STRENGTH THROUGH DIVERSITY

2007 ANNUAL REPORT
FARM CREDIT BANK OF TEXAS

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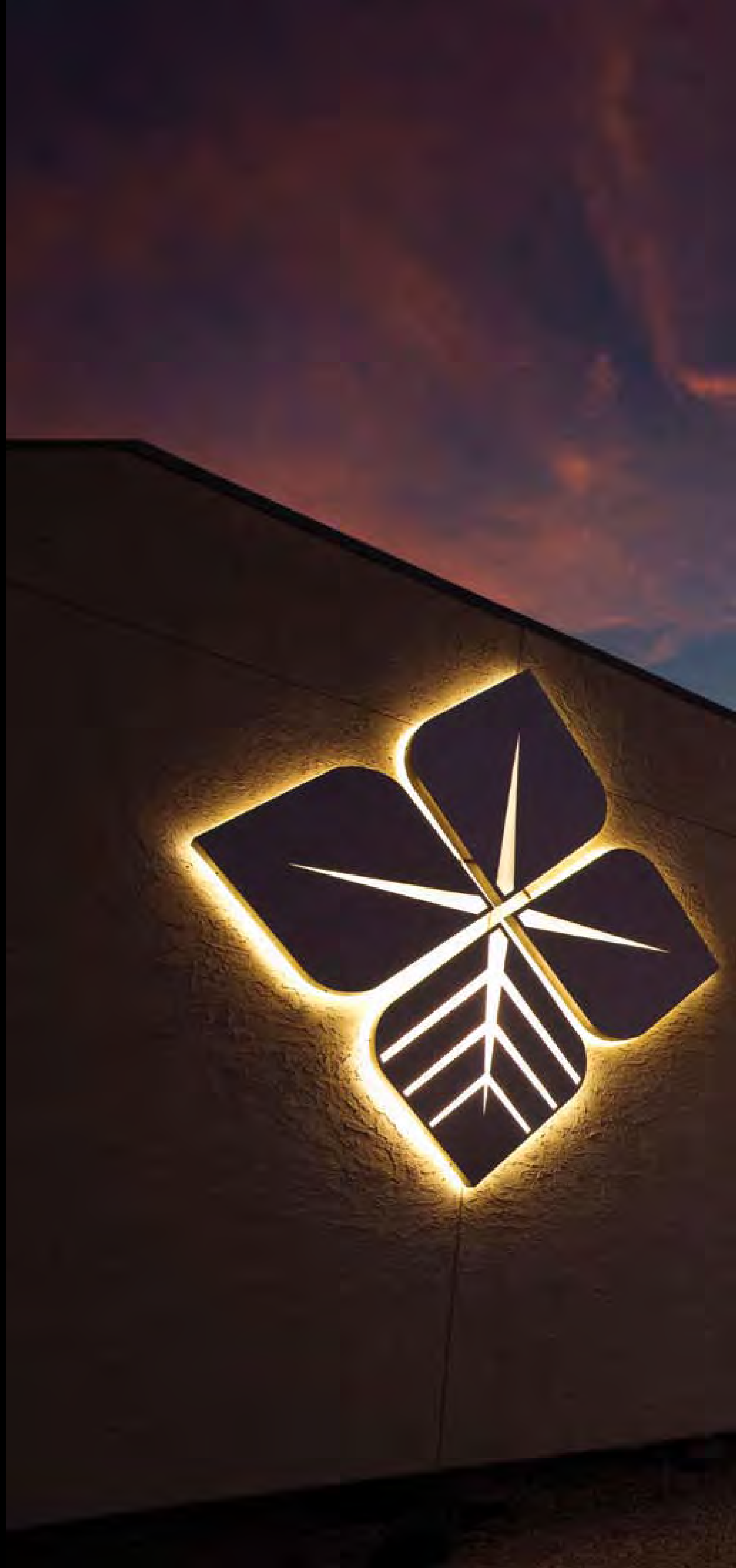


STRENGTH THROUGH DIVERSITY

Agriculture and rural America are changing and becoming more diverse and so, too, is Farm Credit Bank of Texas. The increasing diversity within our portfolio, our customers, our people and our geographic base is an undisputable source of strength and energy. Diversity fuels our collective imagination, expands our lending opportunities and presents new business solutions. Through diversity, Farm Credit Bank of Texas has become a stronger, more resilient and more innovative bank for the 21st century.

LOANS, RISK AND CAPITAL

For the Farm Credit Bank of Texas, 2007 was highlighted by the successful completion of an aggressive five-year strategic plan, begun in 2003, to improve profitability and increase the value we provide to our owners. Today, five years later, we are more robust and agile, more diversified in our products and services, and better prepared to seize the opportunities and tackle the challenges before us.

Lowering Our Spread

We are especially proud that in 2007 we were able to reduce the net effective spread charged to our owners — 20 rural financing cooperatives and five Other Financing Institutions — to just 3 basis points. This record low rate compares to 5 basis points in 2006 and 12 basis points in 2005, and is almost equal to the bank's marginal cost of funds.

MANAGING RISK AND CAPITAL

The Farm Credit Bank of Texas actively uses the capital markets to diversify risk, generate earnings and provide low-cost funding to our cooperative owners. We are pleased to report that our efforts to manage the balance sheet and capital resulted in the following accomplishments in 2007.

- We sold an additional $1.3 billion of direct note participations to another Farm Credit Bank. This brings total direct note participations sold to an outstanding balance of $2.7 billion, which allows us to diversify our credit exposure and actively manage liquidity and capital.
- Lower interest rates provided the bank with an opportunity to restructure its liabilities by exercising call options on debt, which will result in a 47-basis-point reduction in interest expense.
- The bank implemented the ERisk economic capital model, which will be used to evaluate credit risk and assist in risk diversification strategies.

DIVERSIFYING OUR LOAN PORTFOLIO

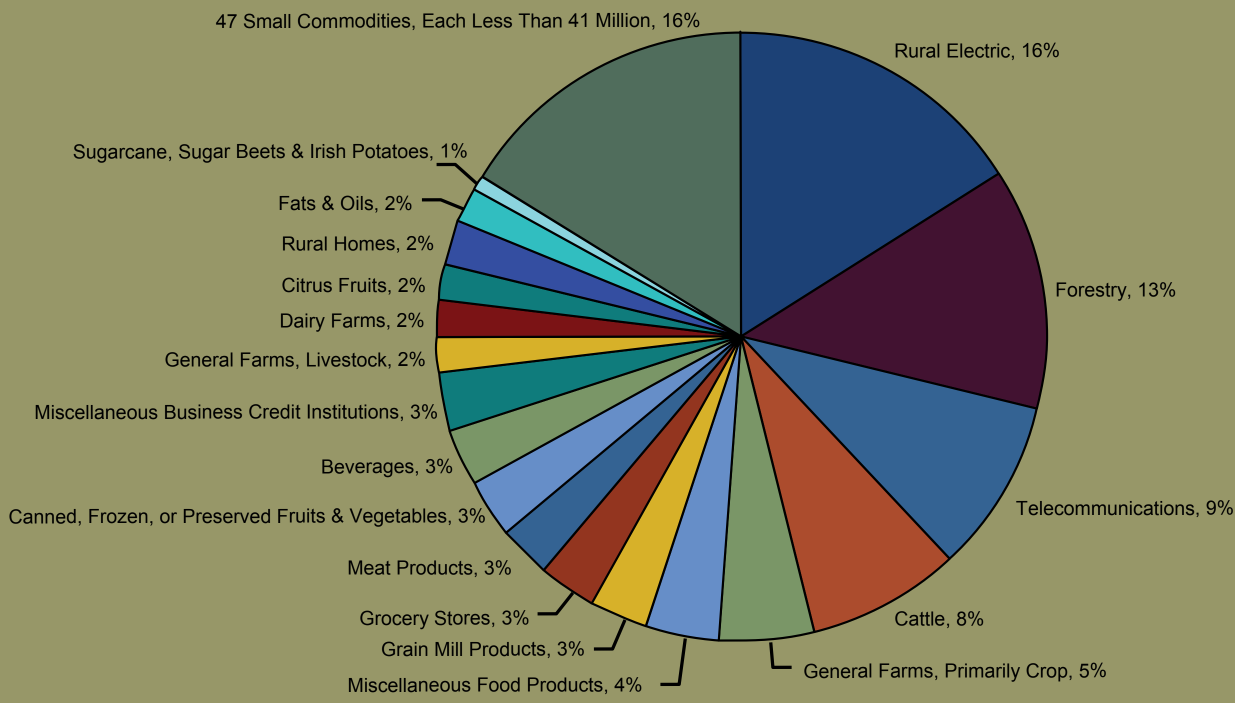
In the business of financing agriculture, diversity makes good sense. A weak commodity market, severe weather or pest problems can each spell serious financial loss. The Farm Credit Bank of Texas draws strength, however, from a widely diversified portfolio of capital markets loans.

From timber operations in the northwestern United States to greenhouse firms in the Southeast to rural electric utilities in the Midwest, we seek out loan opportunities that are diversified by geography, climate and commodity or product.

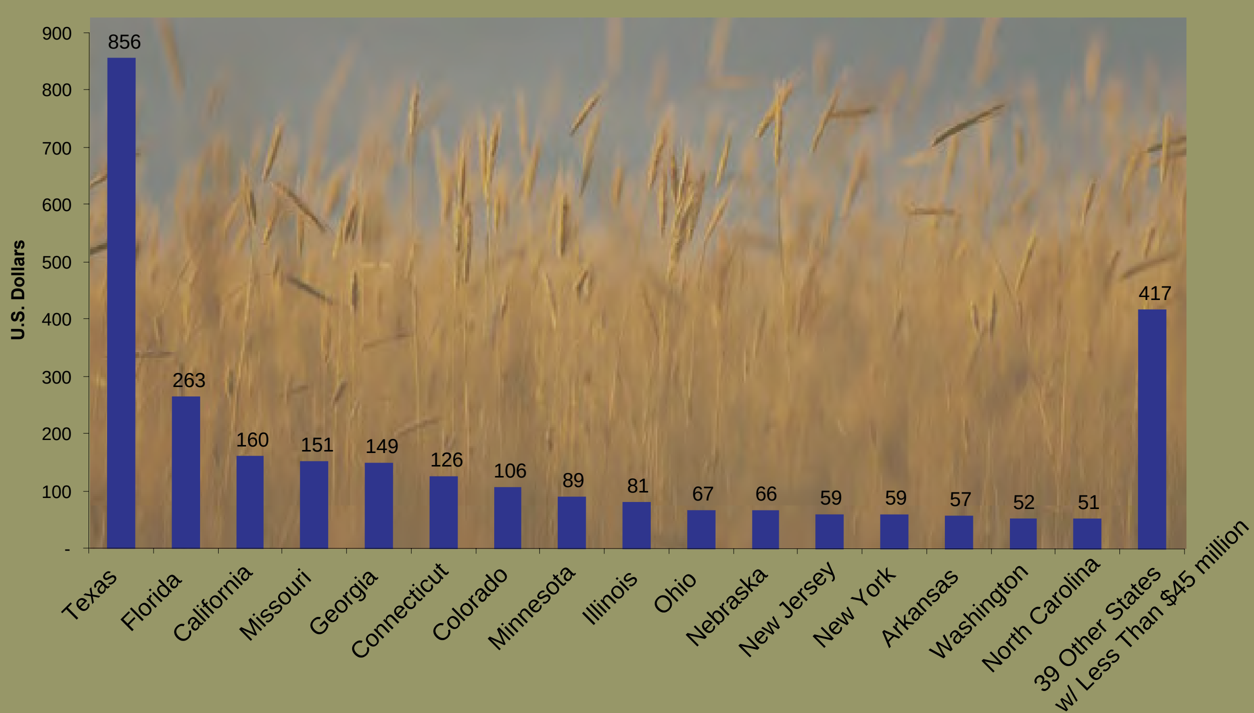
In 2007, we participated in numerous large loans with our Tenth District financing cooperatives, or associations, and from Farm Credit institutions across the country. We also purchased loan participations from various other financial institutions. By year end, our net participation loan volume had increased by $556 million, or 26 percent, over the previous year, to $2.67 billion.

We also continued our efforts, begun in late 2006, to promote the Rural America Bond Program throughout the Tenth District. During the year, we approved $23 million in bonds, and provided bond-financing training to staff at our district lending cooperatives. This rural investment initiative, which channels funds to rural communities and agribusiness, is one more way that we are diversifying our loan portfolio.

LOAN PORTFOLIO COMMODITY CONCENTRATION 12/31/07



LOAN PORTFOLIO BY STATE (in millions) 12/31/07



PEOPLE AND SERVICES

Behind each of our innovative cash management products, targeted marketing programs, profitable participation loans and cost-effective services is the outstanding staff of the Farm Credit Bank of Texas. Their extraordinary performance allowed the bank to achieve record efficiency and outstanding end-game results in 2007.

EMPLOYING THE BEST

We strive to attract the best and brightest in their respective professions — people with a variety of educational, work-experience and cultural backgrounds, who bring a mix of innovative ideas, perspectives and skill sets to the bank. We do so, knowing that the more diverse our workforce is, the better Farm Credit Bank of Texas can serve our increasingly diverse rural marketplace.

During 2007, we mounted an ambitious employee recruiting effort, visiting minority colleges and introducing our affiliated cooperatives to new pools of talent across the five states we serve. Representatives from the bank's Diversity Council also promoted the bank and Farm Credit at local, state and national conferences.

Ongoing leadership and skills training is a high priority for the bank, and in 2007, we offered training opportunities for all Tenth District personnel. This included an intensive Director Development Program for the elected leaders of our affiliated lending cooperatives, as well as professional development seminars for bank employees, and credit and appraisal training for all district lending staff.

CREATING SYNERGY

Farm Credit Bank of Texas places a high priority on customer service. We are structured into key operating centers — information technology, cash management, marketing and human resources, to name a few — to deliver products and services to our affiliated lending cooperatives. The resulting synergy extends from the bank throughout the district and contributes to the success of our owners.

A new synergy also emerged within the bank in 2007 as we assembled a cross-functional team to develop a new market-fresh lending system for the Tenth District. The largest project undertaken by the bank in recent years, it draws from our deep pool of talent and will involve staff from nearly every department, plus a team of association employees.

Our corporate Diversity Council sponsored local FFA students who otherwise would not have had livestock projects.

Concern for community is one of the seven cooperative principles, and it is something we take seriously at Farm Credit Bank of Texas. Our employees are dedicated to making a difference through volunteerism and philanthropy. In 2007, they opened their wallets and literally spilled blood, sweat and tears as they gave time and effort to make their community a better place to live and work. In addition, the bank and staff together supported a wide variety of organizations through sponsorship and scholarship opportunities.

OUR STRUCTURE

Established by federal legislation in 1916, Farm Credit Bank of Texas is a cooperatively owned wholesale bank, headquartered in Austin, Texas. We provide funding to our owners — 20 rural financing cooperatives in Alabama, Louisiana, Mississippi, New Mexico and Texas, and five Other Financing Institutions. The retail lending cooperatives in turn extend credit and financial services to their borrower-stockholders — agricultural producers, agribusiness firms, country homeowners and other rural landowners.

As a federated cooperative, Farm Credit Bank of Texas is committed to the success of our owners. Our primary objective is to provide them with the lowest possible cost of funds, so that they, in turn, can provide their customers with competitive financing and a broad menu of financial services.

Together, the bank and its affiliated lending cooperatives compose the Tenth Farm Credit District, which is part of the $186-billion nationwide Farm Credit System — the largest source of financing for agriculture and rural America. The sale of System bonds and notes in the nation's money markets gives Farm Credit Bank of Texas and, thus, our owners and their customers a dependable and competitive source of capital.

As a federated cooperative, Farm Credit Bank of Texas is

BOARD OF DIRECTORS

Kenneth Andrews

(Seated) Ralph W. "Buddy" Cortese
Chairman

Joe Crawford

Jimmy Dodson

Elizabeth G. "Betty" Flores

(Seated) Jon "Mike" Garnett
Vice Chairman

William Staats

committed to the success of our owners.

FINANCIAL RESULTS

SENIOR MANAGEMENT TEAM

Larry Doyle, *Chief Executive Officer* (center)

Tom Hill, *Senior Vice President, Chief Financial Officer, Chief Operations Officer* (left)

Steve Fowlkes, *Senior Vice President, Chief Credit Officer*

For Farm Credit Bank of Texas, 2007 will be remembered as another outstanding year in terms of earnings, growth and value provided to our cooperative owners.

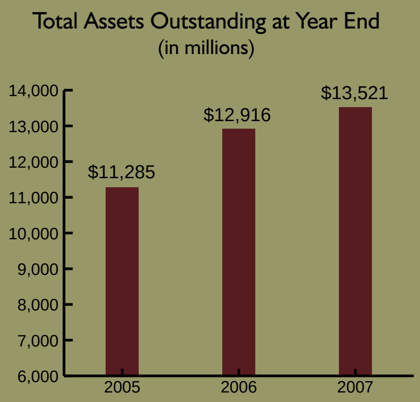
Net income for the year was 13.9 percent higher than 2006 income, and year-end loan volume increased by 8.1 percent over the previous year. Credit quality remained extremely strong for the fourth consecutive year, and once again, the bank exceeded our regulator's minimum requirements for permanent capital, core surplus, total surplus and net collateral ratio.

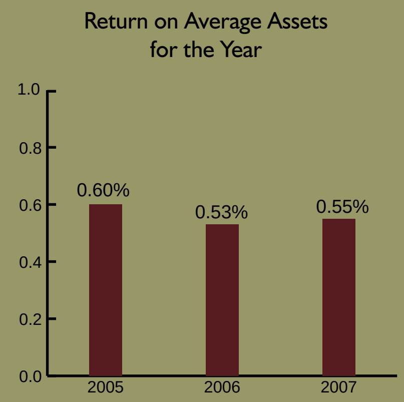
Patronage is the cornerstone of the cooperative business model, and so we are particularly proud that we were able to share $47.8 million, or nearly two-thirds of our earnings, with our patrons in 2007. Composed of patronage distributions and allocated earnings, this amount is a 25 percent increase from the $38.1 million of patronage we declared in 2006. Most important, however, this latest distribution of earnings enabled our affiliated financing cooperatives to declare a record $133.7 million in patronage to their borrower-stockholders based on 2007 earnings.

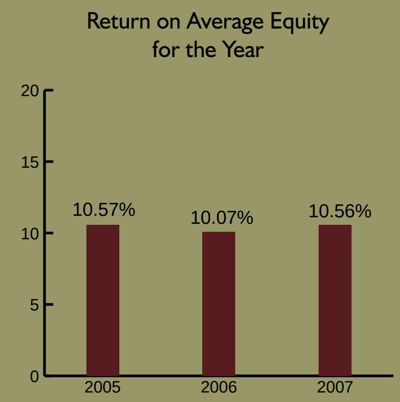
FINANCIAL HIGHLIGHTS

For the Year *(in thousands)*	**2007**	2006	2005
Net interest income	**$ 99,565**	$ 90,341	$ 75,960
(Provision) negative provision for loan losses	**(1,043)**	(2,578)	344
Noninterest (expense) income, net	**(24,518)**	(22,769)	(18,688)
Net income	**74,004**	64,994	57,616
Rate of return on:			
Average assets	**0.55%**	0.53%	0.60%
Average shareholders' equity	**10.56**	10.07	10.57
Cash patronage paid	**$ 46,174**	$ 37,043	$ 28,713

At Year End *(in millions)*			
Total loans	**$ 10,866**	$ 10,055	$ 8,482
Total assets	**13,521**	12,916	11,285
Total liabilities	**12,792**	12,252	10,661
Total shareholders' equity	**729**	664	624
Permanent capital ratio	**13.43%**	13.67%	17.36%
Total surplus ratio	**11.15**	11.61	14.97
Core surplus ratio	**6.70**	6.93	8.82
Net collateral ratio	**105.18**	105.35	105.90







THE YEAR AHEAD

For 2008 and the years ahead, Farm Credit Bank of Texas has set its focus on maintaining a strong, resilient organization that can weather the risks inherent in the financing sector and the potential ups and downs of the economy.

PRESERVING FINANCIAL INTEGRITY

While we have enjoyed tremendous growth and profitability in recent years, a priority for 2008 will be the management of our loan portfolio using underwriting standards and internal controls that preserve the financial integrity of the bank and associations. At the same time, we have established a goal to obtain public ratings from two rating agencies, as a first step toward seeking additional capital in the future.

In the coming year, we will aim to increase patronage dividends by improving our earnings through participations and investments, and we will work to maintain operating costs by forming alliances for certain processes with other entities.

MEETING CUSTOMERS NEEDS

We also will deliver on our ongoing commitment to provide customer-responsive financial products and competitive business tools that add value to our affiliated lending cooperatives. One of these is Ag Banking On-Line, a tool that will allow borrowers to view their account balances and transfer funds via ACH technology. Another is the development of new credit delivery, analysis and loan accounting systems for the district. These state-of-the-art lending systems, when operational, will enable our affiliated cooperatives to compete more effectively in the marketplace.

In 2008, we will continue to support our owners in numerous other ways. We will partner with them on large loan opportunities and Rural America Bond projects to channel funds to rural communities. We will expand the Farm Credit branding initiative we started last year and assist our lending associations with their promotional and educational efforts. We will also continue our efforts to recruit and retain people who will keep the bank and Tenth District lending cooperatives successful, while solidifying diversity into the core of our organization.

INCREASING OUR DIVERSITY

In all that we do, we will continue to strive for diversity in our loan and investment portfolios, our people and the geographic areas where we do business.

Above all, our commitment for 2008 and the years ahead is to continue to provide our owners with value for their investment in the Farm Credit Bank of Texas. Our success depends on their success.

Farm Credit Bank of Texas has set its focus on maintaining a strong, resilient

organization that can weather the risks inherent in the financing sector...

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, 2007, 2006 and 2005. The independent auditors have direct access to the board, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that we have reviewed the December 31, 2007, 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

Thomas W. Hill

Thomas W. Hill
Chief Financial Officer

February 29, 2008

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	2007	2006	2005	2004	2003*
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 142,102**	$ 103,394	$ 46,836	$ 51,114	$ 28,265
Investment securities	**2,410,999**	2,672,242	2,697,876	1,787,706	1,518,102
Loans	**10,865,991**	10,055,428	8,481,501	6,918,236	5,834,929
Less allowance for loan losses	**1,065**	142	142	239	9,834
Net loans	**10,864,926**	10,055,286	8,481,359	6,917,997	5,825,095
Other property owned, net	**—**	—	—	—	529
Other assets	**102,751**	84,838	58,717	44,388	38,833
Total assets	**$ 13,520,778**	$ 12,915,760	$ 11,284,788	$ 8,801,205	$ 7,410,824
Obligations with maturities of one year or less	**$ 4,797,803**	$ 4,835,886	$ 5,371,770	$ 4,058,078	$ 2,487,260
Obligations with maturities greater than one year	**7,994,374**	7,415,653	5,288,711	4,241,696	4,445,935
Total liabilities	**12,792,177**	12,251,539	10,660,481	8,299,774	6,933,195
Preferred stock	**200,000**	200,000	200,000	100,000	100,000
Capital stock	**198,864**	161,421	135,390	118,323	109,787
Retained earnings	**334,394**	324,270	315,047	290,666	272,291
Accumulated other comprehensive loss	**(4,657)**	(21,470)	(26,130)	(7,558)	(4,449)
Total shareholders' equity	**728,601**	664,221	624,307	501,431	477,629
Total liabilities and shareholders' equity	**$ 13,520,778**	$ 12,915,760	$ 11,284,788	$ 8,801,205	$ 7,410,824
Statement of Income Data					
Net interest income	**$ 99,565**	$ 90,341	$ 75,960	$ 66,662	$ 49,826
(Provision) negative provision for loan losses	**(1,043)**	(2,578)	344	7,878	(340)
Noninterest (expense) income, net	**(24,518)**	(22,769)	(18,688)	(27,558)	15,338
Net income	**$ 74,004**	$ 64,994	$ 57,616	$ 46,982	$ 64,824
Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**0.55%**	0.53%	0.60%	0.59%	0.92%
Average shareholders' equity	**10.56%**	10.07%	10.57%	9.44%	16.21%
Net interest income to average earning assets	**0.74%**	0.74%	0.80%	0.85%	0.71%
Net charge-offs to average loans	**<.01%**	0.03%	—	0.03%	—
Total shareholders' equity to total assets	**5.39%**	5.14%	5.53%	5.70%	6.45%
Debt to shareholders' equity (:1)	**17.56**	18.44	17.08	16.55	14.52
Allowance for loan losses to total loans	**0.01%**	—	—	—	0.17%
Permanent capital ratio	**13.43%**	13.67%	17.36%	19.82%	23.71%
Total surplus ratio	**11.15%**	11.61%	14.97%	16.55%	19.15%
Core surplus ratio	**6.70%**	6.93%	8.82%	11.51%	14.44%
Net collateral ratio	**105.18%**	105.35%	105.90%	105.69%	106.62%
Net Income Distributions					
Net income distributions declared					
Preferred stock dividends	**$ 15,122**	$ 15,122	$ 11,342	$ 7,561	$ 798
Patronage distributions declared					
Cash	**$ 46,174**	$ 37,043	$ 28,713	$ 16,775	$ 49,144
Allocated earnings	**1,586**	1,058	837	14	1,645

* In connection with past foreclosure and sale proceedings, the bank retained certain mineral interests in land from which it received revenues from lease bonuses, rentals and royalties. These mineral interests were sold in November 2003. Net income and certain profitability ratios for 2003 were affected by the one-time gain of $30.5 million from the sale of mineral interests in that year.

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, 2007, 2006 and 2005. 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 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. As of December 31, 2007, the bank served six Federal Land Credit Associations (FLCAs), 14 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs). FLCAs and ACAs are collectively referred to as associations. See Note 1, "Organization and Operations," for an expanded description of the structure and operations of the bank.

Forward-Looking Information

This annual information statement 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.

- Allowance for loan losses — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition and performance of the portfolio, among other factors.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- 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, 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. 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, nor is any participating employer required to pay for plan liabilities upon withdrawal from the plan. 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 discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Hewitt's corporate bond index, actuarial analyses and industry norms. In addition to the district DB plan, certain qualified individuals in the bank are in a separate, nonqualified supplemental pension plan. That 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."

Financial Highlights

- The aggregate principal amount of loans outstanding at December 31, 2007, was $10.9 billion, compared to $10.1 billion at December 31, 2006, and $8.5 billion at December 31, 2005, reflecting increases of 8.1 and 28.1 percent over December 31, 2006 and 2005, respectively.
- Net income totaled $74.0 million for the year ended December 31, 2007, an increase of 13.9 percent compared to 2006.
- Net interest income for the year ended December 31, 2007, was $99.6 million, a 10.2 percent increase over the year ended December 31, 2006.
- Return on average assets and return on average shareholders' equity for the year ended December 31, 2007, were 0.55 and 10.56 percent, respectively, compared to 0.53 and 10.07 percent for 2006, respectively.
- Approximately $1.3 billion of participations in six of the bank's direct notes with the district associations were sold, at par, to another System bank in 2007 for a total of $2.7 billion.
- Patronage distributions declared and earnings allocated totaled $47.8 million in 2007, compared to $38.1 million in 2006.

RESULTS OF OPERATIONS

Net Income

The bank's net income of $74,004 for the year ended December 31, 2007, reflects an increase of 13.9 percent over 2006, while 2006 income of $64,994 increased by 12.8 percent from 2005. The return on average assets was 0.55 percent for the year ended December 31, 2007, up from 0.53 percent reported for the year ended December 31, 2006. The return on average assets was 0.60 percent for the year ended December 31, 2005. Changes in the major components of net income for the referenced periods are outlined in the table and discussion on the following page.

	2007 vs. 2006	2006 vs. 2005
Net income (prior period)	$ 64,994	$ 57,616
Increase (decrease) due to:		
Interest income	100,984	260,331
Interest expense	(91,760)	(245,950)
Net interest income	9,224	14,381
Provision for loan losses	1,535	(2,922)
Noninterest income	4,269	1,352
Noninterest expense	(6,018)	(5,433)
Total change in net income	9,010	7,378
Net income	$ 74,004	$ 64,994

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, 2007, was $753,541, an increase of $100,984, or 15.5 percent, compared to 2006. Total interest income for 2006 was $652,557, an increase of $260,331, or 66.4 percent, from 2005. The increase for 2007 over 2006 was due primarily to the increase in earning assets combined with the effects of the increasing interest rate environment that prevailed during most of 2007. The increase from 2005 to 2006 was due mainly to interest rate increases and, to a lesser extent, an increase in the district's earning assets.

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

	Year Ended December 31, 2007 vs. 2006	Year Ended December 31, 2006 vs. 2005
Increase in average earning assets	$ 1,203,783	$ 2,639,656
Average yield (prior year)	5.36%	4.11%
Interest income variance attributed to change in volume	64,523	108,490
Average earning assets (current year)	13,379,608	12,175,825
Increase in average yield	0.27%	1.25%
Interest income variance attributed to change in yield	36,461	151,841
Net change in interest income	$ 100,984	$ 260,331

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

	Year Ended December 31, 2007 vs. 2006	Year Ended December 31, 2006 vs. 2005
Increase in average interest-bearing liabilities	$ 1,156,307	$ 2,503,437
Average rate (prior year)	4.90%	3.52%
Interest expense variance attributed to change in volume	56,659	88,121
Average interest-bearing liabilities (current year)	12,638,137	11,481,830
Increase in average rate	0.27%	1.38%
Interest expense variance attributed to change in rate	35,101	157,829
Net change in interest expense	$ 91,760	$ 245,950

Interest Expense

Total interest expense for the year ended December 31, 2007, was $653,976, an increase of $91,760, or 16.3 percent, compared to the same period of 2006. Total interest expense for 2006 was $562,216, an increase of $245,950, or 77.8 percent, from 2005. The increase for 2007 over 2006 was due primarily to the increase in interest-bearing liabilities combined with the effects of the increasing interest rate environment that prevailed during most of 2007. The increase from 2005 to 2006 was due mainly to interest rate increases and, to a lesser extent, an increase in the district's interest-bearing liabilities.

Net Interest Income

Net interest income, the excess of interest income over interest expense, increased by $9,224 from 2006 to 2007, and increased by $14,381 from 2005 to 2006. The increase in 2007 was due to a $1.2 billion increase in average interest-earning assets. There was no change in the interest rate spread, the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt. Although there was considerable volatility in market interest rates from 2006 to 2007, the bank's net interest rate spread and margin remained constant. During 2007 the bank called $2.535 billion in debt, replacing it with debt that had more favorable terms, which should continue to benefit the bank's net interest spread in 2008.

Net interest income in 2006 was $14,382 greater than 2005. The increase in 2006 was due to a $2.6 billion increase in average interest-earning assets offset by a 13 basis point decrease in the interest rate spread. The decrease in the interest rate spread is due to several factors. Competitive pricing on the bank's participation loan portfolio compressed the interest rate spread on those loans. The bank also issued longer-term debt in order to manage its interest rate risk profile. In addition, the bank increased its investment portfolio to enhance liquidity albeit at lower spreads. The bank has also passed on the increasing benefit of its lendable equity in a rising-rate environment in its pricing on direct notes to district associations and OFIs.

There was no change on the impact of capital on net interest income from 2006 to 2007 due to the bank's asset/liability management measures mentioned above, and there was an increase of 7 basis points in 2005 to 2006. This increase was due to the effects of the increasing interest rate environment during these periods.

ANALYSIS OF NET INTEREST INCOME

	2007		2006		2005	
	Avg. Balance	**Interest**	Avg. Balance	Interest	Avg. Balance	Interest
Loans	**$ 10,780,754**	**$ 621,773**	$ 9,246,083	$ 511,297	$ 7,501,731	$ 315,491
Investments	**2,598,854**	**131,768**	2,929,742	141,260	2,034,438	76,735
Total earning assets	**13,379,608**	**753,541**	12,175,825	652,557	9,536,169	392,226
Interest-bearing liabilities	**12,638,137**	**653,976**	11,481,830	562,216	8,978,393	316,266
Impact of capital	**$ 741,471**		$ 693,995		$ 557,776	
Net Interest Income		**$ 99,565**		$ 90,341		$ 75,960

	2007 Average Yield	2006 Average Yield	2005 Average Yield
Yield on loans	**5.77%**	5.53%	4.21%
Yield on investments	**5.07%**	4.82%	3.77%
Yield on earning assets	**5.63%**	5.36%	4.11%
Cost of interest-bearing liabilities	**5.17%**	4.90%	3.52%
Interest rate spread	**0.46%**	0.46%	0.59%
Impact of capital	**0.28%**	0.28%	0.21%
Net interest income/average earning assets	**0.74%**	0.74%	0.80%

Provision for Loan Losses

In 2007, the bank recorded a $1,043 provision for loan losses, which was a decrease of $1,535 from the provision for loan losses of $2,578 recorded in 2006. The provision for 2007 was primarily related to a $1.0 million provision related to participation loans to one borrower. The provision for 2006 was a $2,922 increase from the $344 negative provision for loan losses recorded in 2005. The increase resulted from a loss of $2.8 million related to a loan participated with a district association, offset by recoveries on other loans in 2006.

Noninterest Income

Noninterest income for the year ended December 31, 2007, was $22,116, an increase of $4,269, or 23.9 percent, compared to 2006. The increase is primarily attributable to a $3.7 million increase in patronage income from another System bank, an $802 increase in patronage income from participation loans, and a $197 increase in all other income items, collectively, offset by a $508 decrease in loan-related services.

Noninterest income totaled $17,847 for 2006, an increase of $1,352, or 8.2 percent, from 2005. The increase is primarily attributable to a $907 gain on the sale of investment securities, a $610 gain on the bank's share of the sale of part of 0.75 acres and development rights in McLean, Virginia, by the Farm Credit System Building Association, and an increase of $237 in services billed to district associations, partially offset by a $337 decrease in loan-related fee income.

Noninterest Expenses

Noninterest expenses totaled $46,634 for 2007, an increase of $6,018, or 14.8 percent, from 2006. This increase was primarily due to a $2,705 increase in salaries and employee benefits, a $1,252 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), a $373 increase in occupancy and equipment expenses, a $1,655 increase in other operating expenses, and a $33 decrease in net gains on other property owned.

The increase in salaries and employee benefits was due to a $2.3 million increase in compensation and related payroll taxes and a $314 increase in pension and retirement expenses. Compensation increased due to increases in the number of employees and increases in compensation rates, as well as employee retention expenses.

Insurance Fund premiums increased due to an increase in the volume of loans on which FCSIC premiums are based.

The increase in other operating expenses included an $875 increase in professional and contract service fees, a $465 increase in advertising and member relations expenses, a $243 increase in Farm Credit Council fees, and a $225 increase in examination fees, offset by a $153 decrease in all other expenses, collectively.

Noninterest expenses for 2006 totaled $40,616, an increase of $5,433, or 15.4 percent, over 2005. This increase was primarily due to a $2,309 increase in salaries and employee benefits, a $1,969 increase in premiums to the Insurance Fund, a $605 increase in occupancy and equipment expenses, and a $1,330 increase in other operating expenses. The effect of these increases was offset by a $761 decrease in intra-System financial assistance, and a $19 increase in net gains on other property owned. The increase in salaries and employee benefits was due to a $1.7 million increase in compensation and related payroll taxes and to an $890 increase in retirement and pension expenses, partially offset by a $284 decrease in other employee benefits. Increases in compensation and related payroll taxes were primarily related to an increase in compensation rates and a slight increase in number of the bank's employees. The increase in retirement and pension expenses was primarily related to an increase in contributions to the district's defined benefit pension plan. The decrease in other employee benefits was attributable to changes in coverage of postretirement plans designed to control costs for those benefits. Insurance Fund premiums increased due to an increase in the premium rates charged by the FCSIC and to increases in the volume of loans on which those premiums are based. The increase in other operating expenses included an $826 increase in advertising and member relations expenses, a $292 increase in travel-related expenses, a $271 increase in communications expenses, a $224 increase in supervisory and examination expenses, and a $191 increase in fees paid on participation loans. Premiums to the intra-System financial assistance expense for 2006 included the maturity and retirement of the last of the remaining issuances of debt obligations at the end of the second quarter of 2006. All existing issuances of intra-System financial assistance have matured and been extinguished.

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,

	2007	2006	2005
Excess of net interest income over operating expense	**$ 52,916**	$49,677	$41,509
Operating expense as a percentage of net interest income	**46.9%**	45.0%	45.4%
Operating expense as a percentage of net interest income and noninterest income	**38.3**	37.6	37.3
Operating expense as a percentage of average loans	**0.43**	0.44	0.46
Operating expense as a percentage of average earning assets	**0.35**	0.33	0.36

The bank's operating expense statistics reflect the effects of growth in the earning assets and is due primarily to the growth in the loan portfolio and, to a lesser extent, to the increase in the bank's operating expenses. The bank's net interest income has increased 10.2 percent and 18.9 percent for the years ended December 31, 2007 and 2006, respectively, while operating expenses increased 14.7 percent in 2007 and decreased 18.0 percent in 2006.

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

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

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

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

Under the MAA, if certain financial criteria are not met, a bank may be placed in one of three categories, each of which imposes certain requirements and/or restrictions on the affected bank. The criteria under the MAA are the CIPA scores, the net collateral ratio and the permanent capital ratio of a bank. The bank net collateral ratio is net collateral (primarily earning assets) divided by total liabilities, and the bank permanent capital ratio is primarily the bank's common and 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; a "Category II" bank's ability to participate in issuances of Systemwide debt securities may be curtailed; and a "Category III" bank may not be permitted to participate in issuances of Systemwide debt securities.

During the three years ended and as of December 31, 2007, all banks met the agreed-upon standard of financial condition and performance required by the CIPA, and 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 retail 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** — intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based on the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths and weaknesses and risks in a particular relationship.

This credit risk rating process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. The loan rating structure calculates estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms and collateral). This 14-point scale provides for nine "acceptable" categories, one "other assets especially mentioned" category, two "substandard" categories, one "doubtful" category and one "loss" category.

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

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

Loans

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

Gross loan volume of $10.866 billion at December 31, 2007, reflected an increase of $811.0 million, or 8.1 percent, from December 31, 2006. The balance of $10.055 billion at December 31, 2006, reflected an increase of $1.574 billion, or 18.5 percent, from the $8.482 billion balance at December 31, 2005.

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

	December 31,		
	2007	2006	2005
Direct notes receivable from district associations and OFIs	**75.1%**	78.6%	84.1%
Participations purchased	**24.7**	21.1	15.5
Other loans	**0.2**	0.3	0.4
Total	**100.0%**	100.0%	100.0%

Bank credit quality has remained strong during the past three years, with all association and OFI direct notes rated (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" during this period. 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 98.7, 98.9 and 98.5 percent at December 31, 2007, 2006 and 2005, respectively.

While loan participations purchased made up only 24.7 percent of the bank's total loans at December 31, 2007, the bank has continued its initiative to increase the size of its participations portfolio. To this end, in 2007, the bank sold, at par, an additional $1.3 billion of participations in six of its direct notes receivable from associations to another System bank, for a total of $2.7 billion. The purpose of the sales was to diversify the credit exposure of the bank by providing capital for liquidity and expansion of the capital markets loan participations portfolio.

Association Direct Notes

As the preceding table illustrates, 75.1 percent of the bank's portfolio consisted of direct notes from associations and OFIs at December 31, 2007. Terms of loans to associations are specified in a separate general financing agreement between each association 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 annually by the bank and are currently deemed adequate to absorb most interest-related shocks. Each association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area. Associations are subject to FCA regulations concerning minimum capital, loan underwriting and portfolio management, and are audited annually by independent accountants.

District associations have experienced significant loan growth over the last three years. The district's loan growth is attributed to increased focus on market share and opportunities within the territory, competitive pricing offered by the bank and associations, increased marketing and customer service efforts by the associations, and continued activity in loan participations with district and outside entities. Loan growth in the associations is funded substantially by, and therefore results in, association direct note growth at the bank. 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.

The diversity of commodities underlying the district's credit portfolio is reflected in the following table:

	Percentage of Portfolio		
Commodity Group	**2007**	2006	2005
Livestock	**40%**	38%	40%
Crops	**14**	13	15
Timber	**12**	12	13
Cotton	**5**	5	7
Poultry	**4**	4	4
Dairy	**3**	4	2
Rural home	**1**	1	1
Other	**21**	23	18
Total	**100%**	100%	100%

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

	December 31,		
	2007	2006	2005
Texas	**62%**	63%	63%
Alabama	**6**	7	8
Mississippi	**6**	6	7
Louisiana	**4**	4	6
Florida	**3**	3	3
All other states	**19**	17	13
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 increased purchases of loan participations.

Loans $5,000 or greater in size (which generally represent corporate agribusiness) make up approximately 21.0 percent of the district's loan volume outstanding. Approximately 52.9 percent of district loans outstanding are made up of loans of $1,000 or less, and loans less than $250 make up approximately 28.4 percent of outstanding loan volume.

Credit quality at the district's associations at December 31, 2007, 2006 and 2005 remained strong, with greater than 98 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, 2007, were 0.7 percent, compared to 0.4 percent and 0.4 percent at December 31, 2006 and 2005, respectively.

High-Risk Assets

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

	2007	2006	2005
Nonaccrual loans	**$ 23,923**	$ 3,713	$ 3,542
Formally restructured loans	**715**	885	908
Loans past due 90 days or more and still accruing interest	**9,999**	—	147
Total	**$ 34,637**	$ 4,598	$ 4,597

High-risk assets increased by $30,039 from December 31, 2006, to $34,637 at December 31, 2007. The increase in nonaccrual loans is attributable to the addition during 2007 of $23.8 million in two participation loans, offset by repayments and reductions on other nonaccrual loans. These loans are highly collateralized and, where appropriate, provisions for loan losses have been recorded. The increase in loans past due 90 days or more and still accruing interest was due to one participation loan. This loan is well secured, and full collection of principal and interest is expected. At December 31, 2007, $23,923, or 100.0 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $3,671 (98.9 percent) and $3,416 (96.4 percent) at December 31, 2006 and 2005, respectively.

Allowance for Loan Losses

The allowance for loan losses at December 31, 2007, was $1,065, compared to $142 at December 31, 2006 and 2005. Because analysis indicates that an allowance on the association direct notes is not warranted, the entire balance of the allowance for loan losses reflects reserves for risks identified in the bank's participations and other loan portfolios.

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

	2007	2006	2005
Allowance for loan losses as a percentage of:			
Average loans	**0.01%**	<0.01%	<0.01%
Loans at year end			
Total loans	**0.01**	<0.01	<0.01
Participations	**0.04**	<0.01	0.01
Nonaccrual loans	**4.45**	3.82	4.01
Total high-risk loans	**3.07**	3.09	3.09
Net charge-offs to average loans	**<0.01**	0.03	<0.01
Provision (negative provision) expense to average loans	**0.01**	0.03	<0.01

The activity in the allowance for loan losses is discussed further in Note 4, "Loans and Allowances for Loan 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 district's interest-rate-sensitive assets and liabilities. 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 the district's financial exposure to changes in market interest rates. These include monitoring the difference in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities; monitoring the change in the market value of interest-rate-sensitive assets and liabilities under various interest rate scenarios; and simulating changes in net interest income under various interest rate scenarios.

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

The 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 and discount notes. 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's asset/liability management process establishes controls for determining the composition of 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 maintain adequate and stable net interest income in any interest rate environment.

FCBT maintains a loan pricing perspective 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 three to 30 years. The interest rates on these loans are directly related to the bank's cost to issue debt in the capital markets.

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

FCBT uses high-level 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, 2007, which are expected to mature or reprice in each of the future time periods shown:

INTEREST RATE GAP ANALYSIS

as of December 31, 2007

	Interest-Sensitive Period						
	One Month or Less	Over One Through Six Months	Over Six Through Twelve Months	**Total Twelve Months or Less**	Over One Year but Less Than Five Years	Over Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 3,231,569	$ 1,651,009	$ 1,060,922	**$ 5,943,500**	$ 4,012,108	$ 910,383	**$ 10,865,991**
Total investments	856,471	229,936	243,082	**1,329,489**	1,083,353	123,659	**2,536,501**
Total interest-earning assets	4,088,040	1,880,945	1,304,004	**7,272,989**	5,095,461	1,034,042	**13,402,492**
Interest-Bearing Liabilities							
Total interest-bearing funds*	3,470,515	810,000	1,185,000	**5,465,515**	6,298,000	860,500	**12,624,015**
Excess of interest-earning assets over interest-bearing liabilities	—	—	—	—	—	778,477	**778,477**
Total interest-bearing liabilities	3,470,515	810,000	1,185,000	**5,465,515**	6,298,000	1,638,977	**$ 13,402,492**
Interest rate sensitivity gap	$ 617,525	$ 1,070,945	$ 119,004	**$ 1,807,474**	$ (1,202,539)	$ (604,935)	
Cumulative interest rate sensitivity gap	$ 617,525	$ 1,688,470	$ 1,807,474	**$ 1,807,474**	$ 604,935		

* 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 prepayments. 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 positive gap position, indicating that the bank has an exposure to decreasing interest rates. This would occur when income on interest-earning assets decreases due to their maturing or repricing cycle sooner than maturing or repricing debt is replaced with debt at a lower cost. The cumulative gap, which is a static measure, does not take into consideration the options available to the bank in order to manage this exposure, specifically the ability to exercise options on callable debt and replace it with lower-priced debt. These options are considered when projecting the effects of interest rate changes on net income and on the market value of equity in the following tables.

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

Interest rate risk exposure is measured by simulation modeling, which calculates the bank's expected net interest income based upon projections of interest-rate-sensitive assets and 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 to the bank's net interest income is 16 percent for a 200 basis point change in interest rates. Per FCA regulations, when the current 3-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 3-month Treasury bill rate, which at December 31, 2007, was a decrease of 162 basis points. The bank manages its interest rate risk exposure well within this guideline. As of December 31, 2007, projected annual net interest income of the existing interest-earning assets and interest-bearing liabilities would increase by $13,764, or 12.4 percent, if interest rates were to increase by 100 basis points, and would increase by $16,491, or 14.9 percent, if interest rates were to decrease by 100 basis points, and would increase by $16,453, or 14.9 percent, if interest rates were to decrease by 162 basis points. Favorable results in an interest rate decrease scenario are basically provided by the effects of the call options on debt mentioned previously.

Utilizing simulation analysis, the bank projects net interest income and market value of equity under multiple interest rate scenarios. The following tables set forth FCBT's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2007, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2007.

Net Interest Income

Scenario	Net Interest Income	% Change
200 BP Shock	$ 137,998	24.70%
100 BP Shock	124,467	12.40
0 BP	110,703	—
–100 BP Shock	127,194	14.90
–162 BP Shock	127,156	14.90

Market Value of Equity

Scenario	Assets	Liabilities	Equity	% Change
Book value	$13,520,778	$12,792,177	$728,601	38.06%
+200 BP Shock	12,912,127	12,450,798	461,329	(12.60)
+100 BP Shock	13,192,223	12,693,066	499,157	(5.40)
0 BP Shock	13,442,608	12,914,884	527,724	—
–100 BP Shock	13,633,124	13,096,598	536,526	1.70
–162 BP Shock	13,718,065	13,197,126	520,940	(1.30)

The bank uses derivative financial instruments to manage its interest rate risk and liquidity position. Fair value 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, thereby creating synthetic floating-rate debt. 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, 2007, the bank had three fair value interest rate swap contracts with a total notional amount of $175 million. The interest rate swap contracts had a net fair value of $5.8 million, which is reflected in bonds and notes, net. In addition, the bank had six cash flow interest rate swaps with a total notional amount of $750 million; these cash flow hedges had a net positive fair value of $1.0 million at December 31, 2007. 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 diversifies counterparties in the bank's transactions and monitors the credit ratings of all counterparties with whom it transacts. The bank's activity in derivative financial instruments for 2007 is summarized in the table below:

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance, December 31, 2006	$ 440
Additions	1,225
Maturities/calls	(165)
Terminations	(575)
Balance, December 31, 2007	**$ 925**

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.

Funding Sources

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

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, 2007, the bank had excess collateral of $705.8 million. Management expects the bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

The following tables provide a summary of the debt obligations of the bank:

	December 31,		
(dollars in millions)	**2007**	2006	2005
Bonds and term notes outstanding	**$ 11,464**	$ 11,354	$ 9,155
Average effective interest rates	**4.98%**	5.04%	4.13%
Average remaining life (years)	**3.2**	2.7	1.8
Discount notes outstanding	**$ 1,160**	$ 767	$ 1,408
Average effective interest rates	**4.10%**	5.23%	4.11%
Average remaining life (days)	**39**	29	35

	For the years ended December 31,		
	2007	2006	2005
Average interest-bearing liabilities outstanding	**$ 12,638**	$ 11,482	$ 8,978
Average interest rates on interest-bearing liabilities	**5.17%**	4.90%	3.52%

The bank had no commercial bank lines of credit in use at December 31, 2007.

Liquidity Standard

FCBT's liquidity management objectives are to provide a reliable source of funding for borrowers, meet maturing debt obligations and fund operations in a cost-effective manner. The bank maintains an investment portfolio comprising primarily 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.

The System banks have jointly developed and adopted a common minimum liquidity standard (standard). This standard is designed to maintain and assure adequate liquidity to meet the business and financial needs of each bank and the System. The standard requires 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, 2007, the bank had 121 days of liquidity coverage, as compared with 151 days at December 31, 2006. The decrease in the number of days of liquidity is due to a shift in the bank's earning assets from investments to loans for capital management purposes.

Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments (including federal funds) 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 percent of loans outstanding from the previous percentage of 30 percent. FCA regulations also permit an association to hold eligible investments with the approval of its affiliated bank.

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

As of December 31, 2007, the bank's investment portfolio consisted of the following:

	Amount	Percent of Total
Collateralized mortgage obligations	$ 1,801,734	71%
Money market instruments	219,475	9
Asset-backed securities	210,950	8
Corporate debt	178,840	7
Total investment securities	2,410,999	95
Overnight investments	125,502	5
Total	$ 2,536,501	100%

At December 31, 2007, the bank's investment portfolio included $187.0 million of asset-backed securities supported by first lien home equity mortgages. In view of the recent economic conditions and volatility related to these types of securities, the bank is actively monitoring the creditworthiness of these securities, which were all rated Aaa by Moody's Investors Service or AAA by Standard & Poor's at year end. These securities are supported by various forms of credit enhancements including favorable priority of payments, overcollateralization, excess spread and insurance guarantees. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. Since year end, one of the securities in question with a book value of $4.9 million and a fair value of $4.0 million was downgraded by Moody's Investors Service from Aaa to A3 and by Standard & Poor's from AAA to A. As a result of these rating actions, the bank is in the process of developing a plan of divestiture to comply with regulatory policy.

Capital Adequacy

Total shareholders' equity at December 31, 2007, was $728,601, compared to $664,221 and $624,307 at December 31, 2006 and 2005, respectively. The increase during 2007 was due primarily to net income of $74.0 million, $37.4 million in capital stock issued and $16.8 million in increases to accumulated other comprehensive income, offset by patronage of $46.2 million, dividends paid on preferred stock totaling $15.1 million, and the retirement of $2.6 million of allocated retained earnings. The bank's $47.8 million in declared patronage included $30.3 million in direct loan patronage, $9.4 million patronage on certain participations, and $8.1 million patronage based on the associations' and OFIs' stock investment in the bank.

On December 31, 2007, the bank adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," (SFAS 158), which requires the recognition of the bank's supplemental pension and other postretirement benefit plans' over-funded or under-funded statuses as assets or liabilities with an offsetting adjustment to accumulated other comprehensive income, net of tax. SFAS 158 requires the determination of the fair values of a plan's assets at year end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income. The net charge against the bank's accumulated other comprehensive loss resulting from the adoption of SFAS 158 was $747. These amounts were previously netted against the plans' funded status in the balance sheet pursuant to the provisions of SFAS 87. These amounts will be subsequently recognized as components of net periodic benefit costs. Further, actuarial gains and losses that arise in subsequent periods that are not initially recognized as a component of net periodic benefit cost will be recognized as a component of accumulated other comprehensive income, net of tax. Those amounts will subsequently be recognized as a component of net periodic benefit cost as they are amortized during future periods.

Accumulated other comprehensive loss decreased $16.8 million, or 78.3 percent, to $4.7 million at December 31, 2007, from $21.5 million at December 31, 2006, due to a reduction of $16.5 million in unrealized net losses on the bank's investments and an increase of $1.0 million in unrealized gains on the bank's cash flow hedges net of the charge to accumulated other comprehensive loss of $747 resulting from the adoption of SFAS 158. The increases in unrealized net losses on investments were primarily due to the effect of rising market interest rates on fixed-rate mortgage-backed securities in the bank's investment portfolio. The $1.0 million increase of unrealized gains on cash flow hedges is the result of increases in the fair value of the six cash flow hedges the bank held at December 31, 2007.

In 2007, the bank sold an additional $1.3 billion of participations in six of its direct notes receivable from district associations to another System bank. 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 participation portfolio.

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,

	2007	2006	2005	Regulatory Minimum
Permanent capital ratio	**13.43%**	13.67%	17.36%	7.00%
Total surplus ratio	**11.15**	11.61	14.97	7.00
Core surplus ratio	**6.70**	6.93	8.82	3.50
Collateral ratio	**105.18**	105.35	105.90	103.00

For additional information about the bank's capital, see Note 8, "Shareholders' Equity."

Operational Risk Management

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

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

In general, we address operational risk through the organization's internal framework under the supervision of the internal auditors. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more review.

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

Regulatory Matters

During the year ended December 31, 2007, the FCA took no enforcement actions against the bank or its related associations, and there were no enforcement actions in effect for the bank or its related associations at December 31, 2007.

In September 2007, the Farm Credit Administration issued a final rule and a direct final rule amending the priority of claims regulations. The final rule amended the priority of claims regulations to give the same subrogation rights to a bank that makes a joint and several liability payment under a written agreement as the bank has under a statutory joint and several call. The Farm Credit Administration must approve the written agreement. The direct final rule amended the priority of claims regulations to clarify that subordinated claims are to be paid after the claims of general creditors are paid in full.

On October 31, 2007, the Farm Credit Administration published an advanced notice of public rule-making in the Federal Register with respect to the consideration of possible modifications to the Farm Credit Administration's risk-based capital rules for Farm Credit System institutions that are similar to the standardized approach delineated in the Basel II Framework. The Farm Credit Administration is seeking comments to facilitate the development of a proposed rule that would enhance their regulatory capital framework and more closely align minimum capital requirements with risks taken by System institutions. Comments on the advanced notice of public rule-making are due no later than March 31, 2008. The System is in the process of developing a comment letter to provide to the Farm Credit Administration on the advanced notice of public rule-making.

The current farm bill is scheduled to expire on March 15, 2008. In July 2007, the House of Representatives passed its version of a new farm bill. The Senate passed its version in December 2007. The measure is now in a conference committee, where the differences between the two versions will be worked out among conferees. A consolidated version will then be sent to the President for his consideration. Under both versions, payments to farmers under the commodity programs, i.e., direct and countercyclical payments and loan deficiency payments, would be reduced by varying degrees over the next 10 years. However, the specific provisions of the final farm bill may increase payments for certain commodities, or increase them in certain years and reduce them in others. This farm bill is also expected to revise certain income payment limitations.

Both the House of Representatives and the Senate versions contain provisions that would expand certain authorities of the Farm Credit System Insurance Corporation. The proposed changes generally would authorize the Insurance Corporation to collect higher levels of premiums and expand the base upon which premiums are charged. Premiums of up to 20 basis points could be charged against insured debt adjusted for government-guaranteed loans, and up to an additional 10 basis points could be charged for any loan volume that is nonaccrual or investments that are other-than-temporarily impaired. Currently, premiums of up to 15 basis points may be charged on accruing loans and up to 25 basis points for nonaccrual loans.

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 scope of the bank's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's Web site at www.farmcreditbank.com. In 2007, four committee meetings were held. At the first of their meetings, the committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as independent auditors for 2007.

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, 2007 (audited financial statements) with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communications With Audit Committees), and both PwC and the bank's internal auditors 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 independent accountant's independence. Furthermore, throughout 2007 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
Joe R. Crawford, Vice Chairman
Ralph W. Cortese
Jon M. Garnett
C. Kenneth Andrews
James F. Dodson
Elizabeth G. Flores

Audit Committee Members

February 29, 2008

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
300 West 6th Street
Suite 1800
Austin TX 78701
Telephone (512) 477 1300
Facsimile (512) 477 8681

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 the Farm Credit Bank of Texas (bank) at December 31, 2007, 2006 and 2005, 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

February 29, 2008

BALANCE SHEETS

Farm Credit Bank of Texas

(dollars in thousands)	2007	December 31, 2006	2005
Assets			
Cash	**$ 16,600**	$ 14,165	$ 4,392
Federal funds sold and overnight investments	**125,502**	89,229	42,444
Investment securities	**2,410,999**	2,672,242	2,697,876
Loans	**10,865,991**	10,055,428	8,481,501
Less allowance for loan losses	**1,065**	142	142
Net loans	**10,864,926**	10,055,286	8,481,359
Accrued interest receivable	**66,789**	63,967	43,994
Premises and equipment, net	**2,719**	2,286	2,489
Other assets	**33,243**	18,585	12,234
Total assets	**$ 13,520,778**	$ 12,915,760	$ 11,284,788
Liabilities and Shareholders' Equity			
Liabilities			
Bonds and notes, net	**$ 12,624,015**	$ 12,120,783	$ 10,563,278
Accrued interest payable	**110,188**	96,550	60,113
Other liabilities	**57,974**	34,206	37,090
Total liabilities	**12,792,177**	12,251,539	10,660,481
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Preferred stock	**200,000**	200,000	200,000
Capital stock	**198,864**	161,421	135,390
Allocated retained earnings	**5,196**	6,194	8,742
Unallocated retained earnings	**329,198**	318,076	306,305
Accumulated other comprehensive loss	**(4,657)**	(21,470)	(26,130)
Total shareholders' equity	**728,601**	664,221	624,307
Total liabilities and shareholders' equity	**$ 13,520,778**	$ 12,915,760	$ 11,284,788

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

STATEMENTS OF INCOME

Farm Credit Bank of Texas

(dollars in thousands)	**2007**	Year Ended December 31, 2006	2005
Interest Income			
Investment securities and other	**$ 131,768**	$ 141,260	$ 76,735
Loans	**621,773**	511,297	315,491
Total interest income	**753,541**	652,557	392,226
Interest Expense			
Bonds and notes	**653,976**	562,216	316,266
Net Interest Income	**99,565**	90,341	75,960
Provision (negative provision) for loan losses	**1,043**	2,578	(344)
Net interest income after provision for loan losses	**98,522**	87,763	76,304
Noninterest Income			
Fees for services to associations	**8,918**	8,856	8,619
Fees for loan-related services	**5,148**	5,656	5,993
Gain from sale of investment securities	**503**	907	—
Miscellaneous income, net	**7,547**	2,428	1,883
Total noninterest income	**22,116**	17,847	16,495
Noninterest Expenses			
Salaries and employee benefits	**22,887**	20,182	17,873
Occupancy and equipment	**4,923**	4,550	3,945
Insurance Fund premiums	**3,800**	2,548	579
Gains on other property owned	**(15)**	(48)	(29)
Intra-System financial assistance expenses	**—**	—	761
Other operating expenses	**15,039**	13,384	12,054
Total noninterest expenses	**46,634**	40,616	35,183
Net Income	**$ 74,004**	$ 64,994	$ 57,616

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, 2004	$ 100,000	$ 118,323	$ 9,980	$ 280,686	$ (7,558)	$ 501,431
Comprehensive income						
Net income	—	—	—	57,616	—	57,616
Unrealized net losses on investment securities	—	—	—	—	(18,310)	(18,310)
Unrealized net losses on cash flow hedge derivatives	—	—	—	—	(262)	(262)
Total comprehensive loss	—	—	—	57,616	(18,572)	39,044
Preferred stock issued	100,000	—	—	—	—	100,000
Premium received on preferred stock net of issuance costs	—	—	—	6,773	—	6,773
Capital stock issued	—	17,170	—	—	—	17,170
Capital stock and allocated retained earnings retired	—	(103)	(2,075)	—	—	(2,178)
Cash dividends – preferred stock	—	—	—	(9,220)	—	(9,220)
Patronage						
Cash	—	—	—	(28,713)	—	(28,713)
Shareholders' equity	—	—	837	(837)	—	—
Balance at December 31, 2005	200,000	135,390	8,742	306,305	(26,130)	624,307
Comprehensive income						
Net income	—	—	—	64,994	—	64,994
Net change in unrealized net losses on investment securities	—	—	—	—	5,707	5,707
Net change in unrealized net losses on cash flow hedge derivatives	—	—	—	—	(1,047)	(1,047)
Total comprehensive income	—	—	—	64,994	4,660	69,654
Capital stock issued	—	26,031	—	—	—	26,031
Capital stock and allocated retained earnings retired	—	—	(3,606)	—	—	(3,606)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(37,043)	—	(37,043)
Shareholders' equity	—	—	1,058	(1,058)	—	—
Balance at December 31, 2006	200,000	161,421	6,194	318,076	(21,470)	664,221
Comprehensive income						
Net income	—	—	—	74,004	—	74,004
Net change in unrealized net losses on investment securities	—	—	—	—	16,513	16,513
Net change in unrealized net gains on cash flow hedge derivatives	—	—	—	—	1,047	1,047
Total comprehensive income	—	—	—	74,004	17,560	91,564
Adjustment to initially apply SFAS 158	—	—	—	—	(747)	(747)
Capital stock issued	—	37,444	—	—	—	37,444
Capital stock and allocated retained earnings retired	—	(1)	(2,584)	—	—	(2,585)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(46,174)	—	(46,174)
Shareholders' equity	—	—	1,586	(1,586)	—	—
Balance at December 31, 2007	**$ 200,000**	**$ 198,864**	**$ 5,196**	**$ 329,198**	**$ (4,657)**	**$ 728,601**

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, 2007	2006	2005
Cash Flows From Operating Activities			
Net income	**$ 74,004**	$ 64,994	$ 57,616
Reconciliation of net income to net cash provided by operating activities			
Provision (negative provision) for loan losses	**1,043**	2,578	(344)
Depreciation on premises and equipment	**904**	793	645
Accretion of net discount on loans	**(464)**	(187)	(372)
Amortization and accretion on debt instruments	**(1,759)**	(660)	7,776
Accretion of net (discount) premium on investments	**(3,004)**	3,626	7,009
Gain on sale of investment securities	**(503)**	(907)	—
(Gains) losses on sales of other property owned, net	**(15)**	(48)	36
Loss from sales of premises and equipment	**2**	12	5
Increase in accrued interest receivable	**(2,822)**	(19,973)	(17,962)
(Increase) decrease in other assets, net	**(9,466)**	(5,640)	862
Increase in accrued interest payable	**13,638**	36,437	23,263
Increase in other liabilities, net	**12,590**	3,040	1,428
Net cash provided by operating activities	**84,148**	84,065	79,962
Cash Flows From Investing Activities			
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	**(36,273)**	(46,785)	5,056
Investment securities			
Purchases	**(3,971,804)**	(6,666,471)	(4,653,111)
Proceeds from maturities, calls and prepayments	**4,159,943**	6,587,280	3,717,622
Proceeds from sales	**93,123**	107,814	—
Increase in loans, net	**(2,098,658)**	(2,576,270)	(1,662,682)
Proceeds from sale of loans	**1,300,000**	1,000,000	100,000
Proceeds from sales of premises and equipment	**108**	59	190
Expenditures for premises and equipment	**(1,447)**	(661)	(913)
Net cash used in investing activities	**(555,008)**	(1,595,034)	(2,493,838)
Cash Flows From Financing Activities			
Bonds and notes issued	**31,248,805**	28,809,507	24,454,370
Bonds and notes retired	**(30,751,324)**	(27,261,180)	(22,126,945)
Preferred stock issued, net of expenses	**—**	—	106,773
Capital stock issued	**37,444**	26,031	17,170
Capital stock retired and allocated retained earnings distributed	**(2,585)**	(3,606)	(2,178)
Cash dividends on preferred stock	**(15,122)**	(15,122)	(9,220)
Cash patronage distributions paid	**(43,923)**	(34,888)	(25,316)
Net cash provided by financing activities	**473,295**	1,520,742	2,414,654
Net increase in cash	**2,435**	9,773	778
Cash at beginning of year	**14,165**	4,392	3,614
Cash at End of Year	**$ 16,600**	$ 14,165	$ 4,392
Supplemental Schedule of Noncash Investing and Financing Activities			
Net decrease (increase) in unrealized losses on investment securities	**$ 16,513**	$ 5,707	$ (18,310)
Declared participations patronage payable	**7,802**	5,551	3,396
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
Increase (decrease) in bonds and notes	**$ 7,510**	$ 9,837	$ (2,097)
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 640,338**	$ 525,779	$ 297,389

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 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), 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 district's six FLCAs, 14 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs), and preferred stockholders jointly owned the bank at December 31, 2007. FLCAs and ACAs collectively are referred to as associations. The bank and its related associations collectively are referred to as the Tenth Farm Credit District (district).

Each FCB and the ACB 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 FCBs and the ACB obtain a substantial majority of funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings, from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

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

B. Operations:

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

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

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

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

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

- 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 (FCSIC or Insurance Fund) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund also is available for the permissible uses of providing assistance to certain troubled and insured System institutions and for covering the operating expenses of the FCSIC.

Each System bank is insured and is required to pay premiums to the Insurance Fund until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as two percent of the System's aggregate insured obligations (Systemwide debt obligations). When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. Premiums are based on the average principal outstanding of accrual and nonaccrual loans of the district for the year. At December 31, 2007, the assets in the Insurance Fund were approximately $2.6 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that any available amount in the Insurance Fund will be sufficient to ensure the timely payment of principal or interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

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.

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:

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.

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, 2007, 2006 and 2005. These investments are reported at fair value, and unrealized holding gains and losses are netted and reported as a separate component of shareholders' equity in the balance sheet. Purchased premiums and discounts are amortized or accreted using a constant yield method (which is not materially different from the effective interest method) over the term of the respective issues. Realized gains and losses are determined using the specific identification method and are recognized in current operations.

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. In the event of other-than-temporary impairment, the cost basis of the investment would be written down to its fair value, and the loss would be included in current earnings. The bank may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration.

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

C. Loans and Allowance for Loan 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.

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.

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

Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated With Originating and Acquiring Loans and Initial Direct Costs of Leases," requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. The bank capitalizes origination fees in excess of $50 thousand and amortizes them over the lives of the related loans on a straight-line basis.

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 SFAS No. 114. 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.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors.

D. Other Property Owned:

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

E. Premises and Equipment:

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

F. Other Assets and Other Liabilities:

Direct expenses incurred in issuing debt are deferred and amortized using the straight-line method (which is not materially different from the effective interest 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, 2007, 2006 and 2005.

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

G. Employee Benefit Plans:

Substantially all 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 pension 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, nor is any participating employer required to pay for plan liabilities upon withdrawal from the plan. 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 SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits," and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension Plans and Other Postretirement Benefits" (SFAS 158).

In addition to pension benefits, the bank provides certain health care and life insurance 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.

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:

The bank is party to derivative financial instruments and cash flow hedges, consisting of interest rate swaps, 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 SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, 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 SFAS No. 133, 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. Recently Issued Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The statement became effective as of January 1, 2008. During 2007, the FASB became aware of numerous implementation issues as companies worked to adopt SFAS No. 157. Accordingly, the FASB agreed in November 2007 to propose a one-year deferral of the effective date for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The FASB is expected to approve the proposed deferral in early 2008.

On September 30, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). The standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The bank implemented the standard for 2007. In addition, this standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the bank uses a measurement date of September 30. The requirement to measure the funded status as of the fiscal year end will be effective for fiscal year 2008. The implementation of this standard has no impact on the income statement and, based on the current funded status of the affected plans, it does not have a material or significant impact on the balance sheet.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "Fair Value Option for Financial Assets and Financial Liabilities." The standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure eligible items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected shall be reported in earnings at each subsequent reporting date. Up-front costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The bank has not made any elections under the fair value option; thus there will be no impact from the adoption of this standard.

Note 3 — Investment Securities

A summary of the amortized cost and estimated fair value of investment securities at December 31, 2007, 2006 and 2005, follows.

	December 31, 2007				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Commercial paper and other	**$ 399,265**	**$ 14**	**$ (964)**	**$ 398,315**	**4.60%**
Collateralized mortgage obligations	**1,798,988**	**10,921**	**(8,175)**	**1,801,734**	**4.99**
Asset-backed securities	**217,703**	**—**	**(6,753)**	**210,950**	**5.13**
Total	**$ 2,415,956**	**$10,935**	**$(15,892)**	**$ 2,410,999**	**4.93%**

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper and other	$ 366,173	$ 83	$ (29)	$ 366,227	5.36%
Collateralized mortgage obligations	1,943,842	1,341	(23,203)	1,921,980	4.86
Asset-backed securities	383,697	406	(68)	384,035	5.60
Total	$ 2,693,712	$ 1,830	$(23,300)	$ 2,672,242	5.04%

	December 31, 2005				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper and other	$ 550,981	$ —	$ (67)	$ 550,914	4.35%
Collateralized mortgage obligations	1,749,796	702	(27,835)	1,722,663	4.31
Asset-backed securities	424,276	118	(95)	424,299	4.62
Total	$ 2,725,053	$ 820	$(27,997)	$ 2,697,876	4.37%

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of investment securities at December 31, 2007, follows:

	Amortized Cost	**Fair Value**	**Weighted Average Yield**
Due in one year or less	$ 319,265	$ 319,278	4.59%
Due after one year through five years	130,098	129,341	4.88
Due after five years through 10 years	428,577	428,704	4.80
Due after 10 years	1,538,016	1,533,676	5.06
Total securities	$ 2,415,956	$ 2,410,999	4.93%

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, 2007, the CMO portfolio had a weighted average remaining life of approximately two years.

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

	Year Ended December 31,		
	2007	2006	2005
Proceeds on sales	**$ 93,123**	$ 107,814	$ —
Realized gains	**503**	907	—

The net realized gain is included in the statements of income as part of total noninterest income.

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 position at December 31, 2007. The continuous loss position is based on the date the impairment occurred. The unrealized losses on these investments resulted from interest rate volatility and are not credit-related. The bank has both the ability and the intent to recover substantially all of our cost in these investments.

	Less Than 12 Months		**Greater Than 12 Months**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Asset-backed securities	$ 205,229	$ (6,640)	$ 5,721	$ (112)
Collateralized mortgage obligations	144,875	(1,373)	661,128	(6,802)
Commercial paper	98,996	(964)	—	—
Total	$ 449,100	$ (8,977)	$ 666,849	$ (6,914)

At December 31, 2007, the bank's investment portfolio included $187.0 million of asset-backed securities supported by first lien home equity mortgages. In view of the recent economic conditions and volatility related to these types of securities, the bank is actively monitoring the creditworthiness of these securities, which were all rated Aaa by Moody's Investors Service or AAA by Standard & Poor's at year end. These securities are supported by various forms of credit enhancements including favorable priority of payments, overcollateralization, excess spread and insurance guarantees. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. Since year end, one of the securities in question with a book value of $4.9 million and a fair value of $4.0 million was downgraded by Moody's Investors Service from Aaa to A3 and by Standard & Poor's from AAA to A. As a result of these rating actions, the bank is in the process of developing a plan of divestiture to comply with regulatory policy.

Note 4 — Loans and Allowance for Loan Losses

Loans comprised the following categories at December 31:

	2007	2006	2005
Direct notes receivable from district associations and OFIs	$ 8,158,458	$ 7,905,292	$ 7,128,339
Participations purchased	2,682,262	2,121,173	1,314,500
Other loans	25,271	28,963	38,662
Total loans	$ 10,865,991	$ 10,055,428	$ 8,481,501

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	2007	2006	2005
Livestock	40%	38%	40%
Crops	14	13	15
Timber	12	12	13
Cotton	5	5	7
Poultry	4	4	4
Dairy	3	4	2
Rural home	1	1	1
Other	21	23	18
Total	100%	100%	100%

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

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties. The bank's impaired loans consisted of participations purchased and other loans; no direct notes to district associations were impaired at December 31, 2007, 2006 and 2005.

	December 31,		
	2007	2006	2005
Nonaccrual loans			
Current as to principal and interest	$ 23,923	$ 3,671	$ 3,416
Past due	—	42	126
Total nonaccrual loans	23,923	3,713	3,542
Impaired accrual loans			
Restructured accrual loans	715	885	908
Accrual loans 90 days or more past due	9,999	—	147
Total impaired accrual loans	10,714	885	1,055
Total impaired loans	$ 34,637	$ 4,598	$ 4,597
Average impaired loans	$ 11,217	$ 4,907	$ 4,887

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

	2007	2006	2005
Interest income recognized on nonaccrual loans	$ 292	$ 1,054	$ 635
Interest income on impaired accrual loans	447	138	84
Interest income recognized on impaired loans	$ 739	$ 1,192	$ 719

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

	2007	2006	2005
With related specific allowance	$ 16,296	$ 2,016	$ 3,137
With no related specific allowance	18,341	2,582	1,460
Total impaired loans	$ 34,637	$ 4,598	$ 4,597
Allowance on impaired loans	$ 1,065	$ 142	$ 142

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:

	2007	2006	2005
Interest income which would have been recognized under the original loan terms	$ 1,299	$ 1,658	$ 1,103
Less: interest income recognized	739	1,192	719
Foregone interest income	$ 560	$ 466	$ 384

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

	December 31,		
	2007	2006	2005
Balance at beginning of year	**$ 142**	$ 142	$ 239
Provision (negative provision) for loan losses	**1,043**	2,578	(344)
Loans charged off	**(217)**	(2,834)	—
Recoveries	**97**	256	247
Balance at end of year	**$ 1,065**	$ 142	$ 142

To mitigate risk of loan losses, district associations have entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the associations the right to sell the loans identified in the agreements to the bank, who can, in turn, sell them to Farmer Mac in the event of default, subject to certain conditions. The balance of loans under long-term standby commitments to purchase was $450.9 million at December 31, 2007. Fees paid to Farmer Mac for such commitments are paid by the associations.

In 2007, the bank sold an additional $1.3 billion of participations in six of its direct notes receivable from district associations to another System bank for a total of $2.7 billion. 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,		
	2007	2006	2005
Leasehold improvements	**$ 948**	$ 937	$ 929
Furniture and equipment	**7,272**	6,235	7,244
	8,220	7,172	8,173
Accumulated depreciation	**(5,501)**	(4,886)	(5,684)
Total	**$ 2,719**	$ 2,286	$ 2,489

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and its term is from September 1, 2003, to August 31, 2013. Under the terms of the lease, the bank was obligated to pay base rental or its share of basic costs during the first 12 months of the lease. Thereafter, the bank will pay annual base rental ranging from $11 per square foot in the second year to $19 per square foot in the tenth year. The bank moved to the new facilities during the second quarter of 2004. Annual lease expenses for the new facility were $2.9 million, $2.5 million and $2.3 million for 2007, 2006 and 2005, respectively.

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

	Minimum Lease Payments
2008	$ 1,503
2009	1,674
2010	1,776
2011	1,879
2012	1,947
2013	1,297
Total minimum lease payments	$ 10,076

Note 6 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2007	2006	2005
Unamortized debt issue costs	**$ 9,628**	$ 7,318	$ 4,316
Accounts receivable	**8,928**	3,551	4,130
Fair value of derivatives	**7,034**	1,758	1,047
Investment in other System bank	**4,333**	2,362	—
Other, net	**3,320**	3,596	2,741
Total	**$ 33,243**	$ 18,585	$ 12,234

Other liabilities comprised the following at December 31:

	2007	2006	2005
Accounts payable	**$ 25,258**	$ 3,373	$ 3,727
Supplemental pension	**8,644**	3,701	2,593
Patronage payable	**7,802**	5,551	3,396
Obligation for non-pension postretirement benefits	**6,472**	9,773	9,864
FCSIC premium payable	**3,800**	2,548	579
Mortgage life additional reserve	**2,935**	2,049	1,749
Accrued building lease payable	**1,727**	1,619	1,410
Fair value of derivatives	**178**	3,459	11,538
Notes payable	**—**	—	1,142
Other, net	**1,158**	2,133	1,092
Total	**$ 57,974**	$ 34,206	$ 37,090

Note 7 — Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2007, the bank had such specified eligible assets totaling $13.4 billion and obligations and accrued interest payable totaling $12.7 billion, resulting in excess eligible assets of $705.8 million.

The System banks and the Funding Corporation have entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2007, 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, 2007, 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
2008	$ 3,449.8	4.74%	$ 20.0	5.56%	$ 1,159.8	4.10%	$ 4,629.6	4.58%
2009	2,169.2	4.69	—	—	—	—	2,169.2	4.69
2010	1,538.1	4.82	—	—	—	—	1,538.1	4.82
2011	887.6	5.02	—	—	—	—	887.6	5.02
2012	775.2	5.16	—	—	—	—	775.2	5.16
Subsequent years	2,624.3	5.57	—	—	—	—	2,624.3	5.57
Total	$ 11,444.2	5.04%	$ 20.0	5.56%	$ 1,159.8	4.10%	$ 12,624.0	4.90%

In the preceding table, the weighted average effective rate reflects the effects of interest rate swaps used to manage the interest rate risk on the bonds and notes issued by the bank. The bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies" and Note 14, "Derivative Instruments and Hedging Activity."

Systemwide bonds, medium-term notes, master notes, discount notes (Systemwide debt securities) and bank bonds are the joint and several obligations of all System banks. Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2007, was 39 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2007 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2008	$ 380,000	1/1/2008
2009	290,000	1/1/2008-3/28/2008
2010	655,000	1/1/2008-11/26/2008
2011	585,000	1/1/2008-9/14/2009
2012	635,000	1/1/2008-12/27/2010
Subsequent years	1,850,000	1/1/2008-11/7/2011
Total	$ 4,395,000	1/1/2008-11/7/2011

Callable debt may be called on the first call date and, generally, every day thereafter with seven days' notice.

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.

The bank had no outstanding commercial bank lines of credit at December 31, 2007.

Note 8 — Shareholders' Equity

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

A. Description of Bank Equities:

On November 7, 2003, the bank issued 100,000 shares of $1,000 Cumulative Perpetual Preferred Stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate is 7.561 percent, payable semi-annually to December 15, 2013, after which dividends are payable quarterly at a rate equal to 3-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of Cumulative Perpetual Preferred Stock with the same terms. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. Dividends on preferred stock are recorded as declared. The preferred stock ranks, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the bank. In 2007, preferred stock dividends of $15,122 were declared and paid.

According to the bank's bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCAs are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the associations is 2 percent of their average borrowings from the bank. There were 39,378 shares, 31,912 shares and 26,754 shares of Class A voting common stock issued and outstanding at December 31, 2007, 2006 and 2005, respectively.

The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the bank based on a minimum and maximum of 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of the OFIs' average borrowings from the bank. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 395 shares, 373 shares and 324 shares of Class A nonvoting common stock issued and outstanding at December 31, 2007, 2006 and 2005, respectively.

Allocated retained earnings of $5,196 at December 31, 2007, consisted of $1,702 of patronage refunds allocated to certain PCAs, and $3,494 allocated for the payment of patronage on loans participated with another System bank. The $1,702 in patronage refunds is used to satisfy all or part of the 2 percent bank stock requirement by certain of the PCAs, all of which are now subsidiaries of ACA parent companies.

Allocated retained earnings of $6,194 at December 31, 2006, consisted of $4,286 of patronage refunds allocated to certain PCAs, and $1,908 allocated for the payment of patronage on loans participated with another System bank.

Allocated retained earnings of $8,742 at December 31, 2005, consisted of $7,892 of patronage refunds allocated to certain PCAs, and $850 allocated for the payment of patronage on loans participated with another System bank.

At December 31, the associations' investment in the bank included the following investment in common stock and allocated retained earnings:

	2007	2006	2005
Class A voting common stock – Associations	**$ 196,888**	$ 159,558	$ 133,772
Class A nonvoting common stock – Other Financing Institutions	**1,976**	1,863	1,618
Total common stock	**198,864**	161,421	135,390
Preferred stock	**200,000**	200,000	200,000
Allocated retained earnings			
Associations	**1,702**	4,286	7,892
Other entities	**3,494**	1,908	850
Total allocated retained earnings	**5,196**	6,194	8,742
Total capital stock and allocated retained earnings	**$ 404,060**	$ 367,615	$ 344,132

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 2007, $46,174 in cash patronages was declared to district associations, OFIs and other entities, compared to $37,043 in 2006 and $28,713 in 2005.

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. 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:

	2007	2006	2005	Regulatory Minimum
Permanent capital ratio	**13.43%**	13.67%	17.36%	7.00%
Total surplus ratio	**11.15**	11.61	14.97	7.00
Core surplus ratio	**6.70**	6.93	8.82	3.50
Collateral ratio	**105.18**	105.35	105.90	103.00

Note 9 — Employee Benefit Plans

Employees of the bank participate in either the district's defined benefit retirement plan (DB plan) or a district defined contribution plan (DC plan) and are eligible to participate in the district's 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, nor is any participating employer required to pay for plan liabilities upon withdrawal from the plan. 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 in 1998 and beyond, 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 asset of the DB plan as of December 31, 2007. Actuarial information regarding the bank's 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. DC plan participants direct the placement of their employers' contributions (4.0 percent of eligible compensation during 2007) made on their behalf into various investment alternatives.

The district also participates in a 401(k) plan, which offers a pre-tax and after-tax compensation deferral feature. In 2003, the employers made contribution enhancements to employer contributions under the plan. Beginning January 1, 2003, employers matched 100 percent of employee contributions for the first 3 percent of eligible compensation and then matched 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation. Effective January 1, 2006, the districtwide 401(k) plan was merged with the AgFirst Farm Credit Employee Thrift Plan. The new plan is known as the Farm Credit Benefits Alliance 401(k) Plan.

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

	2007	2006	2005
Pension	**$ 2,950**	$ 2,744	$ 1,897
401(k) plan	**558**	449	406
Total	**$ 3,508**	$ 3,193	$ 2,303

In addition to pension benefits, the bank provides certain health care and life insurance 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.

On December 31, 2007, the bank adopted SFAS 158, which requires the recognition of the bank's supplemental pension and other postretirement benefit plans' over-funded or under-funded statuses as assets or liabilities with an offsetting adjustment to accumulated other comprehensive income, net of tax. SFAS 158 requires the determination of the fair values of a plan's assets at year end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income. These amounts were previously netted against the plans' funded status in the balance sheet pursuant to the provisions of SFAS 87. These amounts will be subsequently recognized as components of net periodic benefit costs. Further, actuarial gains and losses that arise in subsequent periods that are not initially recognized as a component of net periodic benefit cost will be recognized as a component of accumulated other comprehensive income, net of tax. Those amounts will subsequently be recognized as a component of net periodic benefit cost as they are amortized during future periods.

The effects of the adoption of SFAS 158 on elements in the balance sheet are reflected in the table below:

	Before Adoption of SFAS 158	**Adjustments**	**After Adoption of SFAS 158**
Other liabilities	$ 57,227	$ 747	$ 57,974
Total liabilities	12,791,430	747	12,792,177
Accumulated other comprehensive loss	(3,910)	(747)	(4,657)
Total members' equity	729,348	(747)	728,601

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 Plan Benefits			Other Postretirement Benefits		
	2007	2006	2005	**2007**	2006	2005
Accumulated benefit obligation, end of year	**$ 4,676**	$ 3,701	$ 1,194			
Change in Benefit Obligation						
Benefit obligation, beginning of year	**$ 7,288**	$ 3,407	$ 2,836	**$ 6,580**	$ 7,374	$ 9,870
Service cost	**368**	215	181	**191**	220	286
Interest cost	**427**	175	170	**384**	378	577
Plan participants' contributions	**0**	0	0	**131**	124	197
Plan amendments	**0**	3,006	0	**0**	(55)	(2,414)
Actuarial loss (gain)	**759**	485	221	**(248)**	(1,029)	(187)
Benefits paid	**(198)**	0	0	**(491)**	(432)	(955)
Benefit obligation, end of year	**$ 8,644**	$ 7,288	$ 3,408	**$ 6,547**	$ 6,580	$ 7,374
Change in plan assets						
Plan assets at fair value, beginning of year	**$ 0**	$ 0	$ 0	**$ 0**	$ 0	$ 287
Actual return on plan assets	**0**	0	0	**0**	0	(57)
Company contributions	**198**	0	0	**360**	310	528
Plan participants' contributions	**0**	0	0	**131**	124	197
Benefits paid	**(198)**	0	0	**(491)**	(434)	(955)
Plan assets at fair value, end of year	**$ 0**	$ 0	$ 0	**$ 0**	$ 0	$ 0
Reconciliation of funded status						
Funded status	**$ (8,644)**	$ (7,288)	$ (3,408)	**$ (6,547)**	$ (6,580)	$ (7,374)
Unrecognized prior service cost	**N/A**	3,314	784	**N/A**	(2,927)	(3,212)
Unrecognized net loss (gain)	**N/A**	509	30	**N/A**	(343)	683
Contributions between measurement date and year end	**0**	0	0	**75**	77	39
Net plan liability at end of year	**$ (8,644)**	$ (3,465)	$ (2,594)	**$ (6,472)**	$ (9,773)	$ (9,864)
Amounts recognized in the balance sheets consist of						
Accrued benefit cost	**$ (8,644)**	$ (3,465)	$ (2,594)	**$ (6,472)**	$ (9,773)	$ (9,864)
Minimum pension liability adjustment	**0**	(236)	0	**0**	0	0
Intangible asset	**0**	236	0	**0**	0	0
Accumulated other comprehensive income	**3,921**	0	0	**(3,173)**	0	0
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	**1,269**	N/A	N/A	**(586)**	N/A	N/A
Prior service cost (credit)	**2,652**	N/A	N/A	**(2,587)**	N/A	N/A
Total	**$ 3,921**	N/A	N/A	**$ (3,173)**	N/A	N/A
Net periodic benefit cost						
Service cost	**$ 368**	$ 215	$ 181	**$ 191**	$ 220	$ 286
Interest cost	**427**	175	170	**384**	378	577
Expected return on plan assets	**0**	6	0	**0**	0	(2)
Amortization of:						
Prior service cost	**662**	476	476	**(340)**	(339)	(153)
Net actuarial loss (gain)	**0**	0	0	**(5)**	(2)	2
Net periodic benefit cost	**$ 1,457**	$ 872	$ 827	**$ 230**	$ 257	$ 710
Weighted-average assumptions used to determine benefit obligation as of December 31						
Measurement date	**9/30/2007**	9/30/2006	9/30/2005	**9/30/2007**	9/30/2006	9/30/2005
Discount rate	**6.50%**	6.00%	5.25%	**6.50%**	6.00%	5.25%
Rate of compensation increase	**8% in 2008 down to 4% in 2012**	9% in 2007 down to 4% in 2012	4.50%			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**8.5%/6.5%**	9.0%/6.75%	9.5%/7.0%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**12.00%**	13.00%	13.50%
Ultimate health care cost trend rate				**4.75%**	4.75%	4.75%
Year that the rate reaches the ultimate trend rate				**2016**	2016	2016
Weighted-average assumptions used to determine net periodic cost for year ended December 31						
Measurement date	**9/30/2006**	9/30/2005	9/30/2004	**9/30/2006**	9/30/2005	9/30/2004
Discount rate	**6.00%**	5.25%	6.00%	**6.00%**	5.25%	6.00%
Expected return on plan assets	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Rate of compensation increase	**8% in 2008 down to 4% in 2012**	4.50%	4.50%			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**9.0%/6.75%**	9.5%/7.0%	11.0%/11.5.0%
Health care cost trend rate assumed for next year (pre/post-65)-Rx				**13.00%**	13.50%	11.0%/11.5.0%
Ultimate health care cost trend rate				**4.75%**	4.75%	5.0%/5.5%
Year that the rate reaches the ultimate trend rate				**2016**	2016	2012

Expected Future Cash Flow Information		
Expected Benefit Payments		
Fiscal 2008	$ 506	$ 361
Fiscal 2009	942	388
Fiscal 2010	1,068	414
Fiscal 2011	996	428
Fiscal 2012	1,263	443
Fiscal 2013 - 2017	6,556	2,350
Expected Contributions		
Fiscal 2008	$ 506	$ 361

The September 30, 2007, valuation reflects the increase in the discount rate used to determine benefit obligations from 6.00 percent to 6.50 percent.

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 $452,775, $395,822 and $255,902 for 2007, 2006 and 2005, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Allowances for Loan 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, loan processing, marketing and other services. Income derived by the bank from these activities was $8,918, $8,856 and $8,619 for 2007, 2006 and 2005, respectively, and was included in the bank's noninterest income.

The bank had no loans to directors or officers during 2007, 2006 or 2005.

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, 2007, were approximately $154.4 billion.

In early February 2008, the bank was named a counter-defendant in a lawsuit involving a lending matter between an association in the district and a borrower group. The bank believes the borrower group's position is without merit and intends to vigorously defend itself in this litigation. In addition, 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 the lawsuit mentioned 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. In the normal course of business, various commitments are made to customers, including commitments to extend credit and standby letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

At any time, the bank has outstanding a significant number of commitments to extend credit. The bank also provides standby letters of credit to guarantee the performance of customers to third parties. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the balance sheet (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The bank's commitments to extend credit totaled $1.518 billion, $1.358 billion and $1.175 billion at December 31, 2007, 2006 and 2005, respectively. At December 31, 2007, the bank had $153.1 million in outstanding standby letters of credit, issued primarily in conjunction with participation loans. The letters of credit are generally issued for terms up to one year or are annually renewable. The $1.5 million fair value of these obligations at December 31, 2007, is based on the fees for the unexpired period remaining and is included in other liabilities. The bank also guarantees certain association loans which are not guaranteed by Farmer Mac. The $57 fair value of these obligations at December 31, 2007, is based on the fees for the unexpired period remaining and is included in other liabilities.

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 — Disclosure About the 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, 2007, 2006 and 2005. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for System financial instruments. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

	December 31, 2007		December 31, 2006		December 31, 2005	
Financial assets	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, federal funds sold, securities purchased under resale agreements and investment securities	**$ 2,553,101**	**$ 2,553,101**	$ 2,775,636	$ 2,775,636	$ 2,744,712	$ 2,744,712
Loans	**10,865,991**	**10,799,211**	10,055,428	9,935,881	8,481,501	8,390,165
Allowance for loan losses	**(1,065)**	**—**	(142)	—	(142)	—
Loans, net	**10,864,926**	**10,799,211**	10,055,286	9,935,881	8,481,359	8,390,165
Derivative assets	**7,034**	**7,034**	1,758	1,758	1,047	1,047
Financial liabilities						
Bonds and notes	**12,624,193**	**12,739,340**	12,124,242	12,121,813	10,574,816	10,578,272
Fair value adjustment of derivatives	**(178)**	**(178)**	(3,459)	(3,459)	(11,538)	(11,538)
Total bonds and notes	**12,624,015**	**12,739,162**	12,120,783	12,118,354	10,563,278	10,566,734
Financial assistance–related liabilities	**—**	**—**	—	—	—	—
Derivative liabilities	**178**	**178**	3,459	3,459	11,538	11,538

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

A. Cash, Federal Funds Sold, and Securities Purchased Under Resale Agreements:

The carrying value is a reasonable estimate of fair value.

B. Investment Securities:

Fair value is based upon currently quoted market prices.

C. Loans:

Because no active market exists for the district's loans, fair value is estimated by discounting the expected future cash flows using the district'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 district's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

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

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

F. Commitments to Extend Credit:

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

Note 14 — 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. 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, 2007, the bank had three fair value hedges with a total notional amount of $175 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.

At December 31, 2007, the bank had six cash flow hedges, with a total notional amount of $750 million, which hedge the exposure to variability in expected future cash flows.

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 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. At December 31, 2007, the bank had credit exposure totaling $7.36 million with one counterparty. The bank does not anticipate nonperformance by this counterparty. 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.

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:

($ in millions)	Remaining Years to Maturity: Less Than 1 Year	Remaining Years to Maturity: 1 to 5 Years	Total	Maturity Distribution Netting	Exposure	Collateral Held	Exposure Net of Collateral
Standard & Poor's Credit Rating							
A+	$ 0.71	$ 0.76	$ 1.47	$ —	$ 7.36	$ —	$ 7.36

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

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

December 31, 2007 *($ in millions)*	Maturities of 2007 Derivative Products and Other Financial Instruments: 2008	2009	2010	2011	2012	Subsequent Years	Total	Fair Value
Total debt obligations:								
Fixed rate	$ 2,380	$ 1,444	$ 1,538	$ 888	$ 775	$ 2,624	$ 9,649	$ 9,764
Weighted average interest rate	4.39%	4.65%	4.82%	5.02%	5.16%	5.57%	4.94%	
Variable rate	$ 2,250	$ 725	$ —	$ —	$ —	$ —	$ 2,975	$ 2,975
Weighted average interest rate	5.31%	4.76%	—	—	—	—	5.18%	
Total debt obligations	$ 4,630	$ 2,169	$ 1,538	$ 888	$ 775	$ 2,624	$ 12,624	$ 12,739
Weighted average interest rate	4.58%	4.69%	4.82%	5.02%	5.16%	5.57%	4.90%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ 25	$ —	$ —	$ —	$ —	$ 150	$ 175	$ 6
Weighted average receive rate	3.53%	—	—	—	—	4.95%	4.75%	
Weighted average pay rate	4.72%	—	—	—	—	3.81%	3.94%	
Pay fixed swaps								
Notional value	$ 300	$ 450	$ —	$ —	$ —	$ —	$ 750	$ 1
Weighted average receive rate	4.19%	3.94%	—	—	—	—	4.04%	
Weighted average pay rate	4.09%	3.91%	—	—	—	—	3.98%	

Note 15 — Selected Quarterly Financial Information (Unaudited)

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

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

	2006				
	First	Second	Third	Fourth	Total
Net interest income	$ 22,446	$ 22,115	$ 22,231	$ 23,549	$ 90,341
Provision for loan losses	—	2,578	—	—	2,578
Noninterest expense, net	6,734	5,594	4,269	6,172	22,769
Net income	$ 15,712	$ 13,943	$ 17,962	$ 17,377	$ 64,994

	2005				
	First	Second	Third	Fourth	Total
Net interest income	$ 18,539	$ 18,759	$ 18,516	$ 20,146	$ 75,960
Negative provision for loan losses	(96)	(248)	—	—	(344)
Noninterest expense, net	5,795	4,032	3,754	4,346	17,927
FAC expense	218	(5)	548	—	761
Net income	$ 12,622	$ 14,980	$ 14,214	$ 15,800	$ 57,616

Note 16 — 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.

	December 31,		
Balance Sheet Data	**2007**	2006	2005
Cash	**$ 39,103**	$ 46,005	$ 47,455
Loans	**12,300,861**	10,665,377	8,774,807
Less allowance for loan losses	**23,430**	13,827	9,391
Net loans	**12,277,431**	10,651,550	8,765,416
Accrued interest receivable	**197,117**	176,583	129,467
Other property owned, net	**1,817**	2,020	3,902
Other assets	**262,802**	211,927	186,512
Total assets	**$12,778,270**	$11,088,085	$ 9,132,752
Bonds and notes	**$10,747,261**	$9,214,287$	7,430,075
Other liabilities	**252,204**	235,617	191,082
Total liabilities	**10,999,465**	9,449,904	7,621,157
Capital stock and participation certificates	**63,267**	60,771	75,593
Retained earnings	**1,705,238**	1,577,410	1,436,002
Accumulated other comprehensive income	**10,300**	—	—
Total shareholders' equity	**1,778,805**	1,638,181	1,511,595
Total liabilities and shareholders' equity	**$12,778,270**	$11,088,085	$ 9,132,752

	Year Ended December 31,		
Statement of Income Data	**2007**	2006	2005
Interest income	**$ 883,219**	$ 724,454	$ 530,067
Interest expense	**551,113**	428,281	268,222
Net interest income	**332,106**	296,173	261,845
Provision for loan losses	**42,088***	6,778	1,428
Net interest income after provision for loan losses	**290,018**	289,395	260,417
Noninterest income	**74,955**	66,257	53,594
Intra-System financial assistance expense	**—**	—	1,144
Other expense	**157,070**	144,261	126,546
Provision for (benefit from) income taxes	**141**	(228)	639
Net income	**$ 207,762**	$ 211,619	$ 185,682

* Twelve associations in the district, along with two other Farm Credit associations, participated in a loan to one borrower with the original funded balance of $68.5 million. The district's associations held $56.3 million of this original balance. During 2007, the loan was deemed to be nonaccrual due to its significant undercollateralized position and a credit default. The lead lending association in the district has pursued collection efforts and liquidated a part of the collateral, which was applied towards the outstanding balance of all participants. Five of the associations in the district repurchased the participation interests in the loan held by the two other Farm Credit associations as well as the other seven associations in the district. As of December 31, 2007, the district associations have recorded net charge-offs of approximately $28.9 million and specific reserves remaining of approximately $1.46 million. The loan has a remaining book balance of $10.7 million at December 31, 2007. The bank does not have a participation interest in this loan.

As of December 31, 2007, the lead lending association was party to three lawsuits related to this loan. The borrower group has filed counterclaims against the lead lending association, all other participants and the respective district banks of the involved associations. Management and legal counsel of the bank and associations believe that the association's claims are supported by facts and applicable law and have a reasonable chance of success, and at the same time believe that the claims of the borrower group are without merit and the association will likely be successful in its defense against such claims.

Description of Business

The Farm Credit Bank of Texas (FCBT or bank), Agricultural Credit Associations (ACAs) and the Federal Land Credit Associations (FLCAs) of the Tenth Farm Credit District (district) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrower-stockholders for qualified agricultural purposes in the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. The district's ACA parent associations, which each contain wholly-owned FLCA and Production Credit Association (PCA) subsidiaries, and FLCAs are collectively referred to as associations. A further description of territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference to Note 1, "Organization and Operations," to the accompanying combined financial statements.

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

Directors and Senior Officers

The following represents certain information regarding the district directors and senior officers of the bank as of February 29, 2008:

DIRECTORS

Ralph W. Cortese joined the board in 1995, and his current term expires December 31, 2010. Cortese has served as chairman since 2000. Prior to joining the bank board, Cortese was chairman of the PCA of Eastern New Mexico Board of Directors. Early in his career, he was vice president of Roswell PCA. He is a farmer and rancher from Fort Sumner, New Mexico. In 2001, he joined the American Land Foundation Board. He is a member of the bank's Audit and Compensation committees. In June 2003, he was appointed to the Farmer Mac Board. He is also a member of the Texas Agricultural Cooperative Council board of directors.

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

C. Kenneth Andrews began service on the board in 1994, and his current term expires December 31, 2008. He was manager of the former FLBA of Madisonville for 17 years and later served on the board of directors of the FLBA of Bryan. The Madisonville, Texas, rancher is a member of the Tenth District Farm Credit Council and represented the district on the national Farm Credit Council Board of Directors from 1996 to 2005. He also serves on the bank's Audit and Compensation committees.

Joe R. Crawford began his first term on the board in 1998, and his current term expires December 31, 2009. Previously, he was a member of the FLBA of North Alabama Board of Directors. He also served on the Tenth District FLBA Legislative Advisory Committee. Vice chairman of the bank's Audit Committee, Crawford also serves on the bank's Compensation Committee. 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.

James F. Dodson joined the board of directors in January 2003, and his current term will expire December 31, 2008. He is a past chairman of the Texas AgFinance, FCS Board of Directors and a former member of the Tenth Farm Credit District Stockholders' Advisory Committee. He is chairman of the Tenth District Farm Credit Council board and serves on the bank's Audit and Compensation committees. Dodson grows cotton 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 Weber Greene, Ltd; 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.

Elizabeth G. Flores joined the board in August 2006, and her current term expires December 31, 2009. She was mayor of Laredo, Texas, where she resides, from 1998 to June 2006. Previously, she was senior vice president of Laredo National Bank. She is a partner with a ranching and real estate limited partnership, E.G. Ranch, Ltd. Flores also is a member of the bank's Audit and Compensation committees and Leadership America 2008.

William F. Staats joined the board in 1997, and his current term will expire December 31, 2008. Staats is Louisiana Bankers Association Chair Emeritus of Banking and Professor Emeritus, Department of Finance, at Louisiana State University, where he held the Hermann Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. Staats also serves on the boards of the Money Management International Education Foundation, Money Management International, SevenOaks Capital Associates, LLC and Platinum Healthcare Staffing, Inc. He is a member of the Farm Credit System Audit Committee, is chairman of the bank's Audit Committee, serves on the bank's Compensation Committee, and is the bank's designated financial expert. He is also a member of the Texas Lutheran University board of regents.

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. Compensation for 2007 was paid at the rate of $48,815 per year, payable at $4,068 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 $5,000 during 2007 as noted below. No director received non-cash compensation exceeding $5,000 in 2007. Total cash compensation paid to all directors as a group during 2007 was $346,705. Information for each director for the year ended December 31, 2007, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid
Ralph W. Cortese	26.5	21.5	$ 48,815
Jon M. Garnett	26.5	25.5	48,815
C. Kenneth Andrews	26.5	19.5	48,815
Joe R. Crawford	26.5	20.5	48,815
James F. Dodson	24.0	25.0	48,815
Elizabeth G. Flores***	26.5	37.5	53,815
William F. Staats	26.5	19.5	48,815
			$ 346,705

*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 2007, additional compensation of $3,000 was paid to Ms. Flores for travel time and efforts rendered for serving as a panelist on the topic of diversity at a leadership event for Farm Credit System directors sponsored by Farm Credit Council Services. Also in 2007, additional compensation of $2,000 was paid to Ms. Flores for the travel time and efforts for her participation as a panelist at a conference sponsored by the bank for two organizations, National Society of Hispanic MBAs and National Black MBA Association. Both conferences promoted the bank's ongoing commitment to diversity and supported the bank's initiative on diversity as outlined in the bank's business plan.

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2007, 2006 and 2005 totaled $149,254, $123,258 and $120,436, respectively. The increase in expenses in 2007 as compared to previous years was primarily due to the addition of a board member in late 2006. A copy of FCBT's travel policy is available to shareholders upon request.

SENIOR OFFICERS

Name and Title	Time in Position	Experience — Past Five Years
Larry R. Doyle, *Chief Executive Officer*	4.5 years	Executive Vice President and Chief Operating Officer, AgFirst Farm Credit Bank
Thomas W. Hill, *Senior Vice President, Chief Financial Officer,* *Chief Operations Officer*	13 years 4 years	Senior Vice President, Chief Financial Officer, FCBT
Steven H. Fowlkes, *Senior Vice President,* *Chief Credit Officer*	10 years 4 years	Senior management and management positions, FCBT
William E. Zimmerman, *Senior Vice President, Corporate Affairs,* *General Counsel and Corporate Secretary*	20 years Retired January 2008	Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary, FCBT
Kyle Pankonien, *Vice President, Corporate Affairs,* *General Counsel and Corporate Secretary*	Appointed January 2008	Vice President, Corporate Affairs, Deputy General Counsel, FCBT

Compensation Discussion and Analysis – Senior Officers

Overview

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

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

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

CEO Compensation Table and Policy

The base salary amount of the CEO was $440,017 for 2007. The amount of the non-equity discretionary bonus compensation is higher than the base salary amount for 2007, which in essence has put more of the CEO's total compensation "at risk" based on the performance of the bank. The Compensation Committee considers the year-end results of certain financial key performance indicators, such as return on assets, return on equity, collateral ratio, credit quality ratios, growth in total and net assets, and net income, along with accomplishments of the bank in attaining strategic plan operational objectives as the bases for determining a discretionary bonus for the CEO. Included in the process for awarding base and bonus compensation for the CEO is the committee's annual appraisal assessment of the CEO's performance in areas such as Farm Credit System and Farm Credit Administration relationships; alliances with other financial institutions; and coordination of bank board, stockholder and association relations. There are no long-term bonus plans, deferred compensation arrangements or retention plans in place for the CEO. Payments of bonus awards for the CEO are made in the first 90 days of the subsequent calendar year following the close of the year.

The following table summarizes the compensation paid to the chief executive officer of the bank during 2007, 2006 and 2005. Amounts reflected for bonus compensation are presented in the year the compensation is earned.

Summary Compensation Table

		Annual					
Name of Chief Executive Officer	Year	Salary (a)	Bonus (b)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (c)	Deferred/Perquisites (d)	Other (e)	Total
Larry R. Doyle	2007	$ 440,017	$ 560,000	$1,884,534	$ 22,017	-	$ 2,906,568
Larry R. Doyle	2006	440,017	440,000	N/A	20,362	-	900,379
Larry R. Doyle	2005	440,017	238,000	N/A	17,016	-	695,033

(a) Gross salary
(b) Bonus
(c) Disclosure of change in pension value reflected only for year 2007. "N/A" represents information not available for prior years, 2006 and 2005. Change in the actuarial present value of the accumulated benefit under all defined benefit and actuarial pension plans (including supplement plans) 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.
(d) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance.
(e) Other – no amounts paid in years presented.

Pension Benefits Table

The following table presents a summary of the total annual benefit provided from the pension plans applicable to the CEO for the year ended December 31, 2007:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2007
Larry R. Doyle, FCB of Texas	Farm Credit Bank of Texas Pension Plan	33.583	$ 823,761	$ -
	Supplemental Pension Plan for Farm Credit Bank of Texas	33.583	$ 5,867,225	$ -

Pension Benefits Table Narrative Disclosure

The CEO participates in the Farm Credit Bank of Texas Pension Plan (qualified plan) and in the Farm Credit Bank of Texas Supplemental Pension Plan (nonqualified plan). The supplemental plan restores benefits to participants who otherwise would be restricted by Internal Revenue Code limits that are in the qualified plan. Compensation, as defined in the plans, includes the sum of wages, bonus compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave that may be paid in cash at the time of termination or transfer of employment, severance payments, retention bonuses, taxable fringe benefits and any other payments. Pension benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produces the highest average out of the last 120 months of employment (FAC60). The benefit formula is the sum of 1.65 percent of FAC60 plus 0.50 percent of FAC60 in excess of Social Security Covered Compensation times years of service. The CEO had 33.583 years of credited service as of December 31, 2007. There is an offset amount from another Farm Credit System institution for the CEO. The present values of the accumulated benefits are calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 55. The pension plan benefits are payable in the form of a 50 percent joint and survivor annuity with a spouse two years younger. Benefits from the supplemental plan are payable as a lump sum value with a gross-up for income taxes because the benefit is fully taxable to the recipient upon distribution from the plan.

Employment Agreement

The CEO was employed by the bank under the terms and conditions of an "employment at will" agreement and is not bound by the terms of a contract for any duration of time. The agreement provides for a minimum compensation level, consisting of base salary and bonus compensation. The CEO will receive a set severance amount if terminated for any reason other than cause.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the five highest paid officers of the bank during 2007, 2006 and 2005. (Amounts reflected for bonus compensation are presented in the year the compensation is earned.)

Summary Compensation Table

		Annual				
Name of Individual or Group	Year	Salary (a)	Bonus (b)	Deferred/Perquisites (c)	Other (d)	Total
Aggregate of five highest paid officers: (excludes Chief Executive Officer)						
5	2007	$ 1,118,743	$ 404,825	$ 115,711	-	$ 1,639,279
5	2006	1,072,241	371,960	105,873	-	1,550,074
5	2005	1,023,365	254,265	109,543	-	1,387,173

(a) Gross salary
(b) Bonus
(c) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance.
(d) Other - no amounts paid in years presented.

Other senior officers of the bank are not eligible for any deferred compensation or long-term incentive plans, but can participate in a retention plan, at the discretion and approval of the bank board's Compensation Committee. 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. Payments of bonus awards for the senior officers are made in the first 90 days of the subsequent calendar year following the close of the year.

Disclosure of the compensation paid during 2007 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 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 can earn compensation above base salary through an annual Success Sharing Plan, which the bank adopted in 2001. The plan is based upon the achievement of bank performance standards, which are approved by the board's Compensation Committee, annually.

Description of Property

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and the term is from September 1, 2003 to August 31, 2013. The bank moved into the new facilities during May of 2004.

Legal Proceedings

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

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 11, "Commitments and Contingencies," to the accompanying combined financial statements outlines the bank's position with regard to possible contingencies at December 31, 2007.

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 stockholders.

Description of Liabilities

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

Selected Financial Data

The selected financial data for the five years ended December 31, 2007, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to stockholders.

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

"Management's Discussion and Analysis," which precedes the 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 stockholders, and there were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

The bank's Audit Committee approves all services provided by the the independent public accountants. During 2007, the bank paid its independent public accountants $236,682 for district audit services and $52,424 for bank audit services. There were no other non-audit services provided by the independent public accountants.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 29, 2008, and the report of management in this annual report to stockholders, are incorporated herein by reference.

The Tenth Farm Credit District's annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720 or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports can be requested by e-mailing fcb@farmcreditbank.com. The district's quarterly reports are available approximately 45 days after the end of each fiscal quarter. The bank's annual report 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, 2007	
	Number of Loans	Volume
(dollars in thousands)		
Total loans and commitments	76,544	$ 17,953,844
Loans and commitments to young farmers and ranchers	14,147	$ 1,880,813
Percent of loans and commitments to young farmers and ranchers	18.5%	10.5%
Loans and commitments to beginning farmers and ranchers	35,641	$ 6,920,735
Percent of loans and commitments to beginning farmers and ranchers	46.6%	38.8%

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

	For the Year Ended December 31, 2007	
	Number of Loans	Volume
(dollars in thousands)		
Total new loans and commitments	19,533	$ 7,492,169
New loans and commitments to young farmers and ranchers	3,493	$ 721,249
Percent of new loans and commitments to young farmers and ranchers	17.9%	9.6%
New loans and commitments to beginning farmers and ranchers	8,653	$ 2,548,149
Percent of new loans and commitments to beginning farmers and ranchers	44.3%	34.0%

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

	At December 31, 2007				
	Annual Gross Sales				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	Over $250 Thousand	Total
Total number of loans and commitments	23,490	19,297	19,797	13,960	76,544
Number of loans and commitments to small farmers and ranchers	16,669	14,752	14,690	7,470	53,581
Percent of loans and commitments to small farmers and ranchers	71.0%	76.4%	74.2%	53.5%	70.0%
Total loans and commitments volume	$ 483,349	$ 1,101,113	$ 2,617,259	$ 13,752,123	$ 17,953,844
Total loans and commitments to small farmers and ranchers volume	$ 348,850	$ 861,750	$ 1,971,784	$ 4,851,371	$ 8,033,755
Percent of loans and commitments volume to small farmers and ranchers	72.2%	78.3%	75.3%	35.3%	44.7%

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

	For the Year Ended December 31, 2007				
	Annual Gross Sales				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	Over $250 Thousand	Total
Total number of new loans and commitments	5,912	3,900	4,923	4,798	19,533
Number of new loans and commitments to small farmers and ranchers	4,248	3,006	3,576	2,184	13,014
Percent of new loans and commitments to small farmers and ranchers	71.9%	77.1%	72.6%	45.5%	66.6%
Total new loans and commitments volume	$ 140,031	$ 287,696	$ 811,162	$ 6,253,280	$ 7,492,169
Total new loans and commitments to small farmers and ranchers volume	$ 109,432	$ 221,802	$ 582,614	$ 1,982,299	$ 2,896,147
Percent of loan and commitment volume to small farmers and ranchers	78.1%	77.1%	71.8%	31.7%	38.7%