obligations and funded status are disclosed in the following tables.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. Participants in the non-elective pension feature of the DC plan direct the placement of their employers' contributions (5 percent of eligible compensation during 2009) made on their behalf into various investment alternatives.

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

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

	2010	2009	2008
District DB plan	**$ 2,593**	$ 5,620	$ 2,295
Supplemental DB plan	**2,852**	956	4,525
DC plan	**857**	718	634
401(k) plan	**775**	687	619
Supplemental 401(k) plan	**116**	121	47
Total	**$ 7,193**	$ 8,102	$ 8,120

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

The expense for the supplemental DB plan is based on the actuarially calculated benefit expense. The bank's supplemental DB plan expense for 2008 included $3.2 million in settlement expense related to the bank chief executive officer (CEO) withdrawal from the plan pursuant to a compensation agreement between the bank and the CEO in November 2008. The supplemental DB plan expense increased $1.9 million in 2010 due to supplemental pension settlement expense related to withdrawing participants.

Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the bank's supplemental DB plan which is a nonqualified deferred compensation plan. By terminating the supplemental DB plan, no further vesting or benefit accrual shall occur under the plan following January 16, 2011 for the respective participants. All remaining unpaid vested benefits shall be distributed in a cash lump sum payment to the participating bank employees after the one year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the plan is not expected to be material to the bank's financial results and will be reflected in the December 31, 2011 financial results of the bank.

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

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

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

	Supplemental Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	**2010**	2009	2008
Accumulated benefit obligation, end of year	**$ 1,610**	$ 3,879	$ 2,801			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ 6,019**	$ 5,219	$ 8,644	**$ 7,213**	$ 7,132	$ 6,547
Service cost	**155**	90	508	**190**	194	210
Interest cost	**238**	317	682	**426**	438	517
Plan participants' contributions	**—**	—	—	**157**	138	171
Plan amendments	**—**	—	—	**—**	—	—
Settlements	**—**	—	(458)	**—**	—	—
Special termination benefits	**—**	—	—	**—**	—	—
Actuarial loss (gain)	**638**	393	4,380	**679**	(198)	298
Benefits paid	**(5,145)**	—	(8,537)	**(512)**	(491)	(611)
Projected benefit obligation, end of year	**$ 1,905**	$ 6,019	$ 5,219	**$ 8,153**	$ 7,213	$ 7,132
Change in plan assets						
Plan assets at fair value, beginning of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Actual return on plan assets	**—**	—	—	**—**	—	—
Company contributions	**5,145**	—	8,537	**354**	353	440
Plan participants' contributions	**—**	—	—	**158**	138	171
Benefits paid	**(5,145)**	—	(8,537)	**(512)**	(491)	(611)
Plan assets at fair value, end of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Reconciliation of funded status						
Unfunded status	**$ (1,905)**	$ (6,019)	$ (5,219)	**$ (8,153)**	$ (7,213)	$ (7,132)
Contributions between measurement date and fiscal year end	**—**	—	—	**—**	—	—
Net benefit liability at end of year	**$ (1,905)**	$ (6,019)	$ (5,219)	**$ (8,153)**	$ (7,213)	$ (7,132)
Amounts recognized in accumulated other comprehensive income						
Additional minimum pension liability adjustment	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Net actuarial loss (gain)	**692**	2,158	1,959	**198**	(481)	(282)
Prior service cost (credit)	**1,501**	1,855	2,209	**(1,605)**	(1,905)	(2,205)
Total	**$ 2,193**	$ 4,013	$ 4,168	**$ (1,407)**	$ (2,386)	$ (2,487)
Net periodic benefit cost						
Service cost	**$ 155**	$ 90	$ 406	**$ 190**	$ 194	$ 168
Interest cost	**238**	317	546	**426**	438	414
Expected return on plan assets	**—**	—	—	**—**	—	—
Amortization of:						
Transition obligation (asset)	**—**	—	—	**—**	—	—
Prior service cost	**354**	354	354	**(300)**	(300)	(306)
Net actuarial loss	**234**	195	51	**—**	—	(5)
Net periodic benefit cost	**$ 981**	$ 956	$ 1,357	**$ 316**	$ 332	$ 271
Settlement expense	**1,871**	—	3,168	**—**	—	—
Total benefit cost	**$ 2,852**	$ 956	$ 4,525	**$ 316**	$ 332	$ 271
Adjustment to retained earnings for 2008 due to change in measurement date	**N/A**	N/A	$ 339	**N/A**	N/A	$ 67
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial loss (gain)	**$ 638**	$ 393	$ 3,922	**$ 679**	$ (198)	$ 298
Amortization of net actuarial loss (gain)	**(2,103)**	(195)	(63)	**—**	—	6
Settlement expense	**—**	—	(3,168)	**—**	—	—
Prior service costs	**—**	—	—	**—**	—	—
Amortization of prior service costs	**(354)**	(354)	(443)	**300**	300	382
Termination recognition of prior service costs	**—**	—	—	**—**	—	—
Net change	**$ (1,819)**	$ (156)	$ 248	**$ 979**	$ 102	$ 686
AOCI amounts expected to be amortized in 2010						
Prior service cost (credit)	**$ —**			**$ (289)**		
Net actuarial loss (gain)	**39**			**—**		
Total	**$ 39**			**$ (289)**		

	Supplemental Pension Benefits			Other Postretirement Benefits		
Weighted-average assumptions used to determine benefit obligation as of December 31						
Measurement date	**12/31/2010**	12/31/2009	12/31/2008	**12/31/2010**	12/31/2009	12/31/2008
Discount rate	**3.15%**	4.25%	6.30%	**5.70%**	6.05%	6.30%
Rate of compensation increase	**3% in 2010 up to 3.5% in 2011**	6% in 2010 down to 4% in 2012	7% in 2009 down to 4% in 2012			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**7.5%/6.5%**	8.0%/7.0%	8.5%/6.25%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**10.00%**	10.50%	12.00%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2017**	2017	2015
Weighted-average assumptions used to determine net periodic cost for year ended December 31						
Measurement date	**12/31/2009**	12/31/2008	9/30/2007	**12/31/2009**	12/31/2008	9/30/2007
Discount rate	**4.25%**	6.30%	6.50%	**6.05%**	6.30%	6.50%
Expected return on plan assets	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Rate of compensation increase	**6.0%**	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%/6.5%	9.0%/6.75%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**10.50%**	11.00%	13.00%
Ultimate health care cost trend rate				**5.00%**	5.00%	4.75%
Year that the rate reaches the ultimate trend rate				**2017**	2015	2016

Effect of Change in Assumed Health Care Cost Trend Rates

Effect on total service cost and interest cost components	
One-percentage point increase	$ 132
One-percentage point decrease	(105)
Effect on year-end postretirement benefit obligation	
One-percentage point increase	$ 1,356
One-percentage point decrease	(1,097)

Expected Future Cash Flow Information

	Supplemental Pension Benefits	Other Postretirement Benefits
Expected Benefit Payments		
Fiscal 2011	$ –	$ 372
Fiscal 2012	1,905	376
Fiscal 2013	–	392
Fiscal 2014	–	414
Fiscal 2015	–	446
Fiscal 2016 - 2020	–	2,564
Expected Contributions		
Fiscal 2010	$ –	$ 372

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

Note 10 — Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $305,160, $364,620 and $394,059 for 2010, 2009 and 2008, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 8, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $8,557, $9,039 and $9,435 for 2010, 2009 and 2008, respectively, and was included in the bank's noninterest income.

The bank had no transactions with nor loans to directors or officers during 2010, 2009 or 2008.

Note 11 — Commitments and Contingencies

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

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2010, were approximately $188.8 billion.

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

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

The bank may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage its exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, $1.837 billion of commitments to extend credit and $107.6 million of standby letters of credit were outstanding.

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

The bank also participates in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the bank. At December 31, 2010, $107.6 million of standby letters of credit with a fair value of $2.4 million was included in other liabilities. Outstanding standby letters of credit generally have expiration dates ranging from 2011 to 2015.

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

Note 13 — Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2010, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2010

	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	**$ 20,438**	$ —	$ 20,438	$ —
Investments available-for-sale	**3,076,946**	—	2,829,298	247,648
Derivative assets	**6,512**	—	6,512	—
Assets held in nonqualified benefit trusts	**369**	369	—	—
Total assets	**$ 3,104,265**	$ 369	$ 2,856,248	$ 247,648
Liabilities:				
Derivative liabilities	**$ 5**	$ —	$ 5	$ —
Standby letters of credit	**2,398**	—	2,398	—
Total liabilities	**$ 2,403**	$ —	$ 2,403	$ —

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, 2010:

Level 3 Assets and Liabilities

	Investment Securities
Balance at January 1, 2010	$ —
Purchases, issuances and settlements	145,122
Total realized and unrealized losses, net	(4,619)
Transfers into Level 3	107,145
Balance at December 31, 2010	$ 247,648

In December 2010, the bank transferred certain non-agency mortgage-backed and asset-backed securities totaling $107,145 from Level 2 to Level 3. The decision to move these investments to Level 3 was based on the relatively illiquid current market for these investments, which were valued by independent third-party valuation services which used Level 2 and Level 3 criteria in their valuations. The significant inputs included volatility, prepayment rates, market spreads and dealer quotes.

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, 2010	$ 1,830

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2010 for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2010

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 50,293**	$ —	$ —	$ 50,293	$ (33,176)
Other property owned	**2,838**			2,838	491
Total assets	**$ 53,131**	$ —	$ —	$ 53,131	(32,685)

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

Fair Value Measurement at December 31, 2009

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

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

Level 3 Assets and Liabilities

	Investment Securities
Balance at January 1, 2009	$ 99,992
Net losses included in other comprehensive income	(376)
Net losses included in other earnings	(5,293)
Purchases, issuances and settlements	(104,208)
Net transfers to 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)	Total Gains (Losses)
Assets:					
Loans	**$ 53,084**	$ —	$ —	$ 53,084	$ (13,846)
Other property owned	**710**	—	—	710	14
Total assets	**$ 53,794**	$ —	$ —	$ 53,794	$ (13,832)

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

Fair Value Measurement at December 31, 2008

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

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

Level 3 Assets and Liabilities

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

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

Fair Value Measurement at December 31, 2008

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 28,640**	$ —	$ —	$ 28,640	$ (9,148)
Total assets	**$ 28,640**	$ —	$ —	$ 28,640	$ (9,148)

VALUATION TECHNIQUES

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

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At December 31, 2010, Level 3 securities included primarily certain non-agency mortgage-backed and asset-backed securities valued using independent third party valuation services. Level 3 assets at December 31, 2010, also include the bank's AMBS portfolio which is valued by the bank using a model which incorporates underlying rates and current yield curves.

As permitted under Farm Credit Administration regulations, the banks are authorized to hold eligible investments. The regulations define eligible investments by specifying credit rating criteria, final maturity limit, and percentage of portfolio limit for each investment type. At the time of purchase, mortgage-backed and asset-backed securities must be triple-A rated by at least one Nationally Recognized Statistical Rating Organization. The triple-A rating requirement puts the banks in a position to hold the senior tranches of securitizations. The underlying loans for mortgage-backed securities are residential mortgages, while the underlying loans for asset-backed securities are home equity lines of credit, small business loans, equipment loans or student loans.

To estimate the fair value of the majority of the investments held, the bank obtains prices from third party pricing services, including certain non-agency securities.

Assets Held in Nonqualified 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 that are actively traded and have quoted net asset values that are observable in the marketplace.

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.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans

On a nonrecurring basis, specific allowances for loan losses on certain collateral-dependent impaired loans have been recorded to effectively measure the loans, net of their specific allowances, at the estimated fair value of the collateral on which repayment is deemed to be dependent. At December 31, 2010, impaired loans with a fair value of $50,293 were included in loans.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Note 14 — Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the bank's financial instruments at December 31, 2010, 2009 and 2008.

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

	December 31, 2010		December 31, 2009		December 31, 2008	
Financial assets	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, federal funds sold and investment securities	**$ 3,534,250**	**$ 3,534,250**	$ 2,634,400	$ 2,634,400	$ 3,218,259	$ 3,219,362
Loans	**10,464,034**	**10,705,755**	11,033,114	11,176,487	11,403,113	11,612,380
Allowance for loan losses	**(28,678)**	—	(31,602)	—	(12,549)	—
Loans, net	**10,435,356**	**10,705,755**	11,001,512	11,176,487	11,390,564	11,612,380
Derivative assets	**6,512**	**6,512**	2,526	2,526	31,439	31,439
Financial liabilities						
Bonds and notes	**12,779,932**	**12,873,642**	12,769,479	12,862,844	13,802,205	14,084,236
Subordinated debt	**50,000**	**52,851**	50,000	50,696	50,000	56,168
Derivative liabilities	**5**	**5**	30	30	3,074	3,074

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

A. Cash and Federal Funds Sold:

The carrying value is a reasonable estimate of fair value.

B. Investment Securities:

Valuation methods for available-for-sale investments for liquidity, mission-related and other purposes, are described in Note 13, "Fair Value Measurements." Held-to-maturity investments are valued by the bank using a model which incorporates underlying rates and current yield curves.

C. Loans:

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

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

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

D. Bonds and Notes:

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

E. Subordinated Debt:

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

F. Derivative Assets and Liabilities:

Exchange-traded derivatives are valued using quoted prices. However, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters. See Note 13, "Fair Value Measurements."

Note 15 — Derivative Instruments and Hedging Activity

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

The bank enters into derivatives, particularly fair value interest rate swaps and cash flow interest rate swaps, primarily to lower interest rate risk. The bank substantially offsets this risk by concurrently entering into offsetting agreements with non-System counterparties. Fair value hedges allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the bank if floating-rate borrowings were made directly. Under fair value hedge arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index. At December 31, 2010, the bank had three fair value hedges with a total notional amount of $150.0 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. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, the bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay fixed swaps) when necessary to reduce its net position.

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, 2010, the bank held interest rate caps with a notional amount of $645.0 million and a fair value of $4.7 million. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2010 is summarized in the following table:

	Receive Fixed Swaps	Pay Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2010	$ 125,000	$ —	$ 130,000	$ 255,000
Additions	—	725,000	515,000	1,240,000
Terminations	—	(700,000)	—	(700,000)
Balance at December 31, 2010	$ 125,000	$ 25,000	$ 645,000	$ 795,000

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

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed upon thresholds; the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. At December 31, 2010, the bank had credit exposure to counterparties, net of collateral of $6.5 million, as compared with $2.5 million for the same period of the prior year.

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

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

	Remaining Years to Maturity						
($ in millions)	Less Than 1 Year	More Than 1 to 5 Years	Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
Moody's Credit Rating							
Aa1	$ —	$ 1.8	$ 1.8	$ —	$ 1.8	$ —	$ 1.8
Aa3	—	4.7	4.7	—	4.7	—	4.7

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

Fair-Value Hedges:

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

Cash Flow Hedges:

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

Derivatives Not Designated as Hedges:

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

Fair Values of Derivative Instruments:

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

	Balance Sheet Location	Fair Value 12/31/2010	Fair Value 12/31/2009	Balance Sheet Location	Fair Value 12/31/2010	Fair Value 12/31/2009
Receive fixed	Other assets	$ 1,848	$ 921	Other liabilities	$ —	$ 30
Pay fixed	Other assets	—	—	Other liabilities	5	—
Interest rate caps	Other assets	4,664	1,605	Other liabilities	—	—

The following table sets forth the amount of gain (loss) recognized in Other Comprehensive Income for the year ended December 31, 2010:

	Change in OCI on Derivative (Effective Portion)
Interest rate caps	$ (1,996)
Cash flow derivatives	(5)

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

	Maturities of 2010 Derivative Products and Other Financial Instruments							
December 31, 2010 *($ in millions)*	2011	2012	2013	2014	2015	Subsequent Years	Total	Fair Value
Total Systemwide debt obligations:								
Fixed rate	$ 3,303	$ 1,673	$ 1,541	$ 1,294	$ 1,042	$ 1,662	$ 10,515	$ 10,613
Weighted average interest rate	1.03%	1.34%	1.45%	1.81%	2.33%	3.55%	1.76%	
Variable rate	$ 1,700	$ 490	$ 75	$ —	$ —	$ —	$ 2,265	$ 2,261
Weighted average interest rate	0.26%	0.26%	0.33%	—	—	—	0.26%	
Total Systemwide debt obligations	$ 5,003	$ 2,163	$ 1,616	$ 1,294	$ 1,042	$ 1,662	$ 12,780	$ 12,874
Weighted average interest rate	0.77%	1.09%	1.40%	1.81%	2.33%	3.55%	1.50%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ 50	$ 75	$ —	$ —	$ —	$ —	$ 125	$ 2
Weighted average receive rate	1.23%	2.23%	—	—	—	—	1.83%	
Weighted average pay rate	0.21%	0.26%	—	—	—	—	0.24%	
Pay fixed swaps								
Notional value	$ 25	$ —	$ —	$ —	$ —	$ —	$ 25	$ —
Weighted average receive rate	0.26%	—	—	—	—	—	0.26%	
Weighted average pay rate	0.62%	—	—	—	—	—	0.62%	
Interest rate caps								
Notional value	$ —	$ —	$ —	$ 130	$ 325	$ 190	$ 645	$ 5
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	

Note 16 — Selected Quarterly Financial Information (Unaudited)

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

	2010				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 49,708**	**$ 48,535**	**$ 50,932**	**$ 63,345**	**$ 212,520**
Provision for credit losses	**5,710**	**5,505**	**17,413**	**(105)**	**28,523**
Noninterest expense (income), net	**8,765**	**(2,767)**	**770**	**8,779**	**15,547**
Net income	**$ 35,233**	**$ 45,797**	**$ 32,749**	**$ 54,671**	**$ 168,450**

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

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

Note 17 — Combined Association Financial Data (Unaudited)

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

	Year Ended December 31,		
Balance Sheet Data	**2010**	2009	2008
Cash	**$ 16,456**	$ 30,542	$ 43,789
Investment securities	**154,616**	35,827	17,929
Loans	**12,594,842**	13,316,686	13,468,746
Less allowance for loan losses	**134,467**	113,129	39,104
Net loans	**12,460,375**	13,203,557	13,429,642
Accrued interest receivable	**131,765**	156,805	173,210
Other property owned, net	**75,286**	52,685	6,495
Other assets	**316,290**	325,840	293,655
Total assets	**$13,154,788**	$13,805,256	$13,964,720
Notes payable	**$10,837,130**	$11,613,442	$11,782,402
Other liabilities	**218,178**	181,479	248,596
Total liabilities	**11,055,308**	11,794,921	12,030,998
Capital stock and participation certificates	**82,643**	63,983	64,619
Retained earnings	**2,014,996**	1,937,914	1,860,481
Accumulated other comprehensive income	**1,841**	8,438	8,622
Total shareholders' equity	**2,099,480**	2,010,335	1,933,722
Total liabilities and shareholders' equity	**$13,154,788**	$13,805,256	$13,964,720

	Year Ended December 31,		
Income Statement	**2010**	2009	2008
Interest income	**$ 700,828**	$ 760,041	$ 849,893
Interest expense	**329,562**	391,099	498,353
Net interest income	**371,266**	368,942	351,540
Provision for loan losses	**112,934**	138,492	32,985
Net interest income after provision for loan losses	**258,332**	230,450	318,555
Noninterest income	**93,131**	87,291	82,520
Other expense	**176,079**	196,163	176,892
(Benefit from) provision for income taxes	**(291)**	(2,609)	344
Net income	**$ 175,675**	$ 124,187	$ 223,839

Note 18 — Subsequent Events

The bank has evaluated subsequent events through March 1, 2011, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of March 1, 2011.

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 a Federal Land Credit Association (FLCA), 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 the FLCA are collectively referred to as associations. A further description of territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference to Note 1, "Organization and Operations," to the accompanying financial statements.

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

Board of Directors and Senior Officers

FCBT is governed by a seven-member board of directors. Five directors are farmers or ranchers, who are elected by the customers of the 17 associations that own the bank. Two directors, who are not stockholders of any of the associations, are appointed by the elected board members. The board of directors is responsible for directing the operations of the bank. The bank's senior officers are accountable to the board of directors and work with the board of directors to set the bank's direction, goals and strategies.

The following represents certain information regarding the board of directors and senior officers of the bank as of March 1, 2011, including business experience during the past five years:

DIRECTORS

Ralph W. Cortese, 64, joined the board of directors in 1995, and his current term expires December 31, 2013. Cortese has served as chairman since 2000. Prior to joining the bank board, Cortese was chairman of the PCA of Eastern New Mexico Board of Directors. Early in his career, he was vice president of Roswell PCA. He is president of Cortese Farm and Ranch Inc. and is from Fort Sumner, New Mexico. He operates a cow/calf and yearling operation on grass and in the feedlot, and raises irrigated alfalfa. Cortese is a member of the bank's audit and compensation committees. He also is a member of the Texas Agricultural Cooperative Council board of directors and serves as chief financial officer for his local church. Cortese served on the Farmer Mac board from 2003 to 2008 and is a former board member of the American Land Foundation.

James F. Dodson, 57, 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, 73, 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 Texas 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, 66, joined the board of directors in August 2006 as an outside director, 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. In 2010, Flores was appointed to serve as a member of the Farm Credit System Diversity Workgroup. 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, 66, began his first term on the board of directors in 1999, and his current term expires December 31, 2013. 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 (FCC) Board of Directors as a district representative and in 2009 he became vice chairman of the FCC board of directors. In January of 2011, Garnett was elected chairman of the FCC board of directors. In addition, he is a member of the FCC

Board of Directors' legislative committee, executive committee, compensation committee, and chairs the budget committee. He is a member of the bank's audit committee and is the vice chairman of the bank's compensation committee. Garnett is a member of the State Technical Committee for the Natural Resources Conservation Service. Garnett raises grain and forage crops and runs stocker cattle near Spearman, Texas, and is president of Garnett Farms, Inc.

Lester Little, 60, 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, 73, joined the board of directors in 1997 as an outside director, 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 Lakeside Bank. 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.

Committees

The board of directors has established an audit committee and compensation committee. All members of the board serve on both the audit committee and compensation committee. The responsibilities of each committee are set forth in its respective approved charter.

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. Compensation for 2010 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 $2,000 during 2010 as noted below. No director received non-cash compensation exceeding $5,000 in 2010. Total cash compensation paid to all directors as a group during 2010 was $366,931. Information for each director for the year ended December 31, 2010, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid
Ralph W. Cortese	31.0	39.75	$ 52,133
James F. Dodson	31.25	34.0	52,133
Joe R. Crawford	25.25	23.25	52,133
Elizabeth G. Flores***	31.25	29.25	54,133
Jon M. Garnett	30.0	24.75	52,133
Lester Little	31.0	28.0	52,133
William F. Staats	31.25	26.25	52,133
			$ 366,931

*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 2010, additional compensation of $2,000 was paid to Ms. Flores for attendance at an FCA Board of Directors meeting in her capacity as a member of the Farm Credit System Diversity Workgroup.

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2010, 2009 and 2008 totaled $120,413, $131,507 and $162,118, respectively. The decrease in expenses in 2010 and 2009 as compared to 2008 was primarily due to less travel costs incurred during 2010 and 2009. The expenses in 2008 include an overall increase in costs for travel related to airlines and fuel as well as an increase in travel expenses associated with the participation by members of the board in meetings held by other System entities. A copy of the bank's travel policy is available to shareholders upon request.

SENIOR OFFICERS

Name and Title	Time in Position	Experience - Past Five Years	Other Business Interests – Past Five Years
Larry R. Doyle, *Chief Executive Officer*	7.5 years	Chief Executive Officer, FCBT	He serves as a member of the board of directors for the Federal Farm Credit Banks Funding Corporation.
Kurt Thomas, *Chief Credit Officer*	Appointed May 2010	Vice President and Unit Manager Association Direct Lending Group	He serves as a member of the board of governors for the Farm Credit System Captive Insurance Corporation.
Amie Pala, *Chief Financial Officer*	Appointed July 2010	Vice President of Financial Management	
Allen Buckner, *Chief Operations Officer*	Appointed June 2010	Vice President of Lending Systems 2007–2010; Vice President, Credit Operations and Risk Management 2006–2007; Chief Executive Officer, Heritage Land Bank, ACA, January 2006–December 2006	
Stan Ray, *Chief Administrative Officer*	Appointed July 2010	Vice President of Marketing and Corporate Relations	He serves on the AgFirst/FCBT Plan Fiduciary Committee and as a member of the board of directors for the following organizations: Texas Agriculture Finance Authority, Texas FFA Foundation, Grow Texas Foundation, Texas Agriculture Cooperative Council and Emanuel Agriculture Development.
Kyle Pankonien, *Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	3 years	Vice President, Corporate Affairs, Deputy General Counsel, FCBT	

Thomas W. Hill served as chief financial officer and chief operations officer until his retirement on November 15, 2010.

Steven H. Fowlkes ended his tenure with the bank as senior vice president and chief credit officer on May 1, 2010, when he assumed the duties of chief executive officer of Lone Star, ACA, a district association.

Compensation Discussion and Analysis – Senior Officers

Overview

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

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

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. Additionally, the compensation committee reviews the compensation policies and plans for the other senior officers of the bank and other employees, and approves the overall compensation program for the senior officers. 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, subsidized health insurance and bank-provided vehicles.

Chief Executive Officer (CEO) Compensation Table and Policy

The base salary amount of the CEO was $750,029 for 2010. As discussed in detail below, the compensation committee settled the bank's obligations to the CEO with respect to the Farm Credit Bank of Texas Supplemental Pension Plan pursuant to a Compensation Agreement between the bank and the CEO entered into in November 2008. Pursuant to the terms and conditions of the Compensation Agreement between the bank and CEO, the CEO would not earn any bonuses for performance during 2009 or 2010.

The following table summarizes the compensation paid to the CEO of the bank during 2010, 2009 and 2008.

Summary Compensation Table for the CEO

Name of Chief Executive Officer	Year	Salary (a)	Bonus (b)	Annual Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	Total
Larry R. Doyle	2010	$ 750,029	$ —	$ 82,331	$ 20,486	$ —	$ 852,846
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

(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 2010 and 2009, no bonus for performance was paid to the CEO in accordance with the Compensation Agreement.

(c) For 2010 and 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.

In December of 2010, a memorandum of understanding between the bank and the CEO was executed with an effective date of January 2, 2011. The memorandum of understanding is effective for a term of three years, until December 31, 2013. The base salary for each year of the three year term for the CEO will be $1,250,000. Bonus payments, if any, are at the sole discretion of the compensation committee. With the execution and effective date of the memorandum of understanding, the CEO received a signing bonus of $500,000 paid in January 2011, with certain claw-back provisions should the CEO resign without good reason or employment is terminated by the bank for cause. The employment relationship between the bank and CEO remains at-will, meaning the bank may terminate the CEO's employment at any time, and the CEO may choose to leave at any time but may be subject to the claw-back provision discussed above.

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, 2010:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2010
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	36.838	$ 1,130,508	$ 0

Pension Benefits Table Narrative Disclosure for the CEO

The CEO participates in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Through the end of 2008, the CEO also participated in the Farm Credit Bank of Texas Supplemental Pension Plan (the "Supplemental Pension Plan"), which is a nonqualified deferred compensation plan. Compensation, as defined in the Pension Plan, includes wages, incentive and bonus compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The CEO's Pension Plan benefit is offset by the CEO's pension benefits from another Farm Credit System institution. The present value of the CEO's accumulated Pension Plan benefit is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 58. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly 2 years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Supplemental Pension Plan restores benefits under the Pension Plan that are limited or reduced (a) by the imposition of Internal Revenue Code limits, (b) by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of "Compensation" in the Pension Plan, (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, or (d) by a service period of greater than 35 years. 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 and, (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. The Compensation Agreement was not an employment contract. The deferred compensation provisions of the Compensation Agreement are intended to be an unfunded nonqualified deferred compensation plan for tax purposes, are not intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code, and are intended to be exempt from ERISA as a governmental plan exempted under ERISA § 4(b)(1). The Compensation Agreement was drafted to comply with the provisions of Section 409A of the Internal Revenue Code.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the aggregate number of senior officers of the bank during 2010 and the five highest paid officers of the bank during 2009 and 2008. 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 number of senior officers: (excludes Chief Executive Officer)						
7	2010	$ 2,379,479	$ 409,876	$ 5,223,633	$ 28,512	$ 8,041,500
5	2009	1,317,567	417,510	143,369	–	1,878,446
5	2008	1,249,615	396,360	126,827	–	1,772,802

(a) Gross salary, including retention plan compensation for certain senior officers.
(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. For 2010, Deferred/Perquisites also includes payments of $5,078,396 to certain senior officers that withdrew from the Supplemental Pension Plan in 2010.
(d) Other for 2010 reflects an amount paid to one senior officer for their remaining annual leave hours at retirement. No such amounts were paid or earned in 2009 or 2008.

For 2010, the aggregate number of senior officers includes two senior officers that ended their employment with the bank during 2010.

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 2010, 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 2010.

Disclosure of the compensation paid during 2010 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 Success Sharing Plan is based upon the achievement of bank performance, which is approved by the bank board's compensation committee, annually, and payment is determined by the compensation committee in its discretion. In addition, certain select bank employees participate in a retention plan, which was determined at the discretion and approval of the bank board's compensation committee. The Farm Credit Bank of Texas Employee Retention Plan (Retention Plan) is an unfunded nonqualified deferred compensation plan that was created and approved by the bank's board of directors in 2007 as a means to induce specific employees to accomplish certain activities and remain with the bank for a defined period of time. Participants are nominated by the CEO and approved by the bank board's compensation committee. The Retention Plan is constructed to be flexible as to the length of the retention period and the amounts paid for each year of successful participation in the Retention Plan. Certain senior officers and other bank employees, other than the CEO, in the Retention Plan are currently participating in individual three-year plans that pay a fixed percentage of their salary as long as they are still employed on the anniversary or ending date coincident with the effective date of each participant's Plan year.

Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the Farm Credit Bank of Texas Supplemental Pension Plan (the "Supplemental Pension Plan"), a nonqualified deferred compensation plan. As previously noted, 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, (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, or (d) by a service period of greater than 35 years. By terminating the Supplemental Pension Plan, no further vesting or benefit accrual shall occur under the Supplemental Pension Plan following January 16, 2011 for the respective participants. All remaining unpaid vested benefits shall be distributed in a cash lump sum payment to the participating bank employees after the one year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the Supplemental Pension Plan is not expected to be material to the bank's financial results and will be reflected in the December 31, 2011 financial results of the bank.

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 its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space.

Legal Proceedings

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

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 11, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2010.

Description of Capital Structure

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

Description of Liabilities

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

Selected Financial Data

The selected financial data for the five years ended December 31, 2010, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

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

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

Transactions With Senior Officers and Directors

The policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 10, "Related Party Transactions," to the accompanying financial statements.

Relationship With Public Accountants

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

The bank's audit committee approves all services provided by the independent public accountants. During 2010, the bank incurred fees of $316 thousand for bank and combined district financial statement audit services provided by the independent public accountants, PricewaterhouseCoopers. During 2010, the bank incurred fees of $94 thousand for other audit-related services and $102 thousand for non-audit services provided by the independent public accountants which were approved by the bank's audit committee prior to commencement of these services. The other audit-related services included comfort letter procedures for preferred stock issuance, Farmer Mac securitization, transfer of financial assets implementation and an independent tally service for director elections. The non-audit services provided by PricewaterhouseCoopers for the bank included Information Technology (IT) system implementation audit procedures and best practices and Phase II lending system package selection.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 1, 2011, and the report of management in this annual report to shareholders, are incorporated herein by reference.

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

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

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

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

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

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

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

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

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

	At December 31, 2010	
(dollars in thousands)	Number of Loans	Volume
Total loans and commitments	69,239	$ 18,439,917
Loans and commitments to young farmers and ranchers	12,685	$ 1,818,319
Percent of loans and commitments to young farmers and ranchers	18.3%	9.9%
Loans and commitments to beginning farmers and ranchers	34,816	$ 7,037,128
Percent of loans and commitments to beginning farmers and ranchers	50.3%	38.2%

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

	For the Year Ended December 31, 2010	
(dollars in thousands)	Number of Loans	Volume
Total new loans and commitments	12,531	$ 4,212,655
New loans and commitments to young farmers and ranchers	2,040	$ 460,756
Percent of new loans and commitments to young farmers and ranchers	16.3%	10.9%
New loans and commitments to beginning farmers and ranchers	5,033	$ 1,434,066
Percent of new loans and commitments to beginning farmers and ranchers	40.2%	34.0%

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

	At December 31, 2010				
	Annual Gross Sales				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
Total number of loans and commitments	17,374	17,662	19,884	14,319	69,239
Number of loans and commitments to small farmers and ranchers	13,288	13,813	15,087	8,186	50,374
Percent of loans and commitments to small farmers and ranchers	76.5%	78.2%	75.9%	57.2%	72.8%
Total loans and commitments volume	$ 1,353,201	$ 1,001,354	$ 2,673,147	$ 13,412,215	$ 18,439,917
Total loans and commitments to small farmers and ranchers volume	$ 279,097	$ 776,656	$ 1,982,891	$ 5,056,775	$ 8,095,419
Percent of loans and commitments volume to small farmers and ranchers	20.6%	77.6%	74.2%	37.7%	43.9%

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

	For the Year Ended December 31, 2010				
	Annual Gross Sales				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
Total number of new loans and commitments	3,374	2,540	3,287	3,330	12,531
Number of new loans and commitments to small farmers and ranchers	2,652	1,979	2,257	1,356	8,244
Percent of new loans and commitments to small farmers and ranchers	78.6%	77.9%	68.7%	40.7%	65.8%
Total new loans and commitments volume	$ 88,432	$ 191,202	$ 539,462	$ 3,393,559	$ 4,212,655
Total new loans and commitments to small farmers and ranchers volume	$ 72,053	$ 147,663	$ 362,993	$ 950,426	$ 1,533,135
Percent of loan and commitment volume to small farmers and ranchers	81.5%	77.2%	67.3%	28.0%	36.4%

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