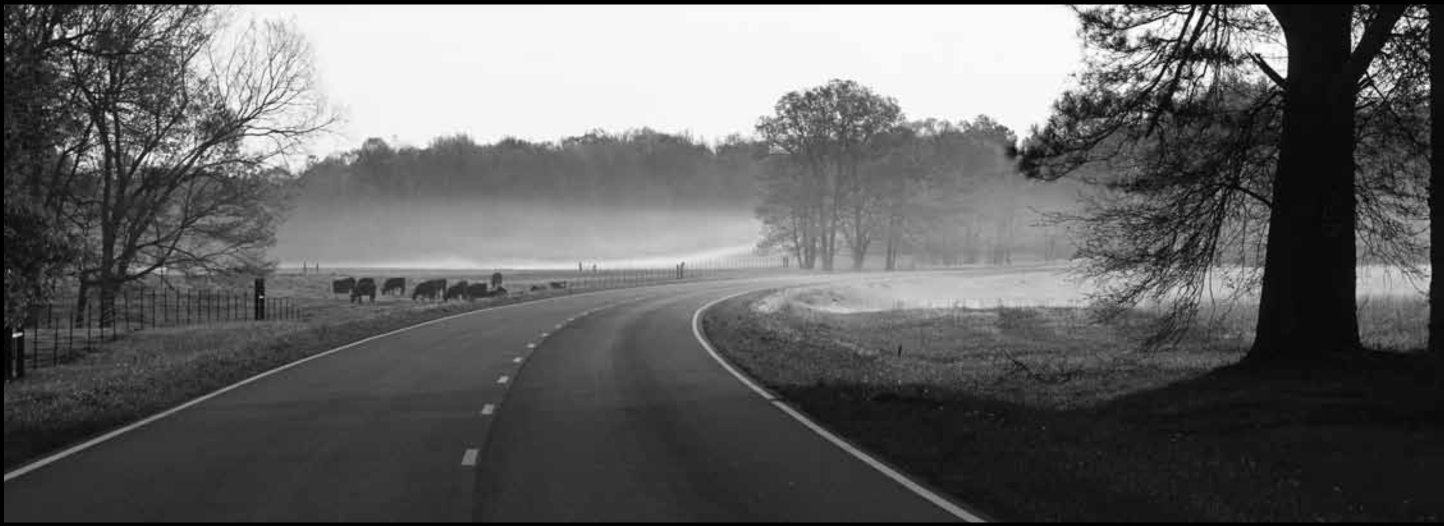
HERE FOR AGRICULTURE



EVERY DAY

2010 THIRD QUARTER REPORT
FARM CREDIT BANK OF TEXAS
SEPTEMBER 30, 2010

THIRD QUARTER 2010

Table of Contents

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

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three and nine months ended September 30, 2010. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2009 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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

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

The bank and its affiliated associations collectively are referred to as the district. At September 30, 2010, the bank provided financing to 18 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended September 30, 2010, was $32,749, an increase of $12,549, or 62.1 percent, over the same period of 2009. The $12,549 increase in net income for the third quarter of 2010 consisted of a $6,265 increase in net interest income, a $5,284 decrease in provision for credit losses, and a $2,685 decrease in noninterest expense, offset by a $1,685 decrease in noninterest income.

Net income for the nine months ended September 30, 2010, was $113,779, an increase of $49,653, or 77.4 percent, over the same period of 2009. The increase in net income for the nine months ended September 30, 2010, consisted of a $29,631 increase in net interest income, a $9,760 decrease in noninterest expense, a $6,234 increase in noninterest income, and a $4,028 decrease in provision for credit losses.

Net Interest Income

Net interest income for the three months ended September 30, 2010, was $50,932, an increase of $6,265, or 14.0 percent, from the three months ended September 30, 2009. The increase in net interest income for the quarter ended September 30, 2010, was attributable to a 21-basis-point increase in the bank's interest rate spread, offset by a volume decrease of $11.3 million in the bank's average earning assets. Interest rate spreads increased primarily as a result of a 71-basis-point reduction in the effective rate on debt from the third quarter of 2009 to the third quarter of 2010, which was achieved largely due to the bank's ability to call higher-cost debt and replace it with lower-cost debt during that period.

Net interest income for the nine months ended September 30, 2010, was $149,175, an increase of $29,631, or 24.8 percent, over the same period of 2009. The increase in net interest income was attributable to a 37-basis-point increase in the bank's interest rate spread, offset by a volume decrease of

$526.2 million in the bank's average earning assets. Interest rate spreads increased primarily as a result of an 84-basis-point reduction in the effective rate on debt from the nine months ended September 30, 2009, to the nine months ended September 30, 2010, which was achieved largely due to the bank's ability to call higher-cost debt and replace it with lower-cost debt during that period. The decrease in the bank's average earning assets included decreases in direct notes receivable from district associations and in the bank's participation loan portfolio, both of which resulted from scheduled repayments, limited growth due to general economic conditions and enhanced credit standards. Interest rate conditions resulting from the current low interest rate environment are not expected to continue into the future.

Provision for Credit Losses

The bank's provision for credit losses for the quarter ended September 30, 2010, totaled $17,413, representing a decrease of $5,284 over the $22,697 provision for the third quarter of 2009. Provision for credit losses for the nine months ended September 30, 2010, totaled $28,628, a decrease of $4,028 over the $32,656 provision for the first nine months of 2009. The provision for credit losses for the quarter and the nine months ended September 30, 2010, consisted primarily of specific provisions related to the land in transition, rural electric, and telecommunications sectors. There is no provision for credit losses recorded for the bank's direct notes receivable from associations and other financing institutions.

Noninterest Income

Noninterest income for the quarter ended September 30, 2010, was $12,128, a decrease of $1,685, or 12.2 percent, over the same period of 2009. The decrease for the third quarter of 2010 over the same period of 2009 was due mainly to a $5,644 decrease from the gains on sales of investments recognized in September 2009, a $174 decrease in dividends on Farmer Mac preferred stock, and a $187 decrease in all other noninterest income items, net of a $3,641 increase in loan-related fees and a $679 decrease in credit losses on other-than-temporarily impaired investments.

Noninterest income for the nine months ended September 30, 2010, was $35,557, an increase of $6,234, or 21.3 percent, over the same period of 2009. The $6,234 increase in noninterest income for the nine months ended September 30, 2010, compared to the same period of 2009, was primarily due to a $7,982 refund in Farm Credit System Insurance Corporation (FCSIC) distributions of excess reserves from prior periods recorded in April 2010, a $3,807 increase in loan-related fees, and a $1,201 decrease in credit losses on other-than-temporarily impaired investments, offset by a $5,644 decrease from the gains on sales of investments recognized in September 2009, a $364 decrease in services billed to associations, a $154 decrease in patronage and dividend income, and a $594 decrease in all other noninterest income items. The refund from FCSIC is included in Miscellaneous income, net, in this report's Statements of Income.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2010, was $12,898, a decrease of $2,685 over the same period of 2009. The decrease for the third quarter is primarily attributable to a $1,508 decrease in premiums to the Insurance Fund, a $969 decrease in salaries and employee benefits, a $323 increase in net gains on other property owned, and a $136 decrease in other operating expenses, offset by a $251 increase in occupancy and equipment expenses. The $1,508 decrease in premiums to the Insurance Fund resulted primarily from rate reductions on FCSIC insurance premiums. On June 10, 2010, the FCSIC reduced primary premium rates from 10 basis points to 5 basis points, retroactive to January 1, 2010. The premium rate in 2009 was 20 basis points. The $969 decrease in salaries and employee benefits included a $750 decrease in pension and retirement expenses and a $315 decrease in compensation and related payroll taxes, offset by a $96 increase in other benefits. The decrease in compensation included the effects of $964 in accruals during the third quarter of 2009 for deferred compensation for the bank's chief executive officer as outlined in the bank's 2009 Annual Report to shareholders. The decrease in pension and retirement benefits was mainly the result of reductions in required contributions to the district's multi-employer defined benefit pension plan. Contributions from the plan's various employers were increased in 2009 in response to declines in market values of the plan's investments during the last half of 2008. The increase in net gains on other property owned included a $320 gain recognized in July 2010 on the disposition of a property in which the gain was deferred in 2009. The $251 increase in occupancy and equipment expenses included a $217 increase in software depreciation related primarily to a lending system which was implemented in July 2010.

Noninterest expense for the nine months ended September 30, 2010, was $42,325, a decrease of $9,760 over the same period of 2009. The decrease was primarily attributable to a $5,564 decrease in premiums to the Insurance Fund, a $3,850 decrease in salaries and employee benefits, a $498 decrease in other operating expenses, and a $221 increase in net gains on other property owned, offset by a $373 increase in occupancy and equipment expenses. The $5,564 decrease in premiums assessed by the Insurance Fund resulted primarily from the premium rate reductions described previously. The $3,850 decrease in salaries and employee benefits included a $1,772 decrease in compensation and related payroll taxes and a $2,215 decrease in pension and retirement expenses, offset by a $137 increase in other benefits. The decrease in compensation included the effects of $2.9 million in accruals during the first nine months of 2009 for deferred compensation for the bank's chief executive officer as outlined in the bank's 2009 Annual Report to shareholders. The decrease in pension and retirement benefits was mainly the result of reductions in required contributions to the district's multi-employer defined benefit pension plan. Contributions from the plan's various employers were increased in 2009 in response to declines in market values of the plan's investments during the last half of 2008. Other operating expenses decreased due to a $737 decrease in assessments for the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and a $236 decrease in communications expenses, offset by a $297 increase in advertising and member relations expenses and a $178 increase in all other operating expenses, collectively. The increase in gains on other property owned included a $481 increase in net gains on disposition of properties, net of a $245 provision for losses and a $15 net expense related to other property owned. The $373 increase in occupancy and equipment included a $217 increase in software depreciation related primarily to a lending system which was implemented in July 2010, a $220 increase in software maintenance expense, and a $117 increase in other expenses, offset by a $181 decrease in occupancy expense.

Key results of operations comparisons:

	Annualized for the Nine Months Ended 9/30/2010	Annualized for the Nine Months Ended 9/30/2009
Return on average assets	**1.08%**	0.60%
Return on average shareholders' equity	**16.50%**	10.72%
Net interest income as a percentage of average earning assets	**1.47%**	1.14%
Charge-offs, net of recoveries, to average loans	**0.28%**	0.09%
Operating expenses as a percentage of net interest income and noninterest income	**23.04%**	34.99%
Operating expenses as a percentage of average earning assets	**0.42%**	0.49%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2010, was $10,609,626, a decrease of $423,488, or 3.8 percent, compared to $11,033,114 at December 31, 2009. The decrease in the loan portfolio is mainly attributable to decreases in the bank's direct loans to associations and other financing institutions, offset by limited growth in the bank's participation loan portfolio. Direct notes to associations have decreased as enhanced credit standards and repayments on existing loans have reduced the size of their loan portfolios. In March 2010, the bank purchased loans which had experienced credit deterioration and other property owned from a district association. The purchase of the loan assets and other property owned by the bank was completed to ensure the district association remained a viable stand-alone institution. This purchase activity avoided a non-accrual classification of a district association direct note receivable and protected the bank's charter in the state where the district association was located and has lending authorities. The loans, which had book balances at the association totaling $40,069, were purchased at fair value of $32,822. The fair value was derived by discounting the total estimated cash flows of $36,341 using appropriate yield curves, resulting in an accretable discount of $3,519. The bank recognized additional provisions for loan losses totaling $1,865 related to these loans during 2010, the effect of which also slightly reduces the resulting accretable discount, which will be accreted into interest income on a level-yield basis over the life of the loans. At September 30, 2010, the balance of these loans, net of the unaccreted discount, was $29,393. In addition to these loans, the bank also purchased other property owned related to three other loans from the association at fair value of $2,917. In the second quarter of 2010, the bank recognized a $245 allowance for losses related to one of these properties. The financial impact of the purchases to the bank is negligible due to the size of the bank's balance sheet. Because the assets were purchased at fair value, the transaction should not adversely impact future earnings as the assets are liquidated or refinanced over the next two to three years. The $28,200 increase in nonaccrual loans in the table below included $22,437 of the above-mentioned loans purchased from a district association related to loans originated for land in transition and the dairy and cattle/livestock sectors.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 94.2 percent of total loans and accrued interest at September 30, 2010, compared to 94.9 percent at December 31, 2009. The decline in acceptable and other assets especially mentioned from December 31, 2009, to September 30, 2010, was primarily attributable to a loan to one of the bank's affiliated associations being downgraded to a classification of substandard at June 30, 2010. The bank has a first lien position on the assets of the associations and the earnings, capital and loan loss reserves of the associations serve as an additional layer of protection against losses. As a result, while the downgrade reflects credit deterioration in the underlying retail loans held by this association, it is not indicative of an increased risk of loss related to the bank's direct note to this association. No provision for loan losses has been recorded on any of the direct notes to associations. The bank does not expect any further material deterioration in the credit quality of its direct notes to affiliated associations.

The table below summarizes the balances of the bank's high-risk assets at September 30, 2010, compared to the balances at December 31, 2009:

	September 30, 2010	Increase (Decrease) $	Increase (Decrease) %	December 31, 2009
Nonaccrual loans	**$ 140,115**	$ 28,200	25.20 %	$ 111,915
Formally restructured loans	**399**	(248)	(38.33)	647
Loans 90 days past due and still accruing interest	**5,879**	5,879	-	-
Total impaired loans	**146,393**	33,831	30.06	112,562
Other property owned, net	**2,672**	2,033	318.15	639
Total high-risk assets	**$ 149,065**	$ 35,864	31.68 %	$ 113,201

At September 30, 2010, $64.6 million, or 46.1 percent, of the bank's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. Nonaccrual loans on which interest income from cash payments is recognized totaled $17.5 million at September 30, 2010, compared to $10.0 million at December 31, 2009. The increase in nonaccrual loans is primarily due to the addition of $22,437 in nonaccrual loans purchased from a district association, described on page 5 of this discussion, and loans related to land in transition. During the nine months ended September 30, 2010, the bank recorded charge-offs totaling $22.7 million against the allowance for loan losses due to known losses, primarily related to loans in the land in transition, ethanol and telecommunication sectors.

Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans 90 days or more past due and still accruing interest, constituted 1.4 percent of gross loans at September 30, 2010, and 1.0 percent of gross loans at December 31, 2009. The bank had other property owned totaling $2,672 at September 30, 2010, which included $2,917 in other property owned purchased from a district association in March 2010, net of a $245 allowance for losses on one of the other properties owned. The other property owned at December 31, 2009, was sold at a gain of $167 during 2010.

At September 30, 2010, the allowance for loan losses was $31,458, equating to 0.3 percent of total loans outstanding, and 1.1 percent of participation loans outstanding. The allowance for loan losses at September 30, 2010, was attributable to participation loans and loans purchased from a district association. The $7.2 million reserve for losses on unfunded commitments includes $6.8 million in specific reserves on expected losses on certain standby letters of credit to a rural electric facility outstanding on September 30, 2010, and a $318 general reserve for losses on letters of credit. At September 30, 2010, the allowance for loan losses of $31.5 million and the reserve for credit losses on unfunded commitments of $7.2 million were considered by management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The allowance for loan losses as a percentage of impaired loans was 21.1 percent as of September 30, 2010, as compared to 28.1 percent as of December 31, 2009. The nature of the collateral (primarily first lien real estate) supporting many of the impaired loans is considered in the determination of necessary allowances for loan losses.

Liquidity and Funding Sources

Cash and investment securities totaled $3,470,860, or 24.5 percent, of total assets at September 30, 2010, compared to $2,634,400, or 19.1 percent, at December 31, 2009, an increase of $836,460, or 31.8 percent. At September 30, 2010, the bank's cash balance was $390,016, an $80,409 decrease from December 31,

2009. Cash held at the Federal Reserve Bank at September 30, 2010, totaled $377,181, compared to $454,658 million at December 31, 2009. Levels of cash and other highly liquid assets are managed to meet loan demand, debt servicing, and other needs. At September 30, 2010, the bank had 180 days of liquidity to cover cash flows required for maturing debt obligations. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $34,357, or 0.3 percent.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $2.9 billion at September 30, 2010, and consisted primarily of federal agency collateralized mortgage-backed securities, FDIC-guaranteed corporate debt, other collateralized mortgage-backed securities, and asset-backed securities. The bank's other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased in June 2010 from two district associations for $159.4 million. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

The bank's liquidity portfolio consisted of FDIC-guaranteed corporate debt, mortgage-backed and asset-backed securities as follows (in thousands):

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
FDIC-guaranteed corporate debt	$ 300,963	$ 302,895	$ 131,815	$ 133,733
Federal agency collateralized mortgage-backed securities	2,470,357	2,515,126	1,843,894	1,871,339
Other collateralized mortgage-backed securities	82,125	75,401	123,315	110,106
Asset-backed securities	14,682	13,128	31,658	28,307
Total available-for-sale investments	$ 2,868,127	$ 2,906,550	$ 2,130,682	$ 2,143,485

The bank's other investments portfolio consisted of Farmer Mac AMBS securities as follows:

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	$ 150,404	$ 151,605	$ -	$ -

The bank's increases in federal agency collateralized mortgage-backed securities during the first nine months of 2010 have been in Government National Mortgage Association (GNMA) mortgage-backed securities. Pricing on agency securities remains strong due to the Federal Reserve's mortgage-backed securities purchase program, stabilization in the agency market, and increased demand for quality GNMA structures. The decreases in other collateralized mortgage-backed securities and asset-backed securities are due primarily to repayments on those securities.

The bank recognized other-than-temporary impairment losses on four mortgage-backed investments and two asset-backed securities during 2010. The credit portion of the impairment losses, recognized as a loss in earnings, totaled $1,816 for the nine months ended September 30, 2010. The non-credit-related increase in fair value for the nine months ended September 30, 2010, totaling $1,085 on the six investments, is included as a credit to other comprehensive income. The bank recorded no credit portion of impairment losses for the three months ended September 30, 2010. The bank performs other-than-temporary impairment assessments on investment securities based on evaluations of both current and future market and credit conditions at each quarter end. The process for evaluation of impairment of investments is more fully discussed in Note 2, "Investments."

Farm Credit Administration regulations define eligible investments by specifying credit rating criteria, final maturity limit, percentage of investment portfolio limit and certain other requirements for each investment type. At the time the investments are purchased, they must be highly rated by at least one Nationally Recognized Statistical Rating Organization (NRSRO), such as Moody's Investors Service, Standard & Poor's or Fitch Ratings. If an investment no longer meets the credit rating criteria, the investment becomes ineligible. A bank must dispose of an investment that becomes ineligible within six months, unless the Farm Credit Administration approves, in writing, a plan that authorizes the bank to divest the instrument over a longer period of time. The Farm Credit Administration has approved, with conditions, plans submitted by the bank to continue to hold all ineligible investments at this time. To date, the Farm Credit Administration has not required disposition of any of these securities.

At September 30, 2010, the bank held 12 investments that were ineligible for liquidity purposes by FCA regulations, due to credit ratings that were below AAA by all NRSROs. Those ineligible securities had an amortized cost basis of $62,264 and a fair value of $55,142 at September 30, 2010.

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

	Eligible		Ineligible								
September 30, 2010	AAA/Aaa	Split Rated	AA/Aa	AA/BBB Split Rated	A-/BB- Split Rated	B3/BBB/B Split Rated	BBB/Baa	BB/Ba	B3/CCC/ CC	CCC/Caa	Total
FDIC-guaranteed corporate debt	$ 302,895	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 302,895
Federal agency collateralized mortgage-backed securities	2,515,126	-	-	-	-	-	-	-	-	-	2,515,126
Other collateralized mortgage-backed securities	11,614	11,351	12,066	-	-	-	-	8,370	7,065	24,935	75,401
Asset-backed securities	5,390	5,032	-	-	-	-	644	1,728	-	334	13,128
Total	$ 2,835,025	$ 16,383	$ 12,066	$ -	$ -	$ -	$ 644	$ 10,098	$ 7,065	$ 25,269	$ 2,906,550

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

Capital Resources

On August 26, 2010, the bank issued $300.0 million of Class B non-cumulative subordinated perpetual preferred stock, representing three hundred thousand shares at $1,000 per share par value for net proceeds of $296.6 million. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are non-cumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B preferred stock ranks junior, both as to dividends and upon liquidation to the bank's Class A preferred stock, and senior to all of the bank's outstanding capital stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. In September 2010, the bank redeemed $3.0 million of outstanding Class A cumulative perpetual preferred stock at a net cost of $2,879.

As of September 30, 2010, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At September 30, 2010, the bank's permanent capital ratio was 18.85 percent, core surplus was 9.73 percent, total surplus was 15.12 percent and the net collateral ratio was 108.39 percent. Total shareholders' equity at September 30, 2010, totaled $1,223,900, an increase of $402,608 from December 31, 2009. This increase is the result of net income of $113,779 for the nine months ended September 30, 2010, a $300,000 issuance of preferred stock net of costs of issuance totaling $3,365, an increase in unrealized net gains on investment securities totaling $26,823, and a $215 amortization related to retirement benefits, offset by dividends accrued on preferred stock totaling $16,247, dividends paid on preferred stock totaling $7,611, patronage paid of $4,197, a $3,000 retirement of Class A cumulative perpetual preferred stock net of a discount on redemption of $121, a $3,273 unrealized loss on cash flow hedge instruments, and a $637 retirement of capital stock. The $16,247 in dividends accrued on preferred stock is an accrual of the amount payable on the next dividend date, December 15, 2010, which is required by dividend/patronage stopper clauses in the preferred stock offerings which require payment or declaration of current dividends before the bank's quarterly investment patronage to associations and other financing institutions can be paid.

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

Key financial condition comparisons:

	September 30, 2010	December 31, 2009
Permanent capital ratio	**18.85%**	15.98%
Net collateral ratio	**108.39%**	105.83%
Allowance and reserve for credit losses to total loans	**0.36%**	0.29%

The significant increases in the permanent capital ratio and the net collateral ratio are the result of the issuance of the $300.0 million of Class B non-cumulative subordinated perpetual preferred stock.

OTHER

Thomas W. Hill, formerly the bank's Chief Financial Officer and Chief Operations Officer, will retire on November 15, 2010. Amie Pala, formerly the bank's Vice President of Financial Management, has been named Mr. Hill's successor as Chief Financial Officer. Allen Buckner, former Vice President of Lending Systems, has been named Mr. Hill's successor as Chief Operations Officer.

Effective July 1, 2010, two of the bank's affiliated associations, Texas AgFinance, FCS and AgCredit of South Texas, ACA, merged to form a new association accounted for under the acquisition method of accounting under Generally Accepted Accounting Principles. As of July 1, 2010, the number of affiliated associations in the district decreased from 18 to 17 ACAs and one FLCA.

In October 2010 the stockholders of two of the bank's affiliated associations, Southern AgCredit, ACA and Louisiana Ag Credit, ACA, approved a proposed merger plan that has been approved by the FCA. The expected effective date of the planned merger is December 1, 2010.

On July 8, 2010, the FCA published in the Federal Register an Advance Notice of Proposed Rulemaking (ANPRM) on capital adequacy and the potential promulgation of Tier 1 and Tier 2 capital standards for System institutions similar to the capital tiers delineated in the Basel Accord (Basel I) that the other Federal financial regulatory agencies have adopted. The 120-day comment period will expire November 5, 2010. The ANPRM solicits comments on numerous issues that significantly impact all aspects of capital management by System institutions. The bank anticipates that any adoption by FCA of the Tier 1/Tier 2 approach of the Basel Committee would require adjustments to accommodate the cooperative structure of the System.

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

The undersigned certify that we have reviewed the September 30, 2010, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

Ralph W. Cortese
Chairman of the Board

Amie Pala
Chief Financial Officer

November 3, 2010

Controls and Procedures

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

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

November 3, 2010

Balance Sheets

(dollars in thousands)	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash	**$ 390,016**	$ 470,425
Federal funds sold and overnight investments	**22,689**	20,490
Investment securities	**3,058,155**	2,143,485
Loans	**10,609,626**	11,033,114
Less allowance for loan losses	**31,458**	31,602
Net loans	**10,578,168**	11,001,512
Accrued interest receivable	**49,228**	48,709
Other property owned, net	**2,672**	639
Premises and equipment, net	**15,534**	12,348
Other assets	**70,801**	78,894
Total assets	**$ 14,187,263**	$ 13,776,502
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 12,803,836**	$ 12,769,479
Subordinated debt	**50,000**	50,000
Accrued interest payable	**44,405**	68,106
Reserve for credit losses	**7,152**	-
Other liabilities	**57,970**	67,625
Total liabilities	**12,963,363**	12,955,210
Commitments and contingent liabilities (Note 4)		
Shareholders' equity		
Preferred stock, net	**497,000**	200,000
Capital stock	**236,724**	237,361
Allocated retained earnings	**8,031**	8,029
Unallocated retained earnings	**447,509**	365,031
Accumulated other comprehensive income	**34,636**	10,871
Total shareholders' equity	**1,223,900**	821,292
Total liabilities and shareholders' equity	**$ 14,187,263**	$ 13,776,502

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

Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest Income				
Investment securities	**$ 16,978**	$ 20,439	**$ 50,412**	$ 70,036
Loans	**102,366**	116,270	**317,010**	360,860
Total interest income	**119,344**	136,709	**367,422**	430,896
Interest Expense				
Bonds, notes and subordinated debt	**68,412**	92,042	**218,247**	311,352
Net interest income	**50,932**	44,667	**149,175**	119,544
Provision for credit losses	**17,413**	22,697	**28,628**	32,656
Net interest income after provision for credit losses	**33,519**	21,970	**120,547**	86,888
Noninterest Income				
Patronage income	**3,825**	3,825	**12,383**	12,537
Fees for services to associations	**2,180**	2,320	**6,460**	6,824
Loan-related fees	**6,099**	2,458	**10,267**	6,460
Gain from sale of investment securities	**-**	5,644	**-**	5,644
Miscellaneous income, net	**24**	245	**8,263**	875
Impairment losses on investments				
Total other-than-temporary impairment losses	**(2,133)**	(3,476)	**(2,901)**	(8,221)
Less: portion of loss recognized in other comprehensive income	**2,133**	2,797	**1,085**	5,204
Net impairment loss recognized in earnings	**-**	(679)	**(1,816)**	(3,017)
Total noninterest income	**12,128**	13,813	**35,557**	29,323
Noninterest Expense				
Salaries and employee benefits	**6,483**	7,452	**22,225**	26,075
Occupancy and equipment	**1,708**	1,457	**4,710**	4,337
Insurance Fund premiums	**547**	2,055	**1,557**	7,121
Gains on other property owned, net	**(323)**	-	**(232)**	(11)
Other operating expenses	**4,483**	4,619	**14,065**	14,563
Total noninterest expense	**12,898**	15,583	**42,325**	52,085
Net Income	**$ 32,749**	$ 20,200	**$ 113,779**	$ 64,126

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2008	$ 200,000	$ 227,212	$ 6,114	$ 336,999	$ (25,783)	$ 744,542
Noncredit portion of previous other-than-temporary impairment losses	-	-	-	1,527	(1,527)	-
Balance at January 1, 2009	200,000	227,212	6,114	338,526	(27,310)	744,542
Comprehensive income						
Net income	-	-	-	64,126	-	64,126
Change in pension and postretirement benefit plans	-	-	-	-	187	187
Net change in unrealized net gains on investment securities	-	-	-	-	47,896	47,896
Noncredit portion of current other-than-temporary impairment losses	-	-	-	-	(5,204)	(5,204)
Net change in unrealized net gains on cash flow derivatives	-	-	-	-	3,073	3,073
Total comprehensive income	-	-	-	64,126	45,952	110,078
Capital stock retired	-	(1)	-	-	-	(1)
Preferred stock dividends paid	-	-	-	(7,561)	-	(7,561)
Patronage distributions						
Cash	-	-	-	(4,382)	-	(4,382)
Shareholders' equity	-	-	47	(47)	-	-
Balance at September 30, 2009	$ 200,000	$ 227,211	$ 6,161	$ 390,662	$ 18,642	$ 842,676
Balance at December 31, 2009	$ 200,000	$ 237,361	$ 8,029	$ 365,031	$ 10,871	$ 821,292
Comprehensive income						
Net income	-	-	-	113,779	-	113,779
Change in pension and postretirement benefit plans	-	-	-	-	215	215
Net change in unrealized net gains on investment securities	-	-	-	-	27,908	27,908
Noncredit portion of current other-than-temporary impairment losses	-	-	-	-	(1,085)	(1,085)
Net change in unrealized net losses on cash flow derivatives	-	-	-	-	(3,273)	(3,273)
Total comprehensive income	-	-	-	113,779	23,765	137,544
Issuance of Class B preferred stock	300,000	-	-	-	-	300,000
Issuance costs on preferred stock	-	-	-	(3,365)	-	(3,365)
Retirement of Class A preferred stock	(3,000)	-	-	-	-	(3,000)
Discount on retirement of preferred stock	-	-	-	121	-	121
Capital stock retired	-	(637)	-	-	-	(637)
Preferred stock dividends accrued	-	-	-	(16,247)	-	(16,247)
Preferred stock dividends paid	-	-	-	(7,611)	-	(7,611)
Patronage distributions						
Cash	-	-	-	(4,197)	-	(4,197)
Shareholders' equity	-	-	2	(2)	-	-
Balance at September 30, 2010	**$ 497,000**	**$ 236,724**	**$ 8,031**	**$ 447,509**	**$ 34,636**	**$ 1,223,900**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2010	2009
Operating activities		
Net income	**$ 113,779**	$ 64,126
Reconciliation of net income to net cash provided by operating activities		
Provision for credit losses	**28,628**	32,656
Provision for losses on other property owned	**245**	-
Depreciation and amortization on premises and equipment	**1,336**	1,098
Accretion of net discount on loans	**(130)**	(337)
Amortization and accretion on debt instruments	**(3,773)**	(2,698)
Amortization of net (discount) premium on investment securities	**(7,337)**	5,328
Gain on sale of investment securities	**-**	(5,644)
Gains from sales of other property owned, net	**(492)**	(11)
Losses on impairment of investments available-for-sale	**1,816**	3,017
Allocated equity patronage from System bank	**(12,476)**	(11,762)
(Increase) decrease in accrued interest receivable	**(519)**	11,786
Increase in investment trade receivables	**-**	(111,644)
Decrease in other assets	**11,915**	3,407
Decrease in accrued interest payable	**(23,701)**	(13,514)
(Decrease) increase in other liabilities	**(5,691)**	250
Net cash provided by (used in) operating activities	**103,600**	(23,942)
Investing activities		
Net (increase) decrease in federal funds sold	**(2,199)**	156,360
Investment securities		
Purchases	**(1,631,517)**	(1,087,787)
Proceeds from maturities, calls and prepayments	**749,191**	1,843,721
Proceeds from sales	**-**	106,331
Redemption of investment in Farmer Mac preferred stock	**7,000**	-
Decrease in loans, net	**421,364**	164,251
Expenditures for purchase of loans	**(32,822)**	(100,000)
Proceeds from sales of other property owned, net	**1,131**	-
Expenditures for premises and equipment	**(4,522)**	(5,582)
Net cash (used in) provided by investing activities	**(492,374)**	1,077,294
Financing activities		
Bonds and notes issued	**16,276,209**	37,694,920
Bonds and notes retired	**(16,239,506)**	(38,429,442)
Preferred stock issued	**300,000**	-
Issuance costs on preferred stock	**(3,365)**	-
Preferred stock retired	**(3,000)**	-
Discount on retirement of preferred stock	**121**	-
Capital stock retired	**(637)**	(1)
Cash dividends on preferred stock	**(7,611)**	(7,561)
Cash patronage distributions paid	**(13,846)**	(14,377)
Net cash provided by (used in) financing activities	**308,365**	(756,461)
Net (decrease) increase in cash	**(80,409)**	296,891
Cash at beginning of year	**470,425**	13,093
Cash at end of quarter	**$ 390,016**	$ 309,984
Supplemental schedule of noncash investing and financing activities		
Loans transferred to other property owned	**$ 2,917**	$ 8,109
Net increase in unrealized gains on investment securities	**26,823**	41,165
Cash dividends or patronage distributions payable	**16,247**	-
Supplemental schedule of noncash changes in fair value related to hedging activities		
Increase (decrease) in bonds and notes	**$ 1,427**	$ (30,097)
Supplemental information		
Interest paid	**$ 241,948**	$ 324,866

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2009, are contained in the 2009 Annual Report to shareholders (Annual Report). These unaudited third quarter 2010 financial statements should be read in conjunction with the Annual Report.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures would be amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this standard should have no impact on the bank's financial condition or results of operations, but it will result in additional disclosures.

Effective January 1, 2010, the bank adopted FASB guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the bank's financial condition and results of operations but resulted in additional disclosures.

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

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

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

This guidance was effective January 1, 2010. The bank reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010, was immaterial to the bank's financial condition and results of operations.

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

The bank and its affiliated associations (district), are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. At September 30, 2010, the bank provided financing to 18 district associations and certain other financing institutions.

NOTE 2 — INVESTMENTS

Available for Sale

The bank's available for sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of FDIC-guaranteed corporate debt instruments, mortgage-backed investments and asset-backed investments. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased during the second quarter of 2010. A summary of the amortized cost and fair value of investment securities available for sale, at September 30, 2010, and December 31, 2009, is as follows:

Investments in the available-for-sale liquidity portfolio at September 30, 2010:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	$ 300,963	$ 2,156	$ (224)	$ 302,895	0.90 %
Federal agency collateralized mortgage-backed securities	2,470,357	45,475	(706)	2,515,126	2.15
Other collateralized mortgage-backed securities	82,125	158	(6,882)	75,401	6.04
Asset-backed securities	14,682	5	(1,559)	13,128	3.23
Total liquidity investments	**$ 2,868,127**	**$ 47,794**	**$ (9,371)**	**$ 2,906,550**	**2.14 %**

Investments in the available-for-sale other investments portfolio at September 30, 2010:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 150,404	$ 1,201	$ -	$ 151,605	5.22 %

Investments in the available-for-sale liquidity portfolio at December 31, 2009:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	$ 131,815	$ 1,918	$ -	$ 133,733	1.56 %
Federal agency collateralized mortgage-backed securities	1,843,894	32,866	(5,421)	1,871,339	3.16
Other collateralized mortgage-backed securities	123,315	12	(13,221)	110,106	6.87
Asset-backed securities	31,658	-	(3,351)	28,307	3.50
Total liquidity investments	**$ 2,130,682**	**$ 34,796**	**$ (21,993)**	**$ 2,143,485**	**3.30 %**

There were no investments in the available-for-sale other investments portfolio at December 31, 2009.

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at September 30, 2010:`

Investments in the available-for-sale liquidity portfolio:

	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Total
FDIC-guaranteed corporate debt	$ 302,895	$ -	$ -	$ 302,895
Federal agency collateralized mortgage-backed securities	61,939	208,226	2,244,961	2,515,126
Other collateralized mortgage-backed securities	-	5,845	69,556	75,401
Asset-backed securities	4,555	-	8,573	13,128
Total fair value	**$ 369,389**	**$ 214,071**	**$ 2,323,090**	**$ 2,906,550**
Total amortized cost	**$ 365,611**	**$ 209,331**	**$ 2,293,185**	**$ 2,868,127**
Weighted average yield	**1.62%**	**2.87%**	**2.16%**	**2.14%**

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

	Due after one year through five years
Fair value of agricultural mortgage-backed securities	**$ 151,605**
Total amortized cost	**$ 150,404**
Weighted average yield	**5.22%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows investments by gross unrealized losses and fair value, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at September 30, 2010. The continuous loss position is based on the date the impairment was first identified:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FDIC-guaranteed corporate debt	$ 199,626	$ (224)	$ -	$ -	$ 199,626	$ (224)
Federal agency collateralized mortgage-backed securities	377,893	(706)	2,795	-	380,688	(706)
Other collateralized mortgage-backed securities	-	-	65,603	(6,882)	65,603	(6,882)
Asset-backed securities	-	-	7,608	(1,559)	7,608	(1,559)
Total	**$ 577,519**	**$ (930)**	**$ 76,006**	**$ (8,441)**	**$ 653,525**	**$ (9,371)**

The bank evaluates investment securities for other-than-temporary impairment on a quarterly basis. Impairment is considered to be other than temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell).

The bank recognized other-than-temporary impairment losses on four mortgage-backed investments and two asset-backed securities during 2010. The credit portion of the impairment losses, totaling $1,816 for the first nine months of 2010, was recognized as a loss in earnings of $1,342 in the first quarter and of $474 in the second quarter. The non-credit-related gains on the six investments, totaling $1,085 for the nine months ended September 30, 2010, are included as a credit to other comprehensive income. The bank recorded no credit portion of impairment losses for the three months ended September 30, 2010.

As the bank has no intent of selling the securities deemed other-than-temporarily impaired and will not more likely than not be required to sell the securities before recovery, the credit loss portion of impairment was recognized through earnings for the first nine months of 2010. To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank utilizes a third party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Applicable securities are identified through prior analysis based on the deterioration of price and credit ratings. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan level data. Loan level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The default rates used at September 30, 2010, ranged from 3.8 percent to 14.0 percent for non-agency mortgage-backed securities and ranged from 11.3 percent to 18.7 percent for the asset-backed securities. Prepayment rate assumptions are based on historical prepayment rates and ranged from 9.0 percent to 19.6 percent for non-agency mortgage-backed securities and ranged from 9.4 percent to 14.9 percent for the asset-backed securities at September 30, 2010. At September 30, 2010, the loss severity assumptions ranged from 34.8 percent to 51.9 percent for non-agency mortgage-backed securities and ranged from 54.3 percent to 62.7 percent for the asset-backed securities. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

The following is a rollforward of the amount related to credit losses recognized during the nine months ended September 30, 2010:

Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at January 1, 2010	$	6,005
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized		300
Increases to amount related to credit loss for which other-than-temporary impairment was previously recognized when it did not intend to sell and it is not more likely than not that it will be required to sell		1,516
Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at September 30, 2010	$	7,821

The following is a rollforward of the amount related to credit losses recognized during the nine months ended September 30, 2009:

Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at January 1, 2009	$	712
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized		1,890
Increases to amount related to credit loss for which other-than-temporary impairment was previously recognized when it did not intend to sell and it is not more likely than not that it will be required to sell		1,127
Credit losses for which a portion of an other-than-temporary impairment was recognized in OCI at September 30, 2009	$	3,729

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

Loans, including direct notes to district associations and other financing institutions (OFIs), participations purchased, and other bank-owned loans, comprised the following categories at:

	September 30, 2010	December 31, 2009
Direct notes receivable from district associations and OFIs	**$ 7,828,896**	$ 8,304,420
Participations purchased	**2,744,554**	2,715,889
Other bank-owned loans	**36,176**	12,805
Balance at end of period	**$ 10,609,626**	$ 11,033,114

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."

		Increase (Decrease)		
	September 30, 2010	$	%	December 31, 2009
Nonaccrual loans	**$ 140,115**	$ 28,200	25.20 %	$ 111,915
Formally restructured loans	**399**	(248)	(38.33)	647
Loans 90 days past due and still accruing interest	**5,879**	5,879	100.00	-
Total impaired loans	**$ 146,393**	$ 33,831	30.06 %	$ 112,562

The average recorded investment in impaired loans for the nine months ended September 30, 2010 and 2009, were $131.4 million and $128.6 million, respectively. The bank recognized interest income of $337 on impaired loans during the nine months ended September 30, 2010.

During March of 2010, the bank purchased loans which had experienced credit deterioration from a district association. The loans, with book balances totaling $40,069 at the association, were purchased at a fair value of $32,822, which was the discounted present value of estimated cash flows of $36,341. The accretable discount, the difference between the estimated cash flows on the loans and the fair value, will be recognized on a level-yield basis over the life of the loans. The total contractually required payments (currently due and scheduled for the future) at the time of purchase totaled $62,365. Under the purchase agreement, the association will continue to service the loans over their remaining lives. During the second and third quarters of 2010, the bank recorded a $1,560 provision for credit losses related to two of these loans. At September 30, 2010, the balance of these loans was $29,393, with a related allowance for loan losses of $1,560. The remaining accretable discount at September 30, 2010, was $2,596.

At September 30, 2010, impaired loans of $70.8 million had a related specific allowance of $25.5 million, while the remaining $75.6 million of impaired loans had no related specific allowance as a result of adequate collateralization.

An analysis of the reserves for credit losses follows:

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
Allowance for loan losses:		
Balance at beginning of period	**$ 31,602**	$ 12,549
Provision for loan losses	**28,628**	33,648
Loans charged off	**(22,738)**	(14,364)
Recoveries	**248**	518
Change in reserve for unfunded commitments	**(6,282)**	(749)
Balance at end of period	**$ 31,458**	$ 31,602
Reserve for losses on unfunded commitments and standby letters of credit	**$ 7,152**	$ 870

NOTE 4 — COMMITMENTS AND CONTINGENT LIABILITIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at September 30, 2010, were approximately $179.1 billion.

NOTE 5 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies" of the 2009 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2010, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at September 30, 2010			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Federal funds	**$ 22,689**	$ -	$ 22,689	$ -
Investments available for sale	**3,058,155**	-	2,906,550	151,605
Derivative assets	**5,048**	-	5,048	-
Assets held in nonqualified benefit trusts	**347**	347	-	-
Total	**$ 3,086,239**	$ 347	$ 2,934,287	$ 151,605
Liabilities:				
Derivative liabilities	**$ 222**	$ -	$ 222	$ -
Standby letters of credit	**3,006**	-	3,006	-
Total	**$ 3,228**	$ -	$ 3,228	$ -

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2010, to September 30, 2010:

Available-for-sale investment securities:	
Balance at January 1, 2010	$ -
Net gains included in other comprehensive income	1,201
Purchases, issuances and settlements	150,404
Balance at Sepember 30, 2010	$ 151,605

There were no transfers of assets or liabilities into or out of Levels 1 or 2 from other levels during the quarter ended September 30, 2010.

Assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2010, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement at September 30, 2010				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 45,314**	$ -	$ -	$ 45,314	**$ (22,738)**
Other property owned	**2,672**			2,672	**232**
Total assets	**$ 47,986**	$ -	$ -	$ 47,986	**$ (22,506)**

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

	Fair Value Measurements at December 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 20,490**	$ -	$ 20,490	$ -
Investments available for sale	**2,143,485**	-	2,143,485	-
Derivative assets	**2,526**	-	2,526	-
Assets held in nonqualified benefit trusts	**235**	235	-	-
Total	**$ 2,166,736**	$ 235	$ 2,166,501	$ -
Liabilities:				
Derivative liabilities	**$ 30**	$ -	$ 30	$ -
Standby letters of credit	**3,006**	-	3,006	-
	$ 3,036	$ -	$ 3,036	$ -

There were no transfers of assets or liabilities into or out of Level 1 from other levels during 2009. There were no liabilities transferred into or out of Level 2 from other levels during 2009. During 2009, mortgage-backed securities with a fair value of $36,816 were transferred from Level 2 to Level 3 due to significant unobservable inputs in the valuation model. Subsequently in 2009, these securities were returned to Level 2 at a fair value of $26,931 when Level 2 pricing models were used in their valuation.

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2009, to December 31, 2009:

Available-for-sale investment securities:		
Balance at January 1, 2009	$	99,992
Net losses included in other comprehensive income		(376)
Net losses included in earnings		(5,293)
Purchases, issuances and settlements		(104,208)
Transfers to Level 3		9,885
Balance at December 31, 2009	$	-

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

	Fair Value Measurement at December 31, 2009				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Assets:					
Loans	**$ 53,084**	$ -	$ -	$ 53,084	**$ (13,846)**
Other property owned	**710**			710	**14**
Total assets	**$ 53,794**	$ -	$ -	$ 53,794	**$ (13,832)**

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," of the Annual Report, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the bank's assets and liabilities:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. To estimate the fair value of investments, the bank obtains prices from third party pricing services. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Investments classified as Level 3 consist of the Farmer Mac agricultural mortgage-backed securities (AMBS).

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Derivatives

The bank's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include fair value interest rate swaps, interest rate caps and cash flow interest rate swaps. The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

Loans

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. These loans are generally classified as Level 3. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral less estimated costs to sell. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 6 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated values of the bank's financial instruments at September 30, 2010, and December 31, 2009.

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash, federal funds sold and investment securities	**$ 3,470,860**	**$ 3,470,860**	$ 2,634,400	$ 2,634,400
Loans	**10,609,626**	**11,042,929**	11,033,114	11,176,487
Allowance for loan losses	**(31,458)**	**—**	(31,602)	—
Loans, net	**10,578,168**	**11,042,929**	11,001,512	11,176,487
Derivative assets	**5,048**	**5,048**	2,526	2,526
Financial liabilities				
Bonds and notes	**12,803,836**	**13,024,417**	12,769,479	12,862,844
Subordinated debt	**50,000**	**55,546**	50,000	50,696
Derivative liabilities	**222**	**222**	30	30

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

Cash and Federal Funds Sold:

The carrying value is a reasonable estimate of fair value.

Investment Securities:

If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, the fair value is determined as described in Note 5, "Fair Value Measurements."

Loans:

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

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

Fair value of loans in a nonaccrual status that 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.

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.

Subordinated Debt:

The fair value of these obligations is determined by discounting expected future cash flows based on the Treasury yield curve.

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.

NOTE 7 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

The bank enters into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. Interest rate swaps allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates to better match the repricing characteristics of earning assets. Under interest rate swap arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index.

A substantial amount of the bank's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments. In order to match the asset structure, interest rate swaps in which the bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, the bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay fixed swaps) when necessary to reduce its net position.

The bank may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. The notional amounts and primary types of derivative instruments used and the amount of activity during the period are summarized in the following table:

	Receive-Fixed Swaps	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2010	$ 125,000	$ -	$ 130,000	$ 255,000
Additions	-	725,000	415,000	1,140,000
Terminations	-	(250,000)	-	(250,000)
Balance at September 30, 2010	**$ 125,000**	**$ 475,000**	**$ 545,000**	**$ 1,145,000**

By using derivative products, the bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the bank's credit risk will equal the fair-value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the bank, thus creating a repayment (credit) 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 and levels of exposure to individual counterparties. The bank does not anticipate nonperformance by any of these counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. Another way the bank minimizes the risk of credit losses from derivatives is that substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached, which thresholds may vary depending on the counterparty's credit rating. At September 30, 2010, and December 31, 2009, the bank's exposure to counterparties, net of collateral, was \$5.0 million and \$2.5 million, respectively. At September 30, 2010, and December 31, 2009, the bank had posted no securities as collateral.

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the bank's asset/liability and treasury functions. The bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the bank's board of directors through the bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the bank's overall interest rate risk-management strategies. The bank held no derivatives that were not designated as hedges at September 30, 2010, or December 31, 2009.

Fair Value Hedges

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

Cash Flow Hedges

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

Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value 9/30/2010**	**Fair Value 12/31/2009**	**Balance Sheet Location**	**Fair Value 9/30/2010**	**Fair Value 12/31/2009**
Receive fixed	Other assets	\$ 2,319	\$ 921	Other liabilities	\$ -	\$ 30
Pay fixed	Other assets	-	-	Other liabilities	222	-
Interest rate caps	Other assets	2,729	1,605	Other liabilities	-	-

Derivatives designated as hedging instruments	**Change in OCI on Derivative (Effective Portion)**
Interest rate caps	\$ (3,052)
Cash flow derivatives	(222)

NOTE 8 — EMPLOYEE BENEFIT PLANS

The following table summarizes the components of net periodic benefit costs for the bank's supplemental defined benefit pension plan and for the bank's other postretirement benefit costs for the nine months ended September 30:

	Supplemental Defined Benefit Pension Benefits		Other Postretirement Benefits	
	2010	2009	**2010**	2009
Service cost	**$ 117**	$ 67	**$ 142**	$ 145
Interest cost	**179**	238	**320**	329
Amortization of prior service costs	**265**	266	**(225)**	(225)
Amortization of net loss	**175**	146	**-**	-
Net periodic benefit cost	**$ 736**	$ 717	**$ 237**	$ 249

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

NOTE 9 — PREFERRED STOCK

On August 26, 2010, the bank issued $300.0 million of Class B non-cumulative subordinated perpetual preferred stock, representing three hundred thousand shares at $1,000 per share par value for net proceeds of $296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are non-cumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B preferred stock ranks junior, both as to dividends and upon liquidation to our Class A preferred stock, and senior to all of our outstanding capital stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations.

In September 2010, the bank redeemed $3.0 million of outstanding Class A $1,000 per share par value cumulative perpetual preferred stock at a net cost of $2,879. Preferred stock outstanding at September 30, 2010, totaled $497.0 million, consisting of $197.0 million in Class A cumulative perpetual preferred stock and $300.0 million in Class B non-cumulative subordinated perpetual preferred stock.

NOTE 10 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through November 3, 2010, which is the date the financial statements were issued. There are no significant subsequent events requiring disclosure as of November 3, 2010.

NOTE 11 — COMBINED ASSOCIATION FINANCIAL DATA

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

Balance sheet data	**September 30, 2010**	December 31, 2009
Cash	**$ 11,144**	$ 30,542
Investment securities	**167,156**	35,827
Loans	**12,783,945**	13,316,686
Less allowance for loan losses	**128,405**	113,129
Net loans	**12,655,540**	13,203,557
Accrued interest receivable	**169,897**	156,805
Other property owned, net	**69,143**	52,685
Other assets	**335,845**	325,840
Total assets	**$ 13,408,725**	$ 13,805,256
Bonds and notes	**$ 11,147,316**	$ 11,613,442
Other liabilities	**149,798**	181,479
Total liabilities	**11,297,114**	11,794,921
Capital stock and participation certificates	**63,603**	63,983
Retained earnings	**2,040,853**	1,937,914
Accumulated other comprehensive income	**7,155**	8,438
Total members' equity	**2,111,611**	2,010,335
Total liabilities and members' equity	**$ 13,408,725**	$ 13,805,256

	Nine Months Ended September 30,	
Statement of income data	**2010**	2009
Interest income	**$ 533,031**	$ 571,131
Interest expense	**253,376**	298,566
Net interest income	**279,655**	272,565
Provision for loan losses	**80,621**	104,209
Net interest income after provision for loan losses	**199,034**	168,356
Noninterest income	**56,094**	43,759
Other expense	**131,709**	137,556
Benefit from income taxes	**(227)**	(906)
Net income	**$ 123,646**	$ 75,465

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