STRENGTH THROUGH DIVERSITY

2008 FIRST QUARTER REPORT
TENTH FARM CREDIT DISTRICT
MARCH 31, 2008

FIRST QUARTER 2008

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Associations (FLCAs) and the Agricultural Credit Associations (ACAs) of the Tenth Farm Credit District (district) for the three months ended March 31, 2008. FLCAs and ACAs are collectively referred to as associations. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2007 Annual Report to stockholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2008, was $69,753, an increase of $2,700, or 4.0 percent, over the same period of 2007. The increase in net income for the three months ended March 31, 2008, consisted of an $8,437 increase in net interest income, a $3,678 increase in noninterest income, and a $35 decrease in provision for income taxes, offset by a $7,168 increase in provision for loan losses and a $2,282 increase in noninterest expenses.

Net Interest Income

Net interest income for the three months ended March 31, 2008, was $114,007, an increase of $8,437, or 8.0 percent, over the same period of 2007. The increase in net interest income for the three months ended March 31, 2008, was attributable to a volume increase of $1.92 billion in the district's average earning assets and a 1-basis-point increase in the district's net interest rate spread. The growth in interest-earning assets for the three months was primarily due to loan growth at the district's associations and to an increase in the bank's participations portfolio, offset by reductions in the bank's investment portfolio. The bank's ability to call and replace debt with borrowings that have preferable terms has enabled the district to maintain its spread in a decreasing interest rate market.

Provision for Loan Losses

The district's provision for loan losses for the quarter ended March 31, 2008, was $8,410, representing an increase of $7,168 over the $1,242 provision for the first quarter of 2007. The increase consists of a $2,153 increase in the bank's provision for loan losses and a $5,015 increase in provision for loan losses at district associations. The allowance at each period end was considered adequate by management to absorb probable losses existing in and inherent to its loan portfolio.

Noninterest Income

Noninterest income for the quarter ended March 31, 2008, was $10,817, reflecting an increase of $3,678, or 51.5 percent, over the same period of 2007. The increase is due primarily to a $4,058 increase in patronage from another System bank and a $1,193 increase in loan-related fee income, offset by a $543 decrease in gains on sales of investments and a $1,030 decrease in other income items, collectively.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2008, was $46,584, an increase of $2,282, or 5.2 percent, over the same period of 2007. The increase is primarily attributable to an $869 increase in salaries and employee benefits, a $364 increase in premiums to the Farm Credit System Insurance

Corporation (FCSIC or Insurance Fund), a $1,052 increase in other operating expenses, and a $68 increase in occupancy and equipment expenses, offset by a $71 decrease in net losses on other property owned. The $869 increase in salaries and employee benefits was primarily due to a $1,828 increase in compensation and related payroll taxes, offset by a $41 decrease in pension and retirement expenses, and a $918 decrease in other benefits. Compensation increased due to increases in the number of employees and increases in compensation rates. Premiums to the Insurance Fund increased due to increases in the loan balances on which premium rates are applied. Other operating expenses increased due to a $952 increase in professional and contract services, a $169 increase in communications expenses, a $156 increase in advertising and member relations expenses, and a $122 increase in travel expenses, offset by an $85 decrease in training expenses, an $84 decrease in directors' expenses, and a decrease of $178 in all other operating expenses, collectively.

Key results of operations comparisons:

	Annualized for the Three Months Ended 3/31/2008	Annualized for the Three Months Ended 3/31/2007
Return on average assets	**1.54%**	1.67%
Return on average members' equity	**12.27%**	12.68%
Net interest income as a percentage of average earning assets	**2.56%**	2.68%
Charge-offs, net of recoveries, to average loans	**0.01%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**37.32%**	39.24%
Operating expenses as a percentage of average earning assets	**1.05%**	1.12%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2008, was $15,692,182, an increase of $577,645, or 3.8 percent, from $15,114,537 at December 31, 2007, and an increase of $2,214,465, or 16.4 percent, from $13,477,717 at March 31, 2007. The primary factors contributing to the growth in the district's loan volume included an increased focus on market share and loan growth opportunities within the territory, competitive pricing, growth in loan participations, and increased marketing and customer service efforts by the associations.

Overall credit quality in the district remained strong during the quarter. Loans classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 98.8 percent at March 31, 2008, December 31, 2007, and March 31, 2007. Nonaccrual loans for the district were 0.78 percent of total loans at March 31, 2008, compared to 0.66 percent at December 31, 2007, and 0.28 percent at March 31, 2007. The $32,596 allowance for loan losses at March 31, 2008, constituted 0.03 percent of total loans, and was considered by management to be adequate to absorb potential losses on existing loans.

Total district high-risk asset volume increased by $34.7 million, or 27.7 percent, to $159.8 million at March 31, 2008, from $125.1 million at December 31, 2007.

Comparative balances of high-risk assets follow (in millions):

	March 31, 2008	Increase (Decrease) $	Increase (Decrease) %	December 31, 2007
Nonaccrual loans	**$ 121.8**	$ 21.7	21.7 %	$ 100.1
Formally restructured loans	**6.3**	-	-	6.3
Loans 90 days past due and still accruing interest	**30.4**	13.5	79.9	16.9
Total impaired loans	**158.5**	35.2	28.5	123.3
Other property owned, net	**1.3**	(0.5)	(27.8)	1.8
Total high-risk assets	**$ 159.8**	$ 34.7	27.7 %	$ 125.1

Nonaccrual loans at March 31, 2008, include participation loans totaling $33.5 million to one borrower held by the bank and three district associations. At March 31, 2008, specific allowances for loan loss on these loans totaled $8.8 million.

The $21.7 million increase in nonaccrual loans from December 31, 2007, to March 31, 2008, includes a $19.2 million increase in nonaccrual loans to one borrower. The $13.5 million increase in accruing loans past due 90 days or more consisted of $23.1 million in increases from association loans net of a $9.5 million decrease in bank participation loans. Impaired loans, consisting of nonaccrual loans, formally restructured loans, and loans past due 90 days or more and still accruing interest, constituted 1.0 percent of gross loans at March 31, 2008, and 0.8 percent of gross loans at December 31, 2007.

Liquidity and Funding Sources

As of March 31, 2008, the Farm Credit Bank of Texas and all district associations exceeded all regulatory liquidity requirements. Cash and investment securities totaled $2,626,260, or 14.1 percent, of total assets at March 31, 2008, compared to $2,592,204, or 14.4 percent, at December 31, 2007, reflecting an increase of $34,056, or 1.3 percent. Interest-bearing liabilities, consisting of bonds and notes, increased by $524,638, or 3.4 percent, in order to fund the increases in loan volume.

The bank's investment portfolio includes $167.3 million in asset-backed securities, including $23.3 million in securitizations of Sallie Mae loans and $144.0 million of sub-prime mortgage, asset-backed securities. Due to the economic conditions currently affecting that market, the bank reviews internally the investments in question, and consults with outside analysts. Of the sub-prime asset-backed securities, $141.4 million were rated Aaa and AAA by Moody's and Standard and Poor's, respectively. One $2.6 million securitization of sub-prime mortgages was downgraded to Baa3 and BB by Moody's and Standard and Poor's, respectively. The bank continues to monitor these investments. Asset-backed securities represent 6.5 percent of the bank's investment portfolio.

Capital Resources

Total members' equity increased $56,421, or 2.5 percent, from December 31, 2007, to the March 31, 2008, total of $2,307,082. This increase is the result of net income of $69,753 for the three months ended March 31, 2008, an adjustment to accumulated other comprehensive income of $497, and a net increase in capital stock of $311, offset by an increase in unrealized net gains on investment securities totaling $4,358, a $10,267 unrealized loss on cash flow derivatives, an adjustment to retained earnings of $2,713 resulting from the effects of an accounting change regarding the measurement date of postretirement benefits plans pursuant to FASB Statement No. 158, revolvement of allocated retained earnings of $12, and patronage declared of $7,057.

The change in unrealized gains on investment securities was due primarily to changes in the market value of fixed-rate mortgage-backed securities, whose values have changed as interest rates have fluctuated during the period.

Key financial condition comparisons:

Key financial condition comparisons:

	March 31, 2008	December 31, 2007
Members' equity to assets	**12.40%**	12.51%
Total liabilities to members' equity	**7.06:1**	7.00:1
Allowance for loan losses to total loans	**0.21%**	0.16%

The undersigned certify that we have reviewed the March 31, 2008, quarterly report of the Farm Credit Bank of Texas and district associations, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

Ralph W. Cortese
Chairman of the Board

Thomas W. Hill
Chief Financial Officer

April 30, 2008

Combined Balance Sheets

(dollars in thousands)	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Cash	**$ 31,866**	$ 55,703
Federal funds sold and securities purchased under resale agreements	**113,722**	125,502
Investment securities	**2,480,672**	2,410,999
Loans	**15,692,182**	15,114,537
Less allowance for loan losses	**32,596**	24,495
Net loans	**15,659,586**	15,090,042
Accrued interest receivable	**222,342**	228,212
Other property owned, net	**1,324**	1,817
Premises and equipment, net	**43,214**	42,599
Other assets	**51,192**	41,623
Total assets	**$ 18,603,918**	$ 17,996,497
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 15,848,653**	$ 15,324,015
Accrued interest payable	**111,153**	122,459
Patronage distributions payable	**16,128**	63,899
Other liabilities	**320,902**	235,463
Total liabilities	**16,296,836**	15,745,836
Commitments and contingent liabilities (Note 3)		
Members' equity		
Preferred stock, net	**202,754**	202,754
Capital stock and participation certificates	**62,800**	62,489
Allocated retained earnings	**134,771**	133,423
Unallocated retained earnings	**1,945,111**	1,886,488
Accumulated other comprehensive loss	**(38,354)**	(34,493)
Total members' equity	**2,307,082**	2,250,661
Total liabilities and members' equity	**$ 18,603,918**	$ 17,996,497

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2008	2007
Interest Income		
Investment securities	**$ 28,510**	$ 34,726
Loans	**259,664**	250,731
Total interest income	**288,174**	285,457
Interest Expense		
Bonds and notes	**144,906**	158,926
Notes payable and other	**29,261**	20,961
Total interest expense	**174,167**	179,887
Net interest income	**114,007**	105,570
Provision for loan losses	**8,410**	1,242
Net interest income after provision for loan losses	**105,597**	104,328
Noninterest Income		
Loan-related fees	**4,491**	3,298
Gain from sale of investment securities	**-**	543
Miscellaneous income, net	**6,326**	3,298
Total noninterest income	**10,817**	7,139
Noninterest Expense		
Salaries and employee benefits	**24,782**	23,913
Occupancy and equipment	**2,980**	2,912
Insurance Fund premiums	**5,607**	5,243
Losses on other property owned, net	**3**	74
Other operating expenses	**13,212**	12,160
Total noninterest expense	**46,584**	44,302
Income before provision for income taxes	**69,830**	67,165
Provision for income taxes	**77**	112
Net Income	**$ 69,753**	$ 67,053

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2006	$ 203,565	$ 59,068	$ 83,705	$ 1,792,723	$ (26,401)	$ 2,112,660
Comprehensive income						
Net income	-	-	-	67,053	-	67,053
Net change in unrealized losses on investment securities	-	-	-	-	6,505	6,505
Total comprehensive income	-	-	-	67,053	6,505	73,558
Capital stock/participation certificates issued	-	3,246	-	-	-	3,246
Capital stock/participation certificates and allocated retained earnings retired	(378)	(2,442)	(12)	-	-	(2,832)
Patronage distributions						
Cash	-	-	-	(11,822)	-	(11,822)
Members' equity	-	-	1,726	(1,726)	-	-
Balance at March 31, 2007	$ 203,187	$ 59,872	$ 85,419	$ 1,846,228	$ (19,896)	$ 2,174,810
Balance at December 31, 2007	$ 202,754	$ 62,489	$ 133,423	$ 1,886,488	$ (34,493)	$ 2,250,661
Comprehensive income						
Net income	-	-	-	69,753	-	69,753
Amortization of costs included in net periodic pension costs	-	-	-	-	497	497
Unrealized net gains on investment securities	-	-	-	-	5,909	5,909
Unrealized net losses on cash flow derivatives	-	-	-	-	(10,267)	(10,267)
Total comprehensive income	-	-	-	69,753	(3,861)	65,892
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158	-	-	-	(2,713)	-	(2,713)
Capital stock/participation certificates issued	-	3,368	-	-	-	3,368
Capital stock/participation certificates and allocated retained earnings retired	-	(3,057)	(12)	-	-	(3,069)
Patronage distributions						
Cash	-	-	-	(7,057)	-	(7,057)
Members' equity	-	-	1,360	(1,360)	-	-
Balance at March 31, 2008	**$ 202,754**	**$ 62,800**	**$ 134,771**	**$ 1,945,111**	**$ (38,354)**	**$ 2,307,082**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2008	2007
Operating activities		
Net income	**$ 69,753**	$ 67,053
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**8,410**	1,242
Provision for losses on other property owned	**97**	23
Depreciation and amortization on premises and equipment	**1,390**	1,306
Accretion of net discount on loans	**(165)**	(215)
Amortization and accretion on debt instruments	**488**	1,140
Amortization of net premium on investment securities	**(337)**	(71)
Gain on sale of investment securities	**-**	(543)
Losses from sales of other property owned, net	**84**	90
Gains from sales of premises and equipment	**(1,071)**	(1,001)
Decrease (increase) in accrued interest receivable	**5,870**	(9,807)
Increase in other assets	**(12,015)**	(2,748)
(Decrease) increase in accrued interest payable	**(11,306)**	16,370
Decrease in other liabilities	**(10,093)**	(10,895)
Net cash provided by operating activities	**51,105**	61,944
Investing activities		
Net decrease (increase) in federal funds sold and securities purchased under resale agreements	**11,780**	(3,452)
Investment securities		
Purchases	**(824,024)**	(952,723)
Proceeds from maturities, calls and prepayments	**835,997**	1,024,027
Proceeds from sales	**-**	83,163
Increase in loans, net	**(577,476)**	(572,791)
Proceeds from sale of loans	**400,000**	-
Proceeds from sales of premises and equipment	**696**	1,100
Expenditures for premises and equipment	**(1,630)**	(2,416)
Net cash used in investing activities	**(154,657)**	(423,092)
Financing activities		
Bonds and notes issued	**11,696,625**	6,716,769
Bonds and notes retired	**(11,580,391)**	(6,338,056)
Increase in advanced conditional payments	**18,010**	7,694
Capital stock and participation certificates issued	**3,368**	3,246
Capital stock and participation certificates retired	**(3,069)**	(2,832)
Cash patronage distributions paid	**(54,828)**	(51,806)
Net cash provided by financing activities	**79,715**	335,015
Net decrease in cash	**(23,837)**	(26,133)
Cash at beginning of year	**55,703**	60,170
Cash at end of quarter	**$ 31,866**	$ 34,037
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 664**	$ 286
Loan assets transferred to other property owned	**352**	775
Net decrease in unrealized losses on investment securities	**5,909**	6,505
Cash dividends or patronage distributions payable	**16,128**	20,089
Investment purchases not settled	**75,400**	-
Supplemental schedule of noncash changes in fair value related to hedging activities		
Increase in bonds and notes, net	**$ 7,915**	$ 1,749
Supplemental information		
Cash paid for:		
Interest	**185,473**	163,517
Income taxes	**377**	8

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements (financial statements) include the accounts of the Farm Credit Bank of Texas (bank) and the accounts of the Agricultural Credit Associations (ACAs) and Federal Land Credit Associations (FLCAs) of the Tenth Farm Credit District (district) of the Farm Credit System (System). The ACAs and FLCAs are collectively referred to as associations. The financial statements also reflect the investments in and allocated earnings of the service organizations in which the bank has a partial ownership interest. All significant transactions and balances between the bank and the associations have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the combined bank and associations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to stockholders (Annual Report). These unaudited first quarter 2008 financial statements should be read in conjunction with the Annual Report.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 141R, "Business Combinations" (SFAS No. 141R). SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The bank and its related associations are still evaluating the provisions of the standard, but believe that its adoption will significantly impact its accounting for acquisitions that occur in 2009 and beyond.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand:

a. How and why an entity uses derivative instruments
b. How derivative instruments and related hedged items are accounted for under this statement and related interpretations
c. How derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The bank is currently evaluating the impact of adoption on its financial statement disclosures.

Effective January 1, 2008, the bank and its related associations adopted SFAS No. 157, "Fair Value Measurements," (SFAS 157). This statement 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. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

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.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to 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 certain private equity investments, retained residual interests in securitizations, asset-backed securities, and highly structured or long-term derivative contracts.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations of the district, and conform to generally accepted accounting principles. The preparation of these financial statements requires the use of management's estimates. The results of operations for any interim period are not necessarily indicative of the results to be expected for the entire year.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	Three Months Ended March 31,	
	2008	2007
Balance at beginning of period	**$ 24,495**	$ 13,969
Provision for loan losses	**8,410**	1,242
Loans charged off	**(419)**	(326)
Recoveries	**110**	193
Balance at end of period	**$ 32,596**	$ 15,078

At March 31, 2008, impaired loans of $70.7 million had a related specific allowance of $17.7 million, while the remaining $87.8 million of impaired loans had no related specific allowance.

The average recorded investment in impaired loans for the quarter ended March 31, 2008, was $136.4 million. The district recognized interest income of $684 on impaired loans during the year ended March 31, 2008, as compared to $2.9 million for 2007.

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

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 the other System banks. Total consolidated bank and systemwide obligations of the System at March 31, 2008, were approximately $165.1 billion.

In early February 2008, the bank was named as a counter-defendant in a lawsuit involving a lending matter between an association in the district and a borrower group. In April 2008, the bank was dismissed without prejudice from the lawsuit.

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

NOTE 4 — FAIR VALUE MEASUREMENTS

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 1 – Organization and Significant Accounting Policies for additional information.

There was no financial statement impact resulting from the adoption of SFAS No. 157 by the bank and its related associations.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at March 31, 2008			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available-for-sale investment securities	**$ 2,594,394**	$ -	$ 2,334,236	$ 260,158
Derivatives, net	**4,503**	-	4,503	-
Total	**$ 2,598,897**	$ -	$ 2,338,739	$ 260,158

The table below represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2008 to March 31, 2008.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3):

Available-for-sale investment securities:	
Balance at December 31, 2007	$ 273,231
Net losses included in other comprehensive income	(4,968)
Purchases, issuances and settlements	(8,105)
Balance at March 31, 2008	$ 260,158

The net losses included in other comprehensive income in the above table are all on securities held at March 31, 2008.

Valuation Techniques

As more fully discussed in Note 1 – Organization and Summary of Significant Accounting Policies, SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the bank and its related associations' 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 are estimated using pricing models, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 at March 31, 2008, include certain asset-backed securities and commercial paper.

Derivatives

The bank's 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.

NOTE 5 — EMPLOYEE BENEFIT PLANS

Employees of the bank and district associations participate in either the defined benefit retirement plan or a defined contribution plan (DC Plan) and are eligible to participate in the district's 401(k) plan. Employer contributions to the DC Plan and 401(k) Plan are expensed as incurred. The multi-employer structure of the district's defined benefit pension plan results in the recording of this plan only upon combination. The following table summarizes the components of net periodic benefit costs for district's defined benefit pension plans and for other postretirement benefit costs for the three months ended March 31:

	Pension Benefits		Other Benefits	
	2008	2007	**2008**	2007
Service cost	**$ 1,397**	$ 1,302	**$ 266**	$ 308
Interest cost	**3,861**	3,387	**587**	568
Expected return on plan assets	**(3,536)**	(3,062)	**-**	-
Amortization of prior service costs	**204**	286	**(420)**	(461)
Amortization of net loss	**513**	793	**5**	18
Net periodic benefit cost	**$ 2,439**	$ 2,706	**$ 438**	$ 433

The district recorded a $2,713 change against retained earnings pursuant to a change in the measurement date of postretirement benefits from September 30 to December 31 in accordance with SFAS No. 158.

As of March 31, 2008, $14.8 million of contributions has been made for pension benefits. The district presently anticipates no additional contributions to fund its pension plan in 2008.

NOTE 6 — INCOME TAXES

The bank and its affiliated associations did not have any uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

NOTE 7 — BANK-ONLY FINANCIAL DATA

Condensed financial information for the bank follows. All significant transactions and balances between the bank and associations are eliminated in combination.

Balance sheet data	**March 31, 2008**	December 31, 2007
Cash	**$ 12,000**	$ 16,600
Federal funds sold and securities purchased under resale agreements	**113,722**	125,502
Investment securities	**2,480,672**	2,410,999
Loans	**10,999,895**	10,865,991
Less allowance for loan losses	**3,218**	1,065
Net loans	**10,996,677**	10,864,926
Accrued interest receivable	**65,372**	66,789
Premises and equipment, net	**3,072**	2,719
Other assets	**44,366**	33,243
Total assets	**$ 13,715,881**	$ 13,520,778
Bonds and notes	**$ 12,748,653**	$ 12,624,015
Accrued interest payable	**102,600**	110,188
Other liabilities	**121,790**	57,974
Total liabilities	**12,973,043**	12,792,177
Preferred stock	**200,000**	200,000
Capital stock	**198,864**	198,864
Retained earnings	**352,966**	334,394
Accumulated other comprehensive loss	**(8,992)**	(4,657)
Total shareholders' equity	**742,838**	728,601
Total liabilities and shareholders' equity	**$ 13,715,881**	$ 13,520,778

	Three Months Ended March 31,	
Statement of income data	**2008**	2007
Interest income	**$ 173,022**	$ 183,939
Interest expense	**144,942**	158,930
Net interest income	**28,080**	25,009
Provision for loan losses	**2,153**	-
Net interest income after provision for loan losses	**25,927**	25,009
Noninterest income	**9,658**	5,970
Noninterest expense	**14,566**	13,456
Net income	**$ 21,019**	$ 17,523

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