FARM CREDIT FOCUS

2009 FIRST QUARTER REPORT
FARM CREDIT BANK OF TEXAS
MARCH 31, 2009

FIRST QUARTER 2009

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

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2008 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The United States is currently served by four Farm Credit Banks (FCBs), each of which has specific regional lending authority within a chartered territory (or district), and by one Agricultural Credit Bank (ACB), which has the lending authority of an FCB within its chartered territory and limited nationwide lending authority. The FCBs and the ACB are collectively referred to as "System banks." The primary purpose of the FCBs is to serve as a source of funding for System associations within their districts. The System associations make loans to or for the benefit of eligible borrowers for qualified purposes.

The bank and its related associations collectively are referred to as the Tenth Farm Credit District (district). At March 31, 2009, the bank served 19 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2009, was $16,641, a decrease of $4,378, or 20.8 percent, over the same period of 2008. The decrease in net income for the three months ended March 31, 2009, consisted of a $7,756 increase in net interest income, offset by a $1,649 decrease in noninterest income, a $4,880 increase in provision for loan losses and a $5,605 increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended March 31, 2009, was $35,836, an increase of $7,756, or 27.6 percent, over the same period of 2008. The increase in net interest income was attributable to a volume increase of $1.034 billion in the bank's average earning assets and a 26-basis-point increase in the bank's interest rate spread. Interest rate spreads increased as a result of calling high-cost debt and replacing it with lower cost debt.

Provision for Loan Losses

The bank's provision for loan losses for the three months ended March 31, 2009, was $7,033, representing an increase of $4,880 over the $2,153 provision for the first quarter of 2008. During the first quarter of 2009, the bank recorded specific provisions on participation loans to three borrowers, two of which were placed into nonaccrual during the quarter. The allowance at March 31, 2009, was considered adequate by management to absorb probable losses inherent to its loan portfolio.

Noninterest Income

Noninterest income for the three months ended March 31, 2009, was $8,009, reflecting a decrease of $1,649, or 17.1 percent, over the same period of 2008. The decrease was due mainly to a $1,361 loss recognized due to the estimated amount of credit loss related to an other-than-temporary impairment on investment securities — which is more fully discussed in Note 2, "Investments" — and a decrease of $855 in patronage income from another System bank, offset by a $415 increase in fees for loan-related services and a $152 increase in all other noninterest items, collectively.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2009, was $20,171, reflecting an increase of $5,605 over the same period of 2008. The increase is primarily attributable to a $2,394 increase in salaries and employee benefits, a $1,634 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), a $1,398 increase in other operating expenses, a $174 increase in occupancy and equipment expenses and a $5 decrease in gains on other property owned. The $2,394 increase in salaries and employee benefits was primarily due to a $1,897 increase in compensation and related payroll taxes and an $864 increase in pension and retirement expenses, offset by a $367 decrease in other benefits. Compensation increased due to increases in the number of employees and increases in compensation rates. The $1,634 increase in premiums paid to the Insurance Fund was primarily due to a change in the premium base effective July 1, 2008, from loans to Systemwide debt outstanding as well as an increase in the premium rate in 2009. Other operating expenses increased due to a $1,226 increase in Federal Farm Credit Banks Funding Corporation (Funding Corporation) assessment fees and a $251 increase in professional and contract services, offset by a $65 decrease in travel expenses and a $14 decrease in all other operating expenses, collectively.

Key results of operations comparisons:

	Annualized for the Three Months Ended 3/31/2009	Annualized for the Three Months Ended 3/31/2008
Return on average assets	**0.46%**	0.62%
Return on average shareholders' equity	**8.89%**	11.35%
Net interest income as a percentage of average earning assets	**1.00%**	0.84%
Charge-offs, net of recoveries, to average loans	**0.01%**	<0.01%
Operating expenses as a percentage of net interest income and noninterest income	**46.01%**	38.61%
Operating expenses as a percentage of average earning assets	**0.56%**	0.43%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2009, was $11,450,286, reflecting an increase of $47,173, or 0.4 percent, compared to $11,403,113 at December 31, 2008. The changes are net of the effect of the purchase of $100 million in participations in the bank's direct notes receivable from associations from another Farm Credit entity during the first three months of 2009. At March 31, 2009, the cumulative total of participations in association loans sold was $3.4 billion. The increase in the loan portfolio is mainly attributable to growth in the bank's direct loans to associations and other financing institutions, offset by decreases in the bank's capital markets loan portfolio. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 96.4 percent of total loans and accrued interest at March 31, 2009, compared to 98.9 percent at December 31, 2008.

Comparative balances of impaired loans follow:

	March 31, 2009	Increase (Decrease) $	Increase (Decrease) %	December 31, 2008
Nonaccrual loans	**$ 125,957**	$ 16,295	14.86 %	$ 109,662
Formally restructured loans	**693**	3	0.43	690
Total impaired loans	**$ 126,650**	$ 16,298	14.77 %	$ 110,352

The $16,295 increase in nonaccrual loans includes increases of $20,504 in participation loans to two borrowers, net of repayments on other nonaccrual loans. Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans 90 days or more past due and still accruing interest, constituted 1.1 percent of gross loans at March 31, 2009, and 1.0 percent of gross loans at December 31, 2008. The bank had no "other property owned" recorded at March 31, 2009, or at December 31, 2008.

At March 31, 2009, the allowance for loan losses was $19,392, equating to 0.17 percent of total loans outstanding, and 0.66 percent of capital markets participation loans outstanding, and was considered by management to be adequate to absorb estimated losses inherent in the loan portfolio at that date. The allowance for loan losses at March 31, 2009, was solely attributable to participation loans.

Liquidity and Funding Sources

As of March 31, 2009, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At March 31, 2009, the bank's permanent capital ratio was 13.27 percent, core surplus was 5.25 percent, total surplus was 10.08 percent, and the net collateral ratio was 105.41 percent. Cash and investment securities totaled $3,152,691, or 21.4 percent, of total assets at March 31, 2009, compared to $3,218,259, or 21.8 percent, at December 31, 2008, reflecting a decrease of $65,568, or 2.0 percent. At March 31, 2009, the bank's cash balance was $304,233, a $291,140 increase over December 31, 2008. This increase is the result of the bank's repositioning of its liquidity funding from federal funds sold and other liquid investments to cash. Interest-bearing liabilities, consisting of bonds, notes, and subordinated debt, decreased by $64,579, or 0.5 percent, in concert with the decrease in earning assets requiring funding.

Investments

The bank's investments included an available-for-sale portfolio with a fair market value of $2.8 billion and a held-to-maturity portfolio recorded at an amortized cost of $47.5 million at March 31, 2009. The held-to-maturity portfolio consisted of mission-related rural housing mortgage-backed securities that had a fair value of $49.1 million. The bank's available-for-sale portfolio consisted primarily of federal agency collateralized mortgage-backed securities, agency debt, corporate debt and commercial paper, other collateralized mortgage-backed securities, and asset-backed securities. At March 31, 2009, the bank held five investments that were ineligible for liquidity purposes by FCA standards, due to credit ratings that were below AAA by both Moody's and Standard and Poor's. Those ineligible securities had an amortized cost basis of $58,611 and a fair value of $44,895 at March 31, 2009.

As is more fully disclosed in Note 1, "Organization and Significant Accounting Policies," and in Note 2, "Investments," the bank early adopted Financial Accounting Standards Board (FASB) Staff Position No.

115-2 and 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (FSP 115-2), which amends existing impairment guidance in FASB Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Investments” (SFAS 115). Accordingly, the bank recognized other-than-temporary impairment losses on three mortgage-backed investments during the first quarter of 2009. The credit portion of the impairment losses, totaling $1,361, was recognized as a loss in earnings in the first quarter. The balance of the impairment losses on the three investments, totaling $3,380, is included as a charge against other comprehensive income. Also in accordance with FSP 115-2, $1,527 in non-credit-related impairment losses taken as a charge against earnings during 2008 were added back to retained earnings and charged against accumulated other comprehensive income.

Capital Resources

Total shareholders’ equity at March 31, 2009, totaled $783,208, an increase of $38,666 from December 31, 2008. This increase is the result of net income of $16,641 for the three months ended March 31, 2009, a decrease in unrealized net losses on investment securities totaling $20,257, a $1,793 unrealized gain on cash flow derivatives, and an adjustment to retained earnings of $1,527 resulting from the effects the noncredit portion of the previous other-than-temporary-impairment losses pursuant to FSP 115-2, offset by patronage of $1,552.

The change in unrealized losses 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, and to changes in the market value of mortgage-backed and asset-backed securities. The bank performs other-than-temporary-impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions at each quarter end. The process for evaluation of impairment of investments is more fully discussed in Note 2, “Investments.”

Key financial condition comparisons:

	March 31, 2009	December 31, 2008
Total shareholders' equity to total assets	**5.33%**	5.04%
Total liabilities to shareholders' equity	**17.78:1**	18.82:1
Allowance for loan losses to total loans	**0.17%**	0.11%

The undersigned certify that we have reviewed the March 31, 2009, quarterly 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.

Larry R. Doyle
Chief Executive Officer

Ralph W. Cortese
Chairman of the Board

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

May 5, 2009

Controls and Procedures

The Farm Credit Bank of Texas (bank) maintains a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. With management's input, the chief executive officer and the senior vice president, chief financial officer, chief operations officer have evaluated our disclosure controls and procedures as of the end of and for the period covered by this quarterly report, and have concluded that our disclosure controls and procedures are effective as of that date.

The bank also maintains a system of internal controls. The "internal controls" as defined by the American Institute of Certified Public Accountants' Codification of Statement on Auditing Standards, AU Section 319, means a process — effected by the board of directors, management and other personnel — designed to provide reasonable assurance regarding the achievement of objectives in the reliability of our financial reporting, the effectiveness and efficiency of operations, and of compliance with applicable laws and regulations. We continually assess the adequacy of our internal control over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations.

Larry R. Doyle
Chief Executive Officer

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

May 5, 2009

Balance Sheets

(dollars in thousands)	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Cash	**$ 304,233**	$ 13,093
Federal funds sold and securities purchased under resale agreements	**23,275**	176,698
Investment securities	**2,825,183**	3,028,468
Loans	**11,450,286**	11,403,113
Less allowance for loan losses	**19,392**	12,549
Net loans	**11,430,894**	11,390,564
Accrued interest receivable	**58,341**	63,632
Premises and equipment, net	**8,121**	6,772
Other assets	**54,839**	81,274
Total assets	**$ 14,704,886**	$ 14,760,501
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 13,737,626**	$ 13,802,205
Subordinated debt	**50,000**	50,000
Accrued interest payable	**95,768**	96,847
Other liabilities	**38,284**	66,907
Total liabilities	**13,921,678**	14,015,959
Commitments and contingent liabilities (Note 4)		
Shareholders' equity		
Preferred stock	**200,000**	200,000
Capital stock	**227,212**	227,212
Allocated retained earnings	**6,145**	6,114
Unallocated retained earnings	**353,584**	336,999
Accumulated other comprehensive loss	**(3,733)**	(25,783)
Total shareholders' equity	**783,208**	744,542
Total liabilities and shareholders' equity	**$ 14,704,886**	$ 14,760,501

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

Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2009	2008
Interest income		
Investment securities	**$ 26,108**	$ 28,510
Loans	**124,485**	144,512
Total interest income	**150,593**	173,022
Interest expense		
Bonds, notes and subordinated debt	**114,757**	144,942
Net interest income	**35,836**	28,080
Provision for loan losses	**7,033**	2,153
Net interest income after provision for loan losses	**28,803**	25,927
Noninterest income		
Fees for services to associations	**2,128**	2,211
Loan-related fees	**2,005**	1,590
Miscellaneous income, net	**5,237**	5,857
Impairment losses on investments		
Total other-than-temporary-impairment losses	**(4,741)**	-
Less: portion of loss recognized in other comprehensive income	**3,380**	-
Net impairment loss recognized in earnings	**(1,361)**	-
Total noninterest income	**8,009**	9,658
Noninterest expense		
Salaries and employee benefits	**11,106**	8,712
Occupancy and equipment	**1,369**	1,195
Insurance Fund premiums	**2,704**	1,070
Gains on other property owned, net	**-**	(5)
Other operating expenses	**4,992**	3,594
Total noninterest expense	**20,171**	14,566
Net income	**$ 16,641**	$ 21,019

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	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 measurement date - SFAS No. 158	-	-	-	(406)	-	(406)
Balance at January 1, 2008	200,000	198,864	5,196	328,792	(4,657)	728,195
Comprehensive income						
Net income	-	-	-	21,019	-	21,019
Change in pension and postretirement benefit plans	-	-	-	-	23	23
Net change in unrealized net gains on investment securities	-	-	-	-	5,909	5,909
Net change in unrealized net losses on cash flow derivatives	-	-	-	-	(10,267)	(10,267)
Total comprehensive income	-	-	-	21,019	(4,335)	16,684
Patronage distributions						
Cash	-	-	-	(2,041)	-	(2,041)
Shareholders' equity	-	-	(1)	1	-	-
Balance at March 31, 2008	$ 200,000	$ 198,864	$ 5,195	$ 347,771	$ (8,992)	$ 742,838
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	-	-	-	16,641	-	16,641
Net change in unrealized net losses on investment securities	-	-	-	-	23,637	23,637
Noncredit portion of current other-than-temporary-impairment losses	-	-	-	-	(1,853)	(1,853)
Net change in unrealized net gains on cash flow derivatives	-	-	-	-	1,793	1,793
Total comprehensive income	-	-	-	16,641	23,577	40,218
Patronage distributions						
Cash	-	-	-	(1,552)	-	(1,552)
Shareholders' equity	-	-	31	(31)	-	-
Balance at March 31, 2009	**$ 200,000**	**$ 227,212**	**$ 6,145**	**$ 353,584**	**$ (3,733)**	**$ 783,208**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2009	2008
Operating activities		
Net income	**$ 16,641**	$ 21,019
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**7,033**	2,153
Depreciation and amortization on premises and equipment	**350**	252
Accretion of net discount on loans	**(73)**	(18)
Amortization and accretion on debt instruments	**(304)**	489
Amortization of net premium (discount) on investment securities	**16**	(337)
Gains from sales of other property owned, net	**-**	(5)
Losses on impairment of investments available-for-sale	**1,361**	-
Gains from sales of premises and equipment	**-**	(2)
Decrease in accrued interest receivable	**5,291**	1,417
Decrease (increase) in other assets	**7,391**	(7,161)
Decrease in accrued interest payable	**(1,079)**	(7,588)
(Decrease) increase in other liabilities	**(12,441)**	323
Net cash provided by operating activities	**24,186**	10,542
Investing activities		
Net decrease in federal funds sold and securities purchased under resale agreements	**153,423**	11,780
Investment securities		
Purchases	**(609,578)**	(824,024)
Proceeds from maturities, calls and prepayments	**833,042**	835,997
Allocated equity patronage from System bank	**(11,762)**	(6,408)
Decrease (increase) in loans, net	**48,544**	(538,275)
(Expenditure) proceeds from (purchase) sale of loans	**(100,000)**	400,000
Proceeds from sales of premises and equipment	**-**	2
Expenditures for premises and equipment	**(1,699)**	(605)
Net cash provided by (used in) investing activities	**311,970**	(121,533)
Financing activities		
Bonds and notes issued	**19,876,877**	11,696,625
Bonds and notes retired	**(19,910,346)**	(11,580,391)
Cash patronage distributions paid	**(11,547)**	(9,843)
Net cash (used for) provided by financing activities	**(45,016)**	106,391
Net increase (decrease) in cash	**291,140**	(4,600)
Cash at beginning of year	**13,093**	16,600
Cash at end of quarter	**$ 304,233**	$ 12,000
Supplemental schedule of noncash investing and financing activities		
Net decrease in unrealized losses on investment securities	**$ 20,194**	$ 5,909
Investment purchases not settled	**-**	75,400
Supplemental schedule of noncash changes in fair value related to hedging activities		
(Decrease) increase in bonds and notes	**$ (30,797)**	$ 7,915
Supplemental information		
Interest paid	**$ 115,836**	$ 152,530

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2008, are contained in the 2008 Annual Report to shareholders (Annual Report). These unaudited first quarter 2009 financial statements should be read in conjunction with the Annual Report.

Effective January 1, 2009, the bank adopted Statement of Financial Accounting Standard (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS 161), which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity" (SFAS 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

The adoption of this standard did not have an impact on the bank's financial statements; however, the derivative instruments disclosures have been expanded in accordance with SFAS 161.

Effective January 1, 2009, the bank adopted FASB Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of SFAS No. 157, "Fair Value Measurements" (SFAS 157) for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but does not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability, and regardless of the valuation technique and inputs used, the objective for the fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. FSP 157-4 indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

FSP 157-4 also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The bank early adopted the FSP.

In April 2009, the FASB issued FSP No. 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," (FSP 115-2) which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP 115-2 changes existing impairment guidance under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," (SFAS 115) by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectibility of cash flows is also eliminated, and impairment is now considered to be other than temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to in FSP 115-2 as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other than temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other than temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually.

This FSP is effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The bank early adopted the FSP and recognized an adjustment to beginning retained earnings in the amount of $1,527, and a corresponding adjustment to accumulated other comprehensive income of $1,527. If a reporting entity early adopts this FSP, it is required to adopt FSP 157-4, and the same applies if FSP 157-4 is adopted; then FSP 115-2 must also be adopted.

In addition, in April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. The bank is currently evaluating the disclosures that will be impacted by the adoption of the FSP.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations of the bank, 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.

The bank is part of the Tenth Farm Credit District (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. At March 31, 2009, the bank served 19 district associations and certain other financing institutions.

NOTE 2 — INVESTMENTS

Available for Sale

A summary of the amortized cost and fair value of investment securities available for sale, excluding mission-related and other investments, at March 31, 2009 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency debt	$ 500,000	$ 256	$ -	$ 500,256	1.17 %
Corporate debt	282,504	1,456	(1,408)	282,552	1.47
Federal agency collateralized mortgage obligations	1,736,479	36,084	(1,134)	1,771,429	4.42
Other collateralized mortgage obligations	204,100	-	(29,890)	174,210	5.77
Asset-backed securities	55,466	-	(6,198)	49,268	4.05
Total available-for-sale-investments	**$ 2,778,549**	**$ 37,796**	**$ (38,630)**	**$ 2,777,715**	**3.61** %

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at March 31, 2009:

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Total
Agency debt	$ 500,256	$ -	$ -	$ 500,256
Corporate debt	178,753	103,799	-	282,552
Other collateralized mortgage obligations	702,439	1,241,089	2,111	1,945,639
Asset-backed securities	39,426	9,842	-	49,268
Total fair value	**$ 1,420,874**	**$ 1,354,730**	**$ 2,111**	**$ 2,777,715**
Total amortized cost	**$ 1,424,713**	**$ 1,348,724**	**$ 5,112**	**$ 2,778,549**
Weighted average yield	**3.01%**	**4.24%**	**3.11%**	**3.61%**

Mission-Related and Other Held-to-Maturity Investments

The bank's held-to-maturity investments consisted of mission-related investment securities with contractual maturities greater than 10 years. A summary of the amortized cost and fair value of mission-related and other held-to-maturity investment securities at March 31, 2009 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mission-related securities due after 10 years	$ 47,468	$ 1,641	$ -	$ 49,109	5.11 %

Investments Available for Sale

The following table shows eligible investments that were not considered other-than-temporarily impaired by gross unrealized losses and fair value, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at March 31, 2009. The continuous loss position is based on the date the impairment was first identified:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other collateralized mortgage obligations	$ 78,174	$ (688)	$ 203,285	$ (26,956)	$ 281,459	$ (27,644)
Corporate debt	-	-	78,592	(1,408)	78,592	(1,408)
Asset-backed securities	-	-	49,268	(6,198)	49,268	(6,198)
Total	**$ 78,174**	**$ (688)**	**$ 331,145**	**$ (34,562)**	**$ 409,319**	**$ (35,250)**

The bank evaluates investment securities for other-than-temporary impairment on a quarterly basis. Factors considered in determining whether an impairment is other than temporary include: 1) the length of time and the extent to which the fair value is less than cost, 2) the financial condition and near-term prospects of the issuer, 3) the estimated cash flow projections compared to contractual cash flows and 4) significant rating agency changes on the issuer.

The bank recognized other-than-temporary impairment losses on three mortgage-backed investments during the first quarter of 2009. The credit portion of the impairment losses, totaling $1,361, was recognized as a loss in earnings in the first quarter. The balance of the impairment losses on the three investments, totaling $3,380, is included as a charge against other comprehensive income. Also, in accordance with FSP 115-2, $1,527 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.

As the bank has no intent of selling the securities deemed other-than-temporarily impaired (OTTI) 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 the first quarter 2009. To measure the amount related to credit loss in the determination of OTTI, the bank utilizes a third party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage backed securities and subprime asset backed securities. Applicable securities are identified through prior analysis based on the deterioration of price and credit ratings. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities loan level data. Loan level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. These cash flow projections are then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

The following is a rollforward of the amount related to credit losses recognized during the period:

Beginning balance – credit losses for which a portion of an other-than-temporary impairment was recognized in OCI	$ 712
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	892
Increases to amount related to credit loss for which other-than-temporary impairment previously recognized when it did not intend to sell and it is not more likely than not that it will be required to sell	469
Ending balance – credit losses for which a portion of an other-than-temporary impairment was recognized in OCI	$ 2,073

NOTE 3 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	Three Months Ended March 31,	
	2009	2008
Balance at beginning of period	**$ 12,549**	$ 1,065
Provision for loan losses	**7,033**	2,153
Loans charged off	**(627)**	-
Recoveries	**316**	-
Change in reserve for unfunded commitments	**121**	-
Balance at end of period	**$ 19,392**	$ 3,218

At March 31, 2009, impaired loans of $62.5 million had a related specific allowance of $19.4 million, while the remaining $64.1 million of impaired loans had no related specific allowance.

The average recorded investment in impaired loans for the three months ended March 31, 2009, was $112.6 million. The bank recognized interest income of $201 on impaired loans during the three months ended March 31, 2009.

NOTE 4 — 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, 2009, were approximately $179.2 billion.

NOTE 5 — FAIR VALUE MEASUREMENTS

SFAS 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 of the 2008 Annual Report for a more complete description.

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

	Fair Value Measurements at March 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	**$ 23,275**	$ -	$ 23,275	$ -
Investments available for sale	**2,777,715**	-	2,756,434	21,281
Derivative assets	**643**	-	643	-
Assets held in nonqualified benefit trusts	**172**	172	-	-
Total	**$ 2,801,805**	$ 172	$ 2,780,352	$ 21,281
Liabilities:				
Derivative liabilities	**$ 1,280**	$ -	$ 1,280	$ -
Standby letters of credit	**1,901**	-	1,901	-
	$ 3,181	$ -	$ 3,181	$ -

The following table 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, 2009, to March 31, 2009.

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

Available-for-sale investment securities:	
Balance at January 1, 2009	$ 99,992
Net losses included in other comprehensive income	(1,853)
Net losses included in earnings	(1,361)
Purchases, issuances and settlements	(99,992)
Transfers to Level 3	24,495
Balance at March 31, 2009	$ 21,281

The net losses included in other comprehensive income in the above table are all on securities held at March 31, 2009.

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

	Fair Value Measurement at March 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	**$ 43,118**	$ -	$ -	$ 43,118
Total assets	**$ 43,118**	$ -	$ -	$ 43,118

Valuation Techniques

As more fully discussed in Note 1, "Organization and Summary of Significant Accounting Policies," of the Annual Report, SFAS 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's 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, 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, 2009, include certain mortgage-backed 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

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.

Loans

For certain loans evaluated for impairment under SFAS 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. These loans are generally classified as Level 3.

NOTE 6 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2009, the bank adopted SFAS 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 133.

The bank maintains an overall interest rate risk management strategy that incorporates the use of derivative products 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 assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged fixed-rate assets and 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 assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate assets and 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 assets and liabilities. The bank considers the 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 derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. Interest rate swaps 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 interest rate swap 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.

A substantial amount of the bank's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments while the related interest-bearing liabilities tend to be short- or medium-term fixed rate obligations. Given this asset-liability mismatch, interest rate swaps in which a bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on a bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, a 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 may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. The primary types of derivative instruments used and the amount of activity during the period is summarized in the following table:

	Received-Fixed Swaps	**Pay-Fixed Fixed Swaps**	**Total**
Balance at January 1, 2009	$ 350,000	$ 450,000	$ 800,000
Maturities	-	(250,000)	(250,000)
Terminations	(150,000)	-	(150,000)
Balance at March 31, 2009	**$ 200,000**	**$ 200,000**	**$ 400,000**

By using derivative products, 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 in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes a bank, thus creating a repayment (credit) risk for a bank. When the fair value of the derivative contract is negative, a bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. The bank does not anticipate nonperformance by any of these counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. Another way the bank minimizes the risk of credit losses from derivatives is that substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached, which thresholds may vary depending on the counterparty's credit rating. At March 31, 2009 and December 31, 2008, the bank's exposure to counterparties, net of collateral, was $2.2 million and $32.1 million, respectively. At March 31, 2009 and December 31, 2008, the bank had posted no securities as collateral. At December 31, 2008, the bank held cash collateral of $1.1 million with respect to its obligations under these arrangements.

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the bank's asset/liability and treasury functions. The bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the bank's board of directors through the bank's 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. The bank held no derivatives that were not designated as hedges at March 31, 2009, or December 31, 2008.

Fair Value Hedges

The bank's derivative instruments that are designated and qualify as a fair value hedge all meet the standards for accounting treatment in SFAS 133 that presumes full effectiveness. Accordingly, no gain or loss is recognized in earnings.

Cash Flow Hedges

The bank's derivative instruments that are designated and qualify as a cash flow hedge all meet the standards for accounting treatment in SFAS 133 that presumes full effectiveness. Thus, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income.

	Asset Derivatives			Liability Derivatives		
Derivatives designated as hedging instruments under SFAS 133	**Balance Sheet Location**	**Fair Value 3/31/2009**	**Fair Value 12/31/2008**	**Balance Sheet Location**	**Fair Value 3/31/2009**	**Fair Value 12/31/2008**
Received fixed	Other assets	$ 643	$ 31,439			
Pay fixed				Other liabilities	$ 1,280	$ 3,074

Derivatives designated as hedging instruments under SFAS 133	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)
Pay fixed	$ (1,794)

NOTE 7 — EMPLOYEE BENEFIT PLANS

The following table summarizes the components of net periodic benefit costs for the bank's supplemental defined benefit pension plan and for the bank's other postretirement benefit costs for the three months ended March 31:

	Pension Benefits		Other Benefits	
	2009	2008	**2009**	2008
Service cost	**$ 22**	$ 102	**$ 48**	$ 42
Interest cost	**79**	136	**110**	103
Amortization of prior service costs	**89**	89	**(75)**	(76)
Amortization of net loss	**49**	13	**-**	(1)
Net periodic benefit cost	**$ 239**	$ 340	**$ 83**	$ 68

The structure of the district's defined benefit pension plan is characterized as multi-employer, since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations).

NOTE 8 — COMBINED ASSOCIATION FINANCIAL DATA

Condensed financial information for the 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.

Balance sheet data	**March 31, 2009**	December 31, 2008
Cash	**$ 16,362**	$ 43,789
Investment securities	**17,711**	17,929
Loans	**13,410,276**	13,468,746
Less allowance for loan losses	**59,127**	39,104
Net loans	**13,351,149**	13,429,642
Accrued interest receivable	**160,850**	173,210
Other property owned, net	**8,606**	6,495
Other assets	**338,668**	293,655
Total assets	**$ 13,893,346**	$ 13,964,720
Notes payable	**$ 11,770,965**	$ 11,782,402
Other liabilities	**162,204**	248,596
Total liabilities	**11,933,169**	12,030,998
Capital stock and participation certificates	**64,188**	64,619
Retained earnings	**1,887,632**	1,860,481
Accumulated other comprehensive income	**8,357**	8,622
Total members' equity	**1,960,177**	1,933,722
Total liabilities and members' equity	**$ 13,893,346**	$ 13,964,720

	Three Months Ended March 31,	
Statement of income data	**2009**	2008
Interest income	**$ 194,137**	$ 217,300
Interest expense	**102,926**	131,267
Net interest income	**91,211**	86,033
Provision for loan losses	**24,527**	6,257
Net interest income after provision for loan losses	**66,684**	79,776
Noninterest income	**15,897**	19,091
Other expense	**46,737**	43,533
(Benefit from) provision for income taxes	**(256)**	77
Net income	**$ 36,100**	$ 55,257

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