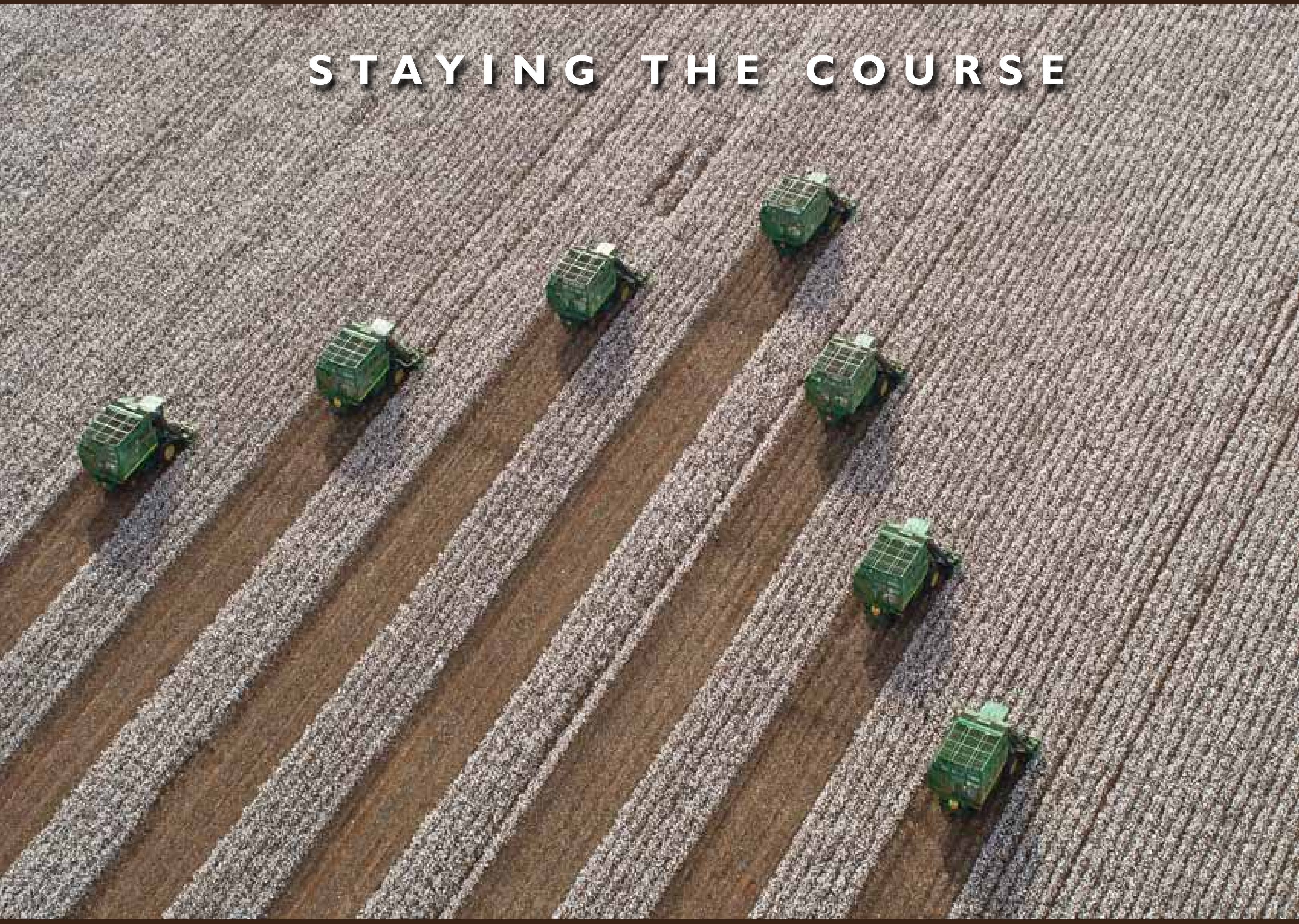
STAYING THE COURSE



2011 ANNUAL REPORT

FARM CREDIT BANK OF TEXAS

Table of Contents

FARM CREDIT BANK OF TEXAS
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findfarmcredit.com

STAYING THE COURSE —
in challenging times

In 1916, Farm Credit Bank of Texas set out on a critical mission — to provide financing for farmers and ranchers who, at the time, lacked reliable sources of competitive credit. With their sights set clearly on serving agriculture, the bank's early leaders implemented the cooperative business model as the roadmap by which to accomplish this goal.

For 95 years we have stayed this course, knowing it is the right path for rural America. Farmers, ranchers and agribusiness firms need dependable credit and financial services in order to operate and succeed, and our lending co-ops have served them well. The cooperative approach to success-sharing ensures that when the bank does well, our benefits are passed on to our association owners, and in turn to their borrower-owners.

OUR MISSION is to enhance the quality of life in rural America by using cooperative principles to provide competitive credit and superior service to our customers.

James F. "Jimmy" Dodson   Larry R. Doyle

TO OUR STOCKHOLDERS:

For Farm Credit Bank of Texas, 2011 was a year of strong results achieved against a backdrop of economic and weather-related challenges. As we entered the year, we could not have predicted the severe weather conditions or their impact on farmers and ranchers in the states we serve.

Fortunately, we began 2011 with strong capital, liquidity and asset quality. By staying the course, with a sharp focus on meeting our owners' needs, we ended the year on even more solid footing than we began.

95 Years Strong

We proudly celebrated the 95th anniversary of the bank and the Farm Credit System in 2011, a landmark accomplishment that signaled to rural America the enduring strength of our cooperative structure.

At the same time, we achieved record earnings of $174.2 million, an increase of 3.4 percent over last year's net income. This increase was driven by a $14.3 million, or 6.7 percent, increase in net interest income over 2010, largely attributable to the strategic management of our liabilities. By calling high-cost debt and replacing it with lower-cost debt, we were able to take advantage of the low-interest-rate environment to reduce the cost of funding for our cooperative owners.

Patronage Offsets Funding Costs

As a cooperative, when we do well we share our earnings with our owners, which lowers their cost of borrowing. In 2011, we paid a patronage of 42 basis points on our direct-note volume to the 17 lending associations and four Other Financing Institutions that are both our owners and our customers. This level of patronage allowed them to continue to offer competitive financing to the agricultural producers and rural landowners they serve.

In total, the bank returned $66.3 million in patronage distributions through these 2011 patronage programs:

• Earnings Patronage on Direct Note	$ 44.6 million
• Participations Patronage	$ 13.3 million
• Stock Credit Patronage	$ 5.4 million
• Capitalized Participation Patronage	$ 3.0 million
Total	$ 66.3 million

95 FARM CREDIT
Serving rural America since 1916

Direct Lending Down, Participations Up

The bank's loan volume of $10.3 billion at year-end 2011 represented a decrease of almost 2 percent from 2010. This decline in volume was due largely to a decrease in direct loans to our owners as a result of associations' enhanced credit standards and weak economic conditions, which have slowed demand for rural real estate. Moreover, many producers benefited from crop insurance payments or strong commodity prices, which allowed them to pay down loans or operate with less debt.

Offsetting this decline in direct loans, we added $390.5 million to the bank's participation loan portfolio in 2011, as part of a strategy to diversify our portfolio and enlarge the bank's earnings engine.

In addition to improving lending standards and credit quality in 2011, several of our affiliated lending associations undertook management reorganizations and made operational changes that will position them for greater success in the coming years.

Strong Ratings Support Access to Funding

The bank's ability to provide credit at competitive rates to agriculture and rural America is dependent on our access to the debt capital markets. Thus we were extremely pleased when two ratings agencies, Moody's Investors Service and Fitch Ratings, affirmed our investment-grade ratings in August and September, even though Standard & Poor's Ratings Services downgraded the U.S. government, along with government-sponsored enterprises, including the Farm Credit System, from AAA to AA+.

Fitch Ratings affirmed the bank's long- and short-term issuer default ratings at "AA-" and "F1+", respectively, and upgraded our support rating floor to "A" from "A-", with a stable rating outlook. The rating actions send a positive signal to investors and reflect the bank's continued stable performance, despite stress in other segments of the market. Fitch Ratings recently announced it was changing its rating process on financial institution hybrid capital. This change is expected to result in the downgrade of hybrid capital for all financial institutions that Fitch rates. The impact to the bank's rating on subordinated debt and preferred stock is unknown at this time.

Looking Ahead

While our primary obligation to our owners is to provide them with competitively priced funding, we are always looking ahead to identify ways to help them be competitive and serve their customers efficiently and effectively. For example, in 2011, the bank initiated two multiyear projects that will modernize our technology and data management processes. One initiative will better align our technology development and operational support with business needs, while the other will digitize

KEY ACCOMPLISHMENTS FOR 2011

Net income sets new record.

Taking advantage of the current low-interest-rate environment, Farm Credit Bank of Texas employed a careful debt management strategy to achieve record net income of $174.2 million, a 3.4 percent increase over 2010 net income.

Associations' cost of funds equals bank's cost.

The bank paid its association owners a patronage of 42 basis points on direct-note loan volume. When combined with the elimination of billing allocated expenses to our associations, the patronage effectively reduced the associations' cost of funds to the bank's cost.

Fitch and Moody's affirm investment-grade ratings.

The two ratings agencies, Moody's and Fitch, affirmed Farm Credit Bank's investment-grade ratings in August and September, respectively, which allowed the bank to maintain reliable access to the nation's and world's capital markets.

Bank named among best places to work.

For the second consecutive year, Farm Credit Bank of Texas was named one of the Best Companies to Work for in Texas. The designation helps the bank continue to attract the best and brightest employees in the business.

ROA and total shareholder equity increase.

The bank's return on average assets for the year ended December 31, 2011, was 1.24 percent, compared to 1.20 percent for the previous year. Total shareholder equity increased to $1.21 billion at year-end 2011, up 5.2 percent from a year earlier.

and automate file-sharing and reduce paper burden, thereby providing greater efficiency and security for the district.

In addition, in 2011 we continued our efforts to support young people throughout our district by presenting $160,000 in academic scholarships, in some cases partnering with our associations. We also contributed more than $315,000 to sponsor programs for rural and community organizations in the states that we serve.

Meanwhile, we kept close watch on key legislative activities in Washington, D.C., and were pleased when Farm Credit's conservative practices afforded exemption from much of the regulatory reform directed at other financial institutions. As 2012 progresses, we will continue to work with the national Farm Credit Council to monitor and mitigate political risk to Farm Credit customers.

A Best Place to Work

At Farm Credit Bank of Texas, one of our greatest assets is our people. We place a high priority on providing excellent benefits and training opportunities and creating an environment of diversity and inclusiveness, in which employees can reach their full potential.

This effort was recognized when the bank was named among the Best Companies to Work for in Texas in 2011. The designation, which we received this winter for the second consecutive year, helps us in our ongoing efforts to recruit the best and brightest in their fields.

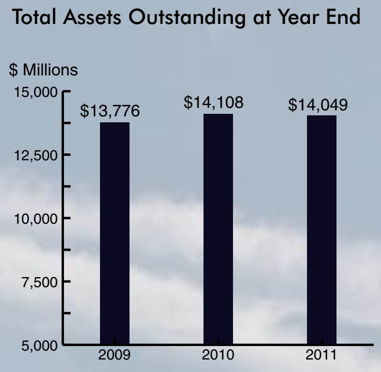
Moreover, with a focus on continually developing new leaders, our board committed to a two-year training program, beginning in 2012, that will provide professional development and managerial skills training to employees bank-wide.

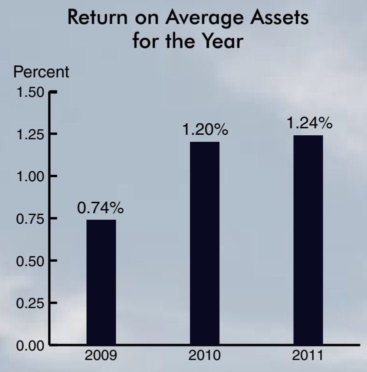
The Next 95 Years

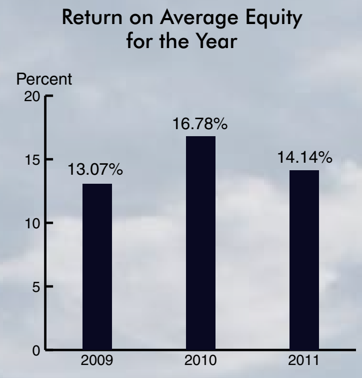
Farm Credit Bank of Texas begins 2012 focused on staying the cooperative course that has proved successful for our stockholders for 95 years. While we can't predict the future, we are well-positioned to remain a reliable and competitive source of financing in this uncertain environment. Through greater emphasis on relationship lending and attention to new markets, we will work to lead the district toward high-quality growth and continued success in the coming years.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer







2011 FINANCIAL HIGHLIGHTS

For the Year (in thousands)	**2011**	2010	2009
Net interest income	**$226,829**	$ 212,520	$ 169,212
Provision for credit losses	**(16,465)**	(28,523)	(33,648)
Noninterest expense, net	**(36,168)**	(15,547)	(28,956)
Net income	**$174,196**	$ 168,450	$ 106,608
Rate of return on:			
Average assets	**1.24%**	1.20%	0.74%
Average shareholders' equity	**14.14**	16.78	13.07
Cash patronage declared and paid	**$ 63,362**	$ 73,609	$ 62,959

At Year End (in millions)			
Total loans	**$ 10,287**	$ 10,464	$ 11,033
Total assets	**14,049**	14,108	13,776
Total liabilities	**12,839**	12,957	12,955
Total shareholders' equity	**1,210**	1,151	821
Permanent capital ratio	**20.85%**	22.00%	15.98%
Total surplus ratio	**17.36**	17.83	12.47
Core surplus ratio	**10.48**	10.67	7.11
Net collateral ratio	**108.27**	107.91	105.83

BOARD OF DIRECTORS

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

OUR LEADERSHIP

It takes an experienced leadership team to set a clear direction in a challenging business climate. Both the Farm Credit Bank of Texas Board of Directors and the bank’s senior management bring a broad perspective from their years in agriculture, business and finance to the decisions they make on behalf of the bank and the Texas Farm Credit District.

The seven-member board of directors sets the policy that guides the bank and ensures that we operate in the best interest of the stockholders they represent. Five of the board members are farmers or ranchers, elected by the stockholders of the local financing cooperatives that own the bank, and two members who have banking experience are appointed by the elected directors. With backgrounds ranging from agribusiness to academia, complemented by leadership experience in civic and trade organizations, they understand both the credit needs of rural America and the challenges facing financial institutions.

Farm Credit Bank of Texas is also fortunate to have a tenured senior management team to implement the bank’s business strategies and direct operations. Together, the seven senior officers have approximately 180 years of experience with the Farm Credit System.

SENIOR MANAGEMENT TEAM

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

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, 2011, 2010 and 2009. The independent auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that we have reviewed the December 31, 2011, 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.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

February 29, 2012

REPORT OF AUDIT COMMITTEE

The audit committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's website at www.farmcreditbank.com. In 2011, six committee meetings were held, with some of these meetings including executive sessions between the committee and PricewaterhouseCoopers LLP (PwC) and the bank's internal auditor. The committee approved the appointment of PwC as independent auditors for 2011.

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, 2011, with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communications With Those Charged With Governance).

PwC has provided to the committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The committee discussed with appropriate representatives of PwC the firm's independence from the bank. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the accountant's independence. Furthermore, throughout 2011 the committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate. Both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

William F. Staats, Chairman
Lester Little, Vice Chairman
Ralph W. Cortese
Joe R. Crawford
James F. Dodson
Elizabeth G. Flores
Jon M. Garnett

Audit Committee Members

February 29, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the bank concluded that as of December 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the bank determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2011. A review of the assessment performed was reported to the bank's audit committee.

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

February 29, 2012

REPORT OF INDEPENDENT AUDITORS

pwc

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

In our opinion, the accompanying balance sheets and the related statements of income, of changes in shareholders' equity, and of cash flows, present fairly, in all material respects, the financial position of Farm Credit Bank of Texas (the Bank) at December 31, 2011, 2010, and 2009, 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, 2012

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, TX 78701
T: (512)477 1300, F: (512)477 8681, www.pwc.com/us

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Bank of Texas

(dollars in thousands)	**2011**	2010	2009	2008	2007
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 445,354**	$ 457,304	$ 490,915	$ 189,791	$ 142,102
Investment securities	**3,160,683**	3,076,946	2,143,485	3,028,468	2,410,999
Loans	**10,287,377**	10,464,034	11,033,114	11,403,113	10,865,991
Less allowance for loan losses	**15,659**	28,678	31,602	12,549	1,065
Net loans	**10,271,718**	10,435,356	11,001,512	11,390,564	10,864,926
Other property owned, net	**28,748**	2,838	639	—	—
Other assets	**142,731**	135,759	139,951	151,678	102,751
Total assets	**$ 14,049,234**	$ 14,108,203	$ 13,776,502	$ 14,760,501	$ 13,520,778
Obligations with maturities of one year or less	**$ 4,838,271**	$ 5,180,268	$ 4,943,514	$ 6,099,922	$ 4,797,803
Obligations with maturities greater than one year	**8,000,607**	7,777,077	8,011,696	7,916,037	7,994,374
Total liabilities	**12,838,878**	12,957,345	12,955,210	14,015,959	12,792,177
Preferred stock	**482,000**	482,000	200,000	200,000	200,000
Capital stock	**216,839**	228,399	237,361	227,212	198,864
Allocated retained earnings	**14,438**	11,144	8,029	6,114	5,196
Unallocated retained earnings	**471,933**	407,821	365,031	336,999	329,198
Accumulated other comprehensive income (loss)	**25,146**	21,494	10,871	(25,783)	(4,657)
Total shareholders' equity	**1,210,356**	1,150,858	821,292	744,542	728,601
Total liabilities and shareholders' equity	**$ 14,049,234**	$ 14,108,203	$ 13,776,502	$ 14,760,501	$ 13,520,778
Statement of Income Data					
Net interest income	**$ 226,829**	$ 212,520	$ 169,212	$ 119,396	$ 99,565
Provision for credit losses	**(16,465)**	(28,523)	(33,648)	(20,529)	(1,043)
Noninterest expense, net	**(36,168)**	(15,547)	(28,956)	(22,134)	(24,518)
Net income	**$ 174,196**	$ 168,450	$ 106,608	$ 76,733	$ 74,004
Financial Ratios (unaudited)					
Rate of return on:					
Average assets	**1.24%**	1.20%	0.74%	0.54%	0.55%
Average shareholders' equity	**14.14%**	16.78%	13.07%	10.19%	10.56%
Net interest income to average earning assets	**1.68%**	1.57%	1.22%	0.85%	0.74%
Net charge-offs to average loans	**0.28%**	0.30%	0.12%	0.08%	<.01%
Total shareholders' equity to total assets	**8.62%**	8.16%	5.96%	5.04%	5.39%
Debt to shareholders' equity (:1)	**10.61**	11.26	15.77	18.82	17.56
Allowance for loan losses to total loans	**0.15%**	0.27%	0.29%	0.11%	0.01%
Permanent capital ratio	**20.85%**	22.00%	15.98%	14.03%	13.43%
Total surplus ratio	**17.36%**	17.83%	12.47%	11.25%	11.15%
Core surplus ratio	**10.48%**	10.67%	7.11%	6.40%	6.70%
Net collateral ratio	**108.27%**	107.91%	105.83%	105.40%	105.18%
Net Income Distributions					
Net income distributions declared and accrued					
Preferred stock cash dividends	**$ 43,761**	$ 45,601	$ 15,122	$ 15,122	$ 15,122
Patronage distributions declared					
Cash	**$ 63,362**	$ 73,609	$ 62,959	$ 51,618	$ 46,174
Allocated earnings	**2,961**	2,489	2,022	1,786	1,586

AVERAGE BALANCES AND NET INTEREST EARNINGS

Farm Credit Bank of Texas
(unaudited)
December 31,

	2011			2010			2009		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities and federal funds sold	**$ 3,174,814**	**$ 58,712**	**1.85%**	$ 2,808,878	$ 67,918	2.42%	$ 2,505,456	$ 88,122	3.52%
Loans	**10,293,662**	**363,767**	**3.53**	10,746,769	415,339	3.86	11,388,895	477,262	4.19
Total interest-earning assets	**13,468,476**	**422,479**	**3.14**	13,555,647	483,257	3.56	13,894,351	565,384	4.07
Cash	**461,137**			403,901			291,296		
Accrued interest receivable	**34,543**			36,051			40,300		
Allowance for loan losses	**(28,073)**			(32,024)			(23,133)		
Other noninterest-earning assets	**127,306**			122,360			112,769		
Total average assets	**$ 14,063,389**			$ 14,085,935			$ 14,315,583		
Liabilities and Shareholders' Equity									
Bonds, medium-term notes and subordinated debt, net	**$ 10,654,490**	**$186,475**	**1.75%**	$ 11,488,249	$ 262,706	2.29%	$ 11,634,484	$ 376,176	3.23%
Discount notes, net, and other	**2,042,773**	**9,175**	**0.45**	1,428,994	8,031	0.56	1,696,384	19,996	1.18
Total interest-bearing liabilities	**12,697,263**	**195,650**	**1.54**	12,917,243	270,737	2.10	13,330,868	396,172	2.97
Noninterest-bearing liabilities	**134,013**			164,519			169,067		
Total liabilities	**12,831,276**			13,081,762			13,499,935		
Shareholders' equity and retained earnings	**1,232,113**			1,004,173			815,648		
Total average liabilities and shareholders' equity	**$ 14,063,389**			$ 14,085,935			$ 14,315,583		
Net interest rate spread		**$ 226,829**	**1.60%**		$ 212,520	1.46%		$ 169,212	1.10%
Net interest margin			**1.68%**			1.57%			1.22%

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, 2011, 2010 and 2009. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (notes) and additional sections of this annual report. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank is part of the Farm Credit Bank of Texas and affiliated associations (district), which is part of the federally chartered Farm Credit System (System). The district serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico. The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2011, the bank served one Federal Land Credit Association (FLCA), 16 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs). The FLCA and ACAs are collectively referred to as associations. See Note 1, "Organization and Operations," to the accompanying financial statements for an expanded description of the structure and operations of the bank.

Forward-Looking Information

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

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

Critical Accounting Policies

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

- **Reserves for credit losses** — The bank records reserves for credit losses, consisting of an allowance for loan losses, reported as a reduction of loans on the bank's balance sheet, and a reserve for losses on standby letters of credit, which is reported as a liability on the bank's balance sheet. These reserves are management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio and letters of credit. The allowance for loan losses and reserves for credit losses are increased through provisions for credit losses and loan recoveries and are decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired. Each of these individual loans is evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. If the present value of expected future cash flows (or, alternatively, the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by making an addition to the allowance for loan losses with a corresponding charge to the provision for credit losses or by similarly adjusting an existing valuation allowance. In addition to these specific allowances, in 2010 the bank began recording a general allowance for loan losses, which reflects expected credit deterioration and inherent losses in that portion of the bank's participation loans that are not individually evaluated. The reserve for losses on standby letters of credit reflects the bank's estimated potential losses related to existing standby letters of credit.
- **Valuation methodologies** — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, certain mortgage-related securities, and certain derivative

and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the bank's results of operations.

- **Pensions** — The bank and its related associations participate in the district's defined benefit (DB) retirement plan. The plan is noncontributory, and benefits are based on salary and years of service. In addition, the bank and its related associations also participate in defined contribution retirement savings plans, and certain qualified individuals in the bank were eligible for participation in a separate nonqualified supplemental defined benefit pension plan or a separate nonqualified 401(k) plan. Pension expense for all plans is recorded as part of salaries and employee benefits.

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

  The supplemental defined benefit pension plan, which was terminated in 2011, was not considered a multiemployer plan and is therefore recorded in these financial statements. Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the bank's supplemental pension plan which is a nonqualified defined benefit deferred compensation plan. By terminating the supplemental pension plan, no further vesting or benefit accrual occurred under the plan following January 16, 2011, for the respective participants. All remaining unpaid vested benefits were distributed in a cash lump-sum payment to the participating bank employees after a one-year deferral period. The impact of the termination and liquidation of the plan was not material to the bank's financial results and is reflected in salary and employee benefits in the December 31, 2011, statement of income. For more information, see Note 10, "Employee Benefit Plans" to the accompanying financial statements. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to the Aon Hewitt AA Only Above-Median Yield Curve, actuarial analyses and industry norms. The Hewitt yield curves are determined based on actual corporate bond yields for bonds rated AA as of the measurement date.

OVERVIEW

General

The bank's loan portfolio totaled $10.3 billion at December 31, 2011, a 1.7 percent decrease from the prior year. The bank's $5.7 million increase in net income for 2011 was driven by a 6.7 percent increase in net interest income. The net interest rate spread and net interest margin have improved. The improvement in the bank's net interest income was largely due to the bank's debt management, and its ability to exercise call options on debt and replace it with debt with lower interest rates.

Funding

During 2011, the System continued to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. Investor demand for System-wide debt securities has remained favorable across all products. Given the low interest rate environment, the bank continues to refinance callable bonds when possible in order to lower its cost of funds.

Notwithstanding the recent ratings action taken by Standard & Poor's Ratings Services to downgrade the U.S. government and related entities (including the System), the bank has continued to have reliable access to funding at competitive rates and terms necessary to support our lending and business operations. In the future, the reduction in the System's credit rating may increase our borrowing cost and/or limit our access to the debt capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

Agricultural Outlook

Recent rains have improved poor pasturage conditions stemming from the severe drought that began in the spring of 2011 and persisted over much of the district throughout the remaining half of 2011. During much of the year, conditions were very poor for dryland farmers across portions of Texas, New Mexico, eastern Louisiana and southeastern Alabama, and a large majority of losses were mitigated by crop insurance. Irrigated farms experienced significant increases in production costs, but most were still profitable due to higher crop prices. These critical factors helped to maintain district portfolio credit quality on production, term, and intermediate-term loans. Since 2010, high feed costs and strong cattle prices resulted in a reduction of herd sizes, a trend which continued and intensified in 2011. However, macroeconomic factors such as high export demand

and favorable exchange rate conditions have raised beef prices during 2011, allowing many district producers to sell herds and capture profit rather than face increasing costs of holding cattle. While many of these producers will not restock until pasture conditions and water availability improve, future cattle prices are expected to remain strong due to reduced inventories and expected growth in foreign demand. Although the drought conditions adversely impacted district agriculture during 2011, a significant portion of exposure is supported by additional sources of repayment, helping to support the credit quality of the existing borrowers.

While economic conditions continue to have an impact on overall demand for rural real estate, district portfolios are supported by high levels of non-ag income and the benefit of commodity diversification, which reduces the risk on the portions of agricultural concentrations hardest hit by weather conditions during 2011.

Recent trends toward improving economic conditions, continued growth in commodity prices across our primary agricultural markets, and high levels of district portfolio diversification should play key roles in maintaining borrower credit quality and assisting in loan growth.

Financial Highlights

- Net income totaled $174.2 million for the year ended December 31, 2011, an increase of 3.4 percent compared to 2010.
- Net interest income for the year ended December 31, 2011, was $226.8 million, a 6.7 percent increase over the year ended December 31, 2010.
- Return on average assets and return on average shareholders' equity for the year ended December 31, 2011, were 1.24 and 14.14 percent, respectively, compared to 1.20 and 16.78 percent for 2010, respectively.
- Patronage distributions declared and earnings allocated totaled $66.3 million in 2011, compared to $76.1 million in 2010. Patronage for 2011 included a 42-basis-point direct note patronage to district associations and OFIs. This patronage, when combined with the positive effect of the bank's decision in April 2011 to eliminate billings to associations for information technology and other services, enabled the bank to meet its strategic objective of reducing cost of funds to the district associations to the bank's marginal cost of funds.
- The aggregate principal amount of loans outstanding at December 31, 2011, was $10.3 billion, compared to $10.5 billion at December 31, 2010, reflecting a decrease of 1.7 percent over December 31, 2010.
- In August 2011, Moody's Investors Service affirmed the bank's investment-grade of Aa2 issuer rating. Previously, Moody's had affirmed the bank's A1 subordinated debt rating, its A2 cumulative preferred stock rating, and its A3 noncumulative preferred stock rating, citing the bank's strong credit performance, very high support from the System, and very high support from the U.S. government.
- In September 2011, Fitch Ratings affirmed the bank's long-term and short-term Issuer Default Ratings at "AA-" and "F1+," respectively, citing the bank's ability to meet its mission of providing for the funding and liquidity needs of its agricultural district given a short-term disruption in its access to funding.

RESULTS OF OPERATIONS

Net Income

The bank's net income of $174,196 for the year ended December 31, 2011, reflects an increase of 3.4 percent over 2010, while 2010 income of $168,450 increased by 58.0 percent from 2009. The return on average assets was 1.24 percent for the year ended December 31, 2011, up from 1.20 percent reported for the year ended December 31, 2010. The return on average assets was 0.74 percent for the year ended December 31, 2009. Changes in the major components of net income for the referenced periods are outlined in the table below and in the discussion following:

	2011 vs. 2010	2010 vs. 2009
Net income (prior period)	$ 168,450	$ 106,608
Increase (decrease) due to:		
Decrease in interest income	(60,778)	(82,127)
Decrease in interest expense	75,087	125,435
Net interest income	14,309	43,308
Provision for credit losses	12,058	5,125
Noninterest income	(16,061)	6,434
Noninterest expense	(4,560)	6,975
Total change in net income	5,746	61,842
Net income	$ 174,196	$ 168,450

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, 2011, was $422,479, a decrease of $60,778, or 12.6 percent, compared to 2010. Total interest income for 2010 was $483,257, a decrease of $82,127, or 14.5 percent, from 2009. The decrease for 2011 and 2010 was due primarily to the decreasing interest rate environment during 2011 and 2010.

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

	Year Ended December 31,	
	2011 vs. 2010	2010 vs. 2009
Decrease in average earning assets	$ (87,171)	$ (338,704)
Average yield (prior year)	3.56%	4.07%
Interest income variance attributed to change in volume	(3,103)	(13,785)
Average earning assets (current year)	13,468,476	13,555,647
Decrease in average yield	(0.42)%	(0.51)%
Interest income variance attributed to change in yield	(57,675)	(68,342)
Net change in interest income	$ (60,778)	$ (82,127)

Interest Expense

Total interest expense for the year ended December 31, 2011, was $195,650, a decrease of $75,087, or 27.7 percent, compared to the same period of 2010. Total interest expense for 2010 was $270,737, a decrease of $125,435, or 31.7 percent, from 2009. The decrease for both 2011 and 2010 was due primarily to the effects of the decreasing interest rate environment during 2011 and 2010. During 2011, the bank was able to reduce its interest expense by calling $8.984 billion in debt and replacing it with debt that had lower interest rates, which resulted in a savings of approximately $25.4 million, net of related concession expenses. During 2010, the bank called and replaced $12.829 billion in debt, which resulted in a reduction of interest expense of approximately $65.8 million, net of related concession expenses.

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

	Year Ended December 31, 2011 vs. 2010	Year Ended December 31, 2010 vs. 2009
Decrease in average interest-bearing liabilities	$ (219,980)	$ (413,625)
Average rate (prior year)	2.10%	2.97%
Interest expense variance attributed to change in volume	(4,620)	(12,285)
Average interest-bearing liabilities (current year)	12,697,263	12,917,243
Decrease in average rate	(0.56)%	(0.87)%
Interest expense variance attributed to change in rate	(70,467)	(113,150)
Net change in interest expense	$ (75,087)	$ (125,435)

Net Interest Income

Net interest income, the excess of interest income over interest expense, increased by $14,309 from 2010 to 2011, and increased by $43,308 from 2009 to 2010. The increase in 2011 was due to the effects of a 14-basis-point increase in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt, slightly offset by an $87,171 decrease in average interest-earning assets. Although there was considerable volatility in the financial markets during 2010 and 2011, the bank was able to improve its net interest rate spread and margin. The bank's ability to increase the interest rate spread by taking advantage of callable debt features was related primarily to market conditions that existed during 2011. While the debt management in 2012 will continue to have some favorable impact on net interest income in the future, the level of these spread increases is not expected to be as significant as the effects of repricing in the bank's earning assets occur.

Net interest income in 2010 was $43,308 greater than 2009. The increase in 2010 was due to the effects of a 36-basis-point increase in the interest rate spread, slightly offset by a $338,704 decrease in average interest-earning assets. During 2010, the bank called and replaced $12.829 billion in debt, securing more favorable terms.

ANALYSIS OF NET INTEREST INCOME

	2011		2010		2009	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 10,293,662**	**$ 363,767**	$ 10,746,769	$ 415,339	$ 11,388,895	$ 477,262
Investments	**3,174,814**	**58,712**	2,808,878	67,918	2,505,456	88,122
Total earning assets	**13,468,476**	**422,479**	13,555,647	483,257	13,894,351	565,384
Interest-bearing liabilities	**12,697,263**	**195,650**	12,917,243	270,737	13,330,868	396,172
Impact of capital	**$ 771,213**		$ 638,404		$ 563,483	
Net Interest Income		**$ 226,829**		$ 212,520		$ 169,212

	2011 Average Yield	2010 Average Yield	2009 Average Yield
Yield on loans	**3.53%**	3.86%	4.19%
Yield on investments	**1.85%**	2.42%	3.52%
Yield on earning assets	**3.14%**	3.56%	4.07%
Cost of interest-bearing liabilities	**1.54%**	2.10%	2.97%
Interest rate spread	**1.60%**	1.46%	1.10%
Impact of capital	**0.08%**	0.11%	0.12%
Net interest income/average earning assets	**1.68%**	1.57%	1.22%

Provision for Credit Losses

The bank's provision for credit losses for 2011, including provisions for loan losses and provision for losses on standby letters of credit, totaled $16,465, a decrease of $12,058 from the provision for 2010. The decrease is primarily due to an $8.0 million decrease of required allowances related to loans which are individually evaluated for impairment and a $4.1 million decrease in the general allowance for loan losses, offset by a $293 increase in provision for credit losses on standby letters of credit. The specific provision reflects credit deterioration primarily in those borrowers impacted by the overall downturn in the general economy, primarily in the land in transition and ethanol sectors, a Rural America Bond loan and, to a lesser extent, to agricultural sectors that continue to be impacted by volatility in commodity prices, such as livestock and beef. The decrease in the general provision reflects improvements in credit quality and improvements in expected probabilities of default. The $607 reserve for losses on unfunded commitments is primarily related to expected losses on certain letters of credit outstanding on December 31, 2011. The provision for 2010 was a $5,125 decrease from the $33,648 provision for loan losses recorded in 2009. The decrease was primarily due to a $7.3 million decrease of specific provisions related to certain specific impaired loans and a $556 decrease in provision for credit losses on standby letters of credit. While the bank does expect to have provisions for credit losses in the future, it does not anticipate the same level of provisions it sustained in 2011 and 2010 due to enhanced credit standards and improved economic conditions.

Noninterest Income

Noninterest income for the year ended December 31, 2011, was $28,685, a decrease of $16,061, or 35.9 percent, compared to 2010. The decrease is due primarily to an $8.0 million decrease in Farm Credit System Insurance Corporation (FCSIC or Insurance Fund) refund distributions of excess reserves received in April 2010, a $4.3 million decrease in fees for services to associations, a $2.1 million write-off of capitalized expenses on internally developed software incurred between 2008 and 2010 for the bank's data warehouse initiative that was redirected to another approach, a $1.8 million decrease in fees for loan-related services, and a $257 increase in credit losses recognized on other-than-temporarily impaired investments which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," to the accompanying financial statements, offset by a $443 increase in all other noninterest items, collectively. Fees for services billed to associations decreased as a result of a decision by the bank's board of directors in April 2011 to bill associations only for direct pass-through expenses and not to bill for indirect, allocated charges. The $2.1 million write-off of capitalized software expenses is reflected in other losses. The decrease in loan-related fee income is primarily due to a $2.2 million decrease in prepayment fees.

Noninterest income for the year ended December 31, 2010, was $44,746, an increase of $6,434, or 16.8 percent, compared to 2009. The increase is primarily attributable to an $8.0 million refund in FCSIC distributions of excess reserves from prior periods recorded during the first quarter of 2010, a $4.4 million increase in fees for loan-related services, and a $3.5 million decrease in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," to the accompanying financial statements, offset by a $7.6 million decrease in gains on sale of investments and a $1.8 million decrease in all other noninterest items, collectively. The $4.4 million increase in fee income included a $3.1 million increase in participation loan fees and a $1.3 million increase in prepayment fees. The decrease in gains on sales of securities is related to the bank's sale in 2009 of six mortgage-backed securities for a gain of $5.5 million and five rural home loan mortgage-backed securities for a gain of $2.1 million. These sales were made in order to enhance the bank's liquidity position, which entailed the conversion of certain assets into cash.

Noninterest Expenses

Noninterest expenses totaled $64,853 for 2011, an increase of $4,560, or 7.6 percent, from 2010. This increase was primarily due to a $1,880 increase in losses related to other property owned (OPO), a $1,420 increase in occupancy and equipment expenses, a $976 increase in salaries and employee benefits, and a $507 increase in premiums to the FCSIC, offset by a $223 decrease in other operating expenses.

The $1,880 increase in losses related to OPO included a $1,371 increase in provision for losses on OPO, a $407 decrease in net gains on disposals, and a $102 increase in net expenses on OPO. The provision for loan losses on OPO reflects a decline in fair value or underlying collateral value on OPO.

The $1,420 increase in occupancy and equipment expenses includes an $809 increase in cost of space and a $623 increase in computer expenses, net of a $12 decrease in furniture and equipment. The cost of space included a $760 increase in the building lease expenses due to a lease extension and amendment for the bank's headquarters location and a $49 increase in maintenance. Computer expense included a $505 increase in depreciation of software, which includes depreciation related to a lending system that was implemented in July 2010.

The $976 increase in salaries and employee benefits was primarily due to a $1,191 increase in pension and retirement benefits, a $548 decrease in capitalization of salaries and benefits related to the lending systems and other internally developed software implemented in 2010, and a $162 increase in other benefits, net of a $925 decrease in compensation and related payroll taxes. The increase in pension and retirement expense included a $1,043 increase in the bank's contribution to the district defined benefit plan and a $357 increase in the supplemental DB plan, including settlement expenses related to the discontinuance of the plan effective January 16, 2011. Contributions to the district defined benefit pension plan were increased in order to improve the funded status of the plan. The decrease in capitalization of salaries and benefits related to internally developed software is due primarily to the completion and implementation of the first phase in the bank's lending systems in July 2010.

The increase in premiums to the Insurance Fund is primarily due to a premium rate increase from 5 basis points in 2010 to 6 basis points in 2011 on outstanding debt.

The decrease in other operating expenses included a $500 decrease in Funding Corporation assessment fees, a $273 decrease in professional and contract services, and a $185 decrease in advertising and member relations expenses, offset by a $288 increase in Farm Credit Council fees, a $272 increase in travel expenses, a $139 increase in communication expenses, and a $36 increase in all other operating expenses, collectively. The decrease in assessment fees from the Funding Corporation is due to a reduction in issuances of debt required to fund earning assets.

Noninterest expenses totaled $60,293 for 2010, a decrease of $6,975, or 10.4 percent, from 2009. This decrease was primarily due to a $6,919 decrease in premiums to the FCSIC, a $503 increase in gains related to OPO, and a $221 decrease in salaries and employee benefits, offset by a $637 increase in occupancy and equipment expenses and a $31 increase in other operating expenses. The decrease in premiums to the Insurance Fund is primarily due to a premium rate reduction from 20 basis points in 2009 to 5 basis points in 2010. The $503 increase in gains related to OPO included a $498 increase in gains on disposal of OPO, which included the recognition of $320 in gains which had previously been deferred on a financed sale of OPO pending sufficient performance to meet the requirements for borrower involvement, net of a $5 increase in expenses on OPO. The $221 decrease in salaries and employee benefits was primarily due to a $312 decrease in compensation and related payroll expenses, and a $909 decrease in pension and retirement expenses, net of a $951 decrease in capitalized salaries and benefits related to the bank's development of new lending systems and a $49 increase in other benefits. The decrease in compensation included a $3.9 million decrease in deferred compensation for the bank's chief executive officer from 2009 (see CEO compensation discussion in the Disclosure Information and Index section), offset by the recognition of $2.9 million in employee annual Success Sharing Plan bonuses in December 2010 in addition to the annual award recognized in January 2010 for 2009 performance and increases in compensation rates. The decrease in pension and retirement benefits was primarily the result of decreased contributions to the district's multiemployer defined benefit pension plan. Contributions from the plan's various employers decreased from the contributions of 2009, which had been heightened in response to declines in market value of the plan's investments during 2008 and to a reduction in the discount rate used to determine the plan's liabilities. As previously discussed, the bank records contributions to the district DB plan as an expense. The pension expense related to the bank's supplemental pension plan increased by $1.9 million due to settlement expenses related to departing participants' withdrawal from the plan. Salaries and benefits capitalized as a part of the bank's new lending systems decreased as a result of the completion and implementation of the first phase of the bank's loan accounting development in July 2010. The $637 increase in occupancy and equipment expenses includes a $364 increase in depreciation related to the newly implemented lending system, a $340 increase in other computer expenses and a $59 increase in furniture and equipment, offset by a $126 decrease in the cost of space. The increase in other operating expenses included a $557 increase in professional and contract services and a $361 increase in advertising and member relations expenses, and a $273 increase in all other operating expenses, collectively, offset by a $710 decrease in Funding Corporation assessment fees and a $450 decrease in communication expenses. The increase in professional and contract services reflects increased fees for monitoring association credit functions and consultant fees related to the bank's loan accounting systems development. Assessments from the Funding Corporation decreased primarily due to a $687 special assessment in January 2009 to address the Funding Corporation's pension obligation shortfalls.

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,

	2011	2010	2009
Excess of net interest income over operating expense	**$ 163,365**	$151,736	$101,956
Operating expense as a percentage of net interest income	**28.0%**	28.6%	39.7%
Operating expense as a percentage of net interest income and noninterest income	**24.8**	23.6	32.4
Operating expense as a percentage of average loans	**0.62**	0.57	0.59
Operating expense as a percentage of average earning assets	**0.47**	0.45	0.48

The increase in 2011 of excess net interest income over operating expense reflects the improvement in the net interest rate spread, the effects of which outpaced the growth in operating expenses. The decrease in operating efficiency for 2011, reflected in the ratio of operating expenses to net interest income plus noninterest income, is due primarily to decreases in noninterest income, including the $8.0 million decrease in refunds from the FCSIC and the $4.3 million decrease in services billed to associations, as well as a $2.7 million increase in operating expenses. The increase in operating expenses as a percentage of average loans reflects the decrease in direct notes receivable from associations from 2010 to 2011. The bank's net interest income has increased 6.7 percent and 25.6 percent for the years ended December 31, 2011 and 2010, respectively, while operating expenses increased 4.4 percent in 2011 and decreased 9.6 percent in 2010. Average loans decreased 4.2 percent in 2011 and 5.6 percent in 2010, respectively. Average investments increased 13.0 percent in 2011 and 12.1 percent in 2010, respectively. Average earning assets decreased 0.6 percent in 2011 and 2.4 percent in 2010, respectively.

CORPORATE RISK PROFILE

Overview

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

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

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

Structural Risk Management

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

In order to mitigate this risk, the System utilizes two integrated contractual agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA 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. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each district must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each district. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

Periodically, the ratios in the CIPA model are reviewed to take into consideration current performance standards in the financial services industry. In connection with the most recent review, effective June 30, 2011, certain ratios were revised to continue to align them with the current financial conditions and performance in the financial services industry.

The MAA is designed to provide for the timely identification and resolution of individual bank financial issues and establishes performance criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding. The performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the net collateral ratio of a bank, and
- the permanent capital ratio of a bank.

The bank net collateral ratio is net collateral (primarily earning assets) divided by total liabilities less subordinated debt, subject to certain limits, and the bank permanent capital ratio is primarily the bank's common stock, preferred stock and subordinated debt, subject to certain limits, and surplus divided by risk-adjusted assets.

If a bank fails to meet the above performance criteria, it will be placed into one of three categories. Each category gives the other System banks progressively more control over a bank that has declining financial performance under the MAA performance criteria. 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 limited to refinancing maturing debt obligations; and a "Category III" bank may not be permitted to participate in issuances of Systemwide debt securities. A bank exits these categories by returning to compliance with the agreed-upon performance criteria.

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 bank is required to maintain a net collateral ratio of at least 50 basis points greater than its 104% regulatory minimum to avoid being placed in Category I.

As required by the MAA, the banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. In connection with the most recent review, the banks and the Funding Corporation agreed to enter into the Second Amended and Restated MAA, which became effective on January 1, 2012. The revised MAA retains the same general framework and most of the provision of the previous MAA. One important change requires the banks to maintain a net collateral ratio of at least 50 basis points greater than the regulatory minimum (104% for the bank) in order to avoid being placed in Category I.

During the three years ended December 31, 2011, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2011, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2011, the banks met the defined CIPA score required by the MAA, except for the Farm Credit Bank of Texas which fell below a defined CIPA score as of September 30, 2009, and, effective November 9, 2009, was placed in "Category I." As of December 31, 2009, the Farm Credit Bank of Texas met the defined CIPA score required by the MAA and effective February 27, 2010, exited "Category I." The Farm Credit Bank of Texas was able to return to compliance with the defined CIPA score under the MAA primarily due to reductions in the district's substandard assets, including high-risk assets due to improvements in borrowers' repayment capacities. None of the banks were placed in any of the three categories designated for banks failing to meet the MAA's specified financial criteria.

Credit Risk Management

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

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

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

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

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

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

Loans

The bank's loan portfolio consists of direct notes receivable from district associations, loan participations purchased, loans to qualifying financial institutions serving agriculture and other bank-owned loans. See Note 1, "Organization and Operations," Note 2, "Summary of Significant Accounting Policies," and Note 4, "Loans and Reserves for Credit Losses," to the accompanying financial statements for further discussions.

Gross loan volume of $10.287 billion at December 31, 2011, reflected a decrease of $176.7 million, or 1.7 percent, from December 31, 2010. The balance of $10.464 billion at December 31, 2010, reflected a decrease of $569.1 million, or 5.2 percent, from the $11.033 billion balance at December 31, 2009. The decrease in the loan portfolio from 2010 to 2011 is mainly attributable to a $557.4 million decrease in the bank's direct loans to associations and other financing institutions and a $9.8 million decrease in other bank-owned loans, offset by a $390.5 million increase in the bank's participation loan portfolio. The increase in the bank's participation loan portfolio is due to efforts to generate greater revenue. Direct notes to associations have decreased as enhanced credit standards and repayments on existing loans have reduced the size of their loan portfolios while general economic conditions continue to result in a decline in demand for rural real estate. The $9.8 million decrease in other bank-owned loans was due primarily to charge-offs of $2.9 million and foreclosures of $6.3 million on loans purchased with evidence of credit deterioration from a district association in 2010.

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

	December 31,		
	2011	2010	2009
Direct notes receivable from district associations and OFIs	**67.8%**	71.9%	75.3%
Participations purchased	**32.0**	27.8	24.6
Other bank-owned loans	**0.2**	0.3	0.1
Total	**100.0%**	100.0%	100.0%

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

	2011	2010	2009
Acceptable	**88.3%**	78.4%	88.0%
Special mention	**2.9**	14.4	6.9
Substandard	**8.8**	7.2	5.1
Total	**100.0%**	100.0%	100.0%

Bank credit quality has remained relatively strong despite the downturn in the general economy, with association and OFI direct notes rated (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" (special mention) being 89.2, 92.7 and 95.8 percent of total direct notes at December 31, 2011, 2010 and 2009, respectively. Direct notes to associations and OFIs rated "acceptable" were 87.0, 74.6 and 88.2 percent of total direct notes at December 31, 2011, 2010, and 2009, respectively. The increase in acceptable from December 31, 2010, to December 31, 2011, was primarily attributable to two associations with a combined direct note balance of $704.4 million that were upgraded to acceptable from special mention and one association with a direct note balance of $179.4 that was upgraded from substandard to special mention and eventually upgraded from special mention to acceptable during 2011. One association's direct note of $667.3 million was downgraded from special mention to substandard. The bank has a first lien position on the assets of the associations, and the earnings, capital and loan loss reserves of the associations serve as an additional layer of protection against losses. As a result, while the downgrades reflect credit deterioration in the underlying retail loans held by the association, they are not indicative of an increased risk of loss related to the bank's direct notes to the associations. No provision for loan losses has been recorded on any of the direct notes to associations, and the bank does not anticipate any further material deterioration in the credit quality of its direct notes to affiliated associations. During 2009, the bank purchased $100.0 million of district association direct notes that it had previously sold to another System bank, leaving net association direct notes sold at $3.4 billion at December 31, 2011, and December 31, 2010.

Credit quality for all loans and accrued interest receivable 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 95.6, 93.0 and 92.2 percent at December 31, 2011, 2010 and 2009, respectively. The bank anticipates some stabilization in its overall credit quality due to improved expectations about the general economy and the return to profitability of certain commodity producers.

Association Direct Notes

As the preceding table illustrates, 67.8 percent of the bank's portfolio consisted of direct notes from associations and OFIs at December 31, 2011. Terms of loans to associations and OFIs are specified in a separate general financing agreement between each association and OFI and the bank, and all assets of each association secure the direct notes to the bank. Each association is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). See Note 1, "Organization and Operations," to the accompanying financial statements for further discussion of the Farm Credit System.

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

As of December 31, 2011, the bank had two associations that have triggered nonmonetary defaults within the general financing agreement between the bank and the associations. The nonmonetary defaults were triggered by defaults of the return on assets covenants for these respective associations for 2011. The bank has issued a limited waiver for the covenant default of one of the associations, subject to the association taking certain actions to correct the default; the other association has subsequently satisfied the return on assets covenant. One district association incurred a net operating loss for 2011. The direct note of the association represented 8.4 percent of the bank's direct notes to associations. The association's net loss for 2011 of $9,232 included a $15,825 provision for loan losses. During 2011, the association had net charge-offs that were 3.92 percent of average loans. Total high-risk assets at December 31, 2011, were 6.89 percent of total loans and OPO and 6.75 percent of total assets. The provision for loan losses and corresponding net charge-offs for 2011 were primarily associated with the association's participation portfolio. The risks and required allowance for loan losses for this participation portfolio were identified in 2011, with no expectation of ongoing significant provision for loan losses or charge-offs in 2012. At December 31, 2011, 92.0 percent of the association's loans were considered acceptable or other assets especially mentioned, and the allowance for loan losses was 1.54 percent of total loans. The allowance for loan losses was considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. No financial assistance to the association was given or required, including assistance through loss-sharing or capital preservation agreements. The bank expects the association to return to profitability in 2012.

District association loans totaled $12.206 billion at December 31, 2011, a decrease of $388.8 million, or 3.1 percent, from loan volume at December 31, 2010. In 2010, association loan volume decreased by $721.8 million, and in 2009, association loan volume decreased by $152.1 million. These decreases of loan volume were primarily related to general economic conditions, which resulted in a decline of demand for rural real estate, pay-downs afforded by high commodity prices for some district borrowers, and enhanced credit standards.

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

	Percentage of Portfolio		
Commodity Group	**2011**	2010	2009
Livestock	**37%**	38%	38%
Crops	**13**	13	14
Timber	**10**	11	11
Cotton	**4**	5	5
Poultry	**3**	3	4
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**29**	26	24
Total	**100%**	100%	100%

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

	December 31,		
	2011	2010	2009
Texas	**56%**	59%	60%
Alabama	**8**	8	7
Mississippi	**7**	7	6
Louisiana	**4**	4	4
Florida	**1**	2	2
All other states	**24**	20	21
Total	**100%**	100%	100%

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

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

Size (thousands)	**2011**	2010	2009
<$250	**26%**	27%	27%
$250-$500	**13**	13	13
$500-$1,000	**13**	13	13
$1,000-$5,000	**26**	26	27
$5,000-$25,000	**18**	17	17
$25,000-$100,000	**4**	4	3
Total	**100%**	100%	100%

Credit quality at the district's associations at December 31, 2011, 2010 and 2009 experienced some deterioration but remained solid, with loans classified as "acceptable" or "other assets especially mentioned" as a percentage of total loans of 95.3, 93.1 and 94.4 percent at December 31, 2011, 2010 and 2009, respectively. Association nonearning assets as a percentage of total loans at December 31, 2011, were 3.6 percent, compared to 5.2 percent and 3.7 percent at December 31, 2010 and 2009, respectively. The decrease from 2010 to 2011 was largely due to a $210.1 million decrease in nonaccrual loans at the district's associations.

High-Risk Assets

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

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

	2011	2010	2009
Nonaccrual loans	**$ 102,694**	$ 120,199	$ 111,915
Formally restructured loans	**2,552**	354	647
Loans past due 90 days or more and still accruing interest	**—**	—	—
Other property owned, net	**28,748**	2,838	639
Total	**$ 133,994**	$123, 391	$ 113,201

High-risk assets increased by $10,603 from December 31, 2010, to $133,994 at December 31, 2011. The increase in OPO is attributable mainly to the foreclosure on the underlying loan collateral on loans purchased with evidence of credit deterioration from a district association, and also to increases in OPO arising from the ethanol and land in transition sectors. The decrease in nonaccrual loans is attributable to repayments of $36.1 million, transfers to OPO of $35.3 million, charge-offs of $29.1 million, and transfers to accrual loans of $10.1 million, offset by transfers to nonaccrual of $68.8 million and advances on nonaccrual loans of $24.3 million. During 2011, the bank recorded charge-offs totaling $29.8 million against the allowance for loan losses due to known losses, primarily related to loans in the land in transition and ethanol sectors and a Rural America Bond loan. At December 31, 2011, $52,561, or 51.2 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $55,131 (45.9 percent) and $66,608 (59.5 percent) at December 31, 2010 and 2009, respectively. Increases in the bank's high-risk assets reflect the overall downturn in the general economy which impacted some sectors of the bank's loan portfolio, primarily the land in transition sector. Volatility in the agricultural commodity market and increases in farm input costs resulted in higher risk profiles for livestock sectors. Due to expected improvements related to these higher risk profiles and in the general economic environment, the bank anticipates credit quality of the loan portfolio will continue to improve in 2012.

Allowance and Reserve for Credit Losses

The allowance for loan losses at December 31, 2011, was $15,659, compared to $28,678 at December 31, 2010, and $31,602 at December 31, 2009. The decrease from 2010 to 2011 reflects net charge-offs of $29.1 million and transfers to the reserve for credit losses in standby letters of credit and unfunded commitments of $293, net of current provisions of $16.5 million. The reserve for credit losses on standby letters of credit and unfunded commitments was $607, $314 and $870 at December 31, 2011, 2010 and 2009, respectively. Because analysis indicates that an allowance on the association direct notes is not warranted, the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participations and other bank-owned loan portfolios.

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

	2011	2010	2009
Allowance and reserve for credit losses as a percentage of:			
Average loans	**0.16%**	0.27%	0.29%
Loans at year end			
Total loans	**0.16**	0.27	0.29
Participations	**0.49**	0.99	1.20
Nonaccrual loans	**15.84**	23.86	29.01
Total high-risk loans	**15.46**	23.79	28.85
Net charge-offs to average loans	**0.28**	0.30	0.12
Provision expense to average loans	**0.16**	0.27	0.30

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

Interest Rate Risk Management

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

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

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

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

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

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

FCBT uses complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities, including gap and simulation analyses. The following interest rate gap analysis sets forth the bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2011, which are expected to mature or reprice in each of the future time periods shown:

INTEREST RATE GAP ANALYSIS

as of December 31, 2011

	Interest-Sensitive Period						
	One Month or Less	More Than One Through Six Months	More Than Six Through Twelve Months	**Total Twelve Months or Less**	More Than One Year but Less Than Five Years	More Than Five Years and Non-Rate-Sensitive	**Total**
Interest-Earning Assets							
Total loans	$ 1,543,548	$ 2,221,422	$ 1,764,269	**$ 5,529,239**	$ 4,425,830	$ 332,308	**$ 10,287,377**
Total investments	1,309,647	366,639	269,933	**1,946,219**	965,029	270,122	**3,181,370**
Total interest-earning assets	2,853,195	2,588,061	2,034,202	**7,475,458**	5,390,859	602,430	**13,468,747**
Interest-Bearing Liabilities							
Total interest-bearing funds*	2,447,855	2,743,534	4,318,487	**9,509,876**	2,180,465	1,005,200	**12,695,541**
Excess of interest-earning assets over interest-bearing liabilities	—	—	—	**—**	—	773,206	**773,206**
Total interest-bearing liabilities	2,447,855	2,743,534	4,318,487	**9,509,876**	2,180,465	1,778,406	**$ 13,468,747**
Interest rate sensitivity gap	$ 405,340	$ (155,473)	$ (2,284,285)	**$ (2,034,418)**	$ 3,210,394	$ (1,175,976)	
Cumulative interest rate sensitivity gap	$ 405,340	$ 249,867	$ (2,034,418)	**$ (2,034,418)**	$ 1,175,976		

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

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

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

Interest rate risk exposure as measured by simulation modeling calculates the bank's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors its financial exposure to multiple interest rate scenarios. The bank's policy guideline for the maximum negative impact as a result of a 200-basis-point change in interest rates is 16 percent for net interest income and 20 percent for market value of equity. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. The bank manages its interest rate risk exposure well within these guidelines. As of December 31, 2011, projected annual net interest income would increase by $20,069, or 9.76 percent, if interest rates were to increase by 100 basis points, and would decrease by $539, or 0.26 percent, if interest rates were to decrease by 1 basis point. The bank's recent favorable performance is due to the bank's ability to exercise call options on debt currently outstanding and reissue at considerably lower interest rates. Market value of equity is projected to increase by 2.24 percent as a result of a 100-basis-point increase in interest rates and decline by 0.02 percent if interest rates were to decline by 1 basis point as of December 31, 2011.

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy as of December 31, 2011, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2011.

Net Interest Income

Scenario	Net Interest Income	% Change
+ 200 BP Shock	$237,365	15.40%
+ 100 BP Shock	225,749	9.76
0 BP	205,680	—
– 1 BP Shock*	205,141	(0.26)

Market Value of Equity

Scenario	Assets	Liabilities	Equity	% Change
Book value	$14,049,234	$12,838,878	$1,210,356	2.43%
+ 200 BP Shock	13,708,510	12,503,296	1,205,213	1.99
+ 100 BP Shock	14,008,320	12,800,159	1,208,161	2.24
0 BP Shock	14,267,644	13,085,994	1,181,650	—
– 1 BP Shock*	14,269,991	13,088,627	1,181,364	(0.02)

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

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

At December 31, 2011, the bank had three fair value interest rate swap contracts with a total notional amount of $175.0 million. The interest rate swap contracts had a net fair value of $13. In addition, at December 31, 2011, the bank held interest rate caps with a notional amount of $645.0 million and a fair value of $1.2 million. See Note 16, "Derivative Instruments and Hedging Activity," to the accompanying financial statements for further discussion. Unrealized losses on interest rate caps, the difference between their amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument, and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank monitors the credit ratings of its counterparties and has bilateral collateral agreements with counterparties. At December 31, 2011, the bank had credit risk to five counterparties on derivative contracts totaling $1.7 million. The bank's activity in derivative financial instruments for 2011 is summarized in the table below:

Activity in Derivative Financial Instruments
(Notional Amounts)

(in millions)	
Balance at December 31, 2010	$ 795
Additions	100
Maturities/amortizations	(75)
Balance at December 31, 2011	**$ 820**

Liquidity Risk Management

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

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

FCA regulations require each bank to maintain a minimum of 90 days of liquidity on a continuous basis, assuming no access to the capital markets. The number of days of liquidity is calculated by comparing maturing Systemwide debt securities and other bonds with the total amount of cash, investments and other liquid assets maintained by the bank. For purposes of calculating liquidity, liquid assets are subject to discounts that reflect potential exposure to adverse market value changes that might be recognized upon liquidation or sale. At December 31, 2011, the bank had 239 days of liquidity coverage, as compared with 177 days at December 31, 2010.

The System banks have worked together to enhance liquidity within the Farm Credit System. As of December 31, 2009, the bank implemented new internal liquidity guidelines to maintain a minimum of 120 days of liquidity with the first 15 days of liquidity comprised of cash, cash equivalents and Treasury securities, and an additional 30 days comprised of high-quality government guaranteed securities, resulting in a total of 45 days of high-quality liquidity. These guidelines were designed to allow the bank to continue normal operations should a market disruption occur that would prevent the bank from accessing the Systemwide debt market. As of December 31, 2011, the bank had 30 days of liquidity coverage from cash and cash equivalents and an additional 134 days of liquidity coverage from government guaranteed securities. In total, the bank maintained 239 days of liquidity coverage at December 31, 2011.

In addition, the bank maintains a $150.0 million commercial bank committed line of credit, which is tested periodically. The current line of credit will mature on June 29, 2012, at which time it will be renewed.

Funding Sources

The bank continually raises funds to support its mission to provide credit and related services to the rural and agricultural sectors, repay maturing Systemwide debt securities, and meet other obligations. As a government-sponsored enterprise, the bank has had access to the nation's and world's capital markets. This access has provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the rural and agricultural sectors. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AA+, 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. Standard and Poor's rating change on long-term debt of the System from AAA to AA+ was in concert with its downgrade of the sovereign credit rating on the United States of America from AAA to AA+. 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 8, "Bonds and Notes" to the accompanying financial statements. 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, 2011, the bank had excess collateral of $1.2 billion. Management expects the bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

In September 2008, the bank issued $50.0 million in subordinated debt in a private placement to one investor. The debt is a 10-year instrument with a coupon rate of 8.406 percent. Prior to the bank's issuance of its Class B noncumulative subordinated perpetual preferred stock (Class B) in August 2010, the subordinated debt received preferential regulatory capital and collateral treatment, being includible in portions of permanent capital and total surplus and being excludable from total liabilities for purposes of net collateral ratio calculation. Regulatory conditions related to the issuance of the Class B preferred stock effectively eliminated these preferential ratio treatments, which would previously have been ratably removed 20.0 percent per year during years 6 to 10 of the debt's term.

To support possible short-term credit needs, the bank maintains a $150.0 million commercial bank committed line of credit which is tested periodically.

The bank receives ratings from two rating agencies. On September 13, 2011, Fitch Ratings affirmed the bank's long-term and short-term Issuer Default Ratings at "AA-" and "F1+," respectively, citing the bank's ability to meet its mission of providing for the funding and liquidity needs of its agricultural district given a short-term disruption in its access to funding. Fitch Ratings recently announced it was changing its rating process on financial institution hybrid capital. This change is expected to result in the downgrade of hybrid capital for all financial institutions that Fitch rates. The impact to the bank's rating on subordinated debt and preferred stock is unknown at this time. On August 2, 2011, Moody's Investors Service affirmed the bank's investment-grade of Aa2 issuer rating. Previously, Moody's had affirmed the bank's A1 subordinated debt rating, A2 cumulative preferred stock rating and A3 noncumulative preferred stock rating, citing the bank's strong credit performance, very high support from the System, and very high support from the U.S. government.

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

	December 31,		
(dollars in millions)	**2011**	2010	2009
Bonds and term notes outstanding	**$ 11,031**	$ 10,708	$ 11,847
Average effective interest rates	**1.44%**	1.74%	2.46%
Average remaining life (years)	**3.1**	2.9	2.8
Subordinated debt outstanding	**$ 50**	$ 50	$ 50
Average effective interest rates	**8.41%**	8.41%	8.41%
Average remaining life (years)	**6.8**	7.8	8.8
Discount notes outstanding	**$ 1,614**	$ 2,072	$ 922
Average effective interest rates	**0.16%**	0.25%	0.29%
Average remaining life (days)	**149**	122	76

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

	For the years ended December 31,		
	2011	2010	2009
Average interest-bearing liabilities outstanding	**$ 12,697**	$ 12,917	$ 13,331
Average interest rates on interest-bearing liabilities	**1.54%**	2.10%	2.97%

Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds and managing interest rate risk. The bank is authorized to hold an amount not to exceed 35.0 percent of loans outstanding.

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

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

	2011		2010	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
FDIC-guaranteed corporate debt	**$ 169,871**	**$ 169,999**	$ 300,531	$ 302,091
Corporate debt	**83,306**	**82,464**	—	—
Federal agency collateralized mortgage-backed securities:				
GNMA	**1,689,535**	**1,719,158**	1,650,736	1,672,578
FNMA & FHLMC	**1,011,508**	**1,023,548**	873,286	886,851
Other collateralized mortgage-backed securities	**49,208**	**40,872**	71,192	64,918
Asset-backed securities	**15,080**	**13,721**	11,493	10,005
Total liquidity investments	**$ 3,018,508**	**$ 3,049,762**	$ 2,907,238	$ 2,936,443

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

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

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

	2011		2010	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 112,597**	**$ 110,921**	$ 145,122	$ 140,503

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

The bank's increases in federal agency collateralized mortgage-backed securities during 2011 have been in Government National Mortgage Association (GNMA) mortgage-backed securities. Demand for agency securities remains strong due to the Federal Reserve's mortgage-backed securities purchase program, stabilization in the agency market, and increased demand for quality GNMA structures.

At December 31, 2011, the bank had 11 investments which were ineligible for liquidity purposes as a result of credit downgradings. These investments had credit ratings at December 31, 2011, that were below AAA by Moody's, Standard & Poor's and Fitch Ratings. These investments had an amortized cost of $47.9 million and a fair value of $39.4 million, with an unrealized loss of $8.5 million at December 31, 2011. The downgrading of the investment securities requires a submission of a plan of divestiture to the FCA and their formal approval. The FCA has approved, with conditions, plans submitted by the bank to continue to hold all ineligible investments at this time. To date, the FCA has not required disposition of any of these securities. While these investments do not meet the FCA's standards for liquidity, they are included in the net collateral calculation, albeit at their lower market value rather than the normal book value for qualifying investments. During 2011, the bank recognized credit losses on six other-than-temporarily impaired investment securities totaling $2.1 million. Noncredit losses on these investments, totaling $6.1 million, are included as a charge against accumulated other comprehensive income at December 31, 2011. Due to the continued deterioration in the mortgage markets, the bank may incur additional other-than-temporary impairments on nonguaranteed mortgage- and asset-backed securities.

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

	Eligible			Ineligible						
December 31, 2011	**AAA/Aaa**	**AA/Aa**	**Split Rated**	**AA/Aa**	**BBB/Baa**	**BB/Ba**	**B3/ CCC/CC**	**CCC/Caa**	**CC/Ca**	**Total**
FDIC-guaranteed corporate debt*	**$ 30,045**	**$ —**	**$ 139,954**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 169,999**
Corporate debt	**—**	**67,531**	**14,933**	**—**	**—**	**—**	**—**	**—**	**—**	**82,464**
Federal agency collateralized mortgage-backed securities*										
GNMA	**—**	**—**	**1,719,158**	**—**	**—**	**—**	**—**	**—**	**—**	**1,719,158**
FNMA & FHLMC	**—**	**—**	**1,023,548**	**—**	**—**	**—**	**—**	**—**	**—**	**1,023,548**
Other collateralized mortgage-backed securities	**—**	**—**	**3,066**	**6,273**	**—**	**8,684**	**—**	**20,207**	**2,642**	**40,872**
Asset-backed securities	**10,271**	**—**	**1,835**	**—**	**—**	**—**	**—**	**1,615**	**—**	**13,721**
Total	**$ 40,316**	**$ 67,531**	**$2,902,494**	**$ 6,273**	**$ —**	**$ 8,684**	**$ —**	**$ 21,822**	**$ 2,642**	**$ 3,049,762**

	Eligible		Ineligible					
December 31, 2010	AAA/Aaa	Split Rated	AA/Aa	BBB/Baa	BB/Ba	B3/CCC/CC	CCC/Caa	Total
FDIC-guaranteed corporate debt	$ 302,091	$ —	$ —	$ —	$ —	$ —	$ —	$ 302,091
Federal agency collateralized mortgage-backed securities								
GNMA	1,672,578	—	—	—	—	—	—	1,672,578
FNMA & FHLMC	886,851	—	—	—	—	—	—	886,851
Other collateralized mortgage-backed securities	5,918	10,896	11,745	—	6,953	6,293	23,113	64,918
Asset-backed securities	3,294	4,305	—	418	1,668	—	320	10,005
Total	$ 2,870,732	$ 15,201	$ 11,745	$ 418	$ 8,621	$ 6,293	$ 23,433	$ 2,936,443

*In August 2011, while Moody's Investors Service and Fitch Ratings confirmed their highest ratings ("Aaa" and "AAA," respectively) of the U.S. government debt and that of government-sponsored enterprises, Standard & Poor's Rating Services lowered its long-term sovereign credit rating on the U.S. government from "AAA" to "AA+" and also lowered the long-term credit ratings of government-sponsored enterprises due to the potential reduction in the capacity of the U.S. government to support these securities and not as a result of credit concerns related to the underlying structure of the investment. At December 31, 2011, these investments were reported as eligible split-rated investments.

Capital Adequacy

Total shareholders' equity at December 31, 2011, was $1,210,356, compared to $1,150,858 and $821,292 at December 31, 2010 and 2009, respectively. The increase during 2011 was due primarily to net income of $174.2 million, an increase in unrealized net gains on investment securities totaling $5.0 million, a $2.0 million amortization related to retirement benefits, and a $333 issuance of allocated retained earnings, offset by patronage paid of $63.4 million, dividends on preferred stock totaling $43.8 million, net retirements of capital stock of $11.6 million, and a $3.4 million unrealized loss on cash flow hedge instruments. The bank's $63.4 million in paid patronage included $44.6 million in direct loan patronage, $10.4 million patronage on certain participations, $5.4 million patronage based on the associations' and OFIs' stock investment in the bank and Capitalized Participation Pool (CPP) patronage of $3.0 million. The bank's goal is to provide direct note patronage at a level that would result in a cost of funds to district associations equal to the bank's marginal cost of funds.

Preferred stock totaled $482.0 million, $482.0 million and $200.0 million at December 31, 2011, 2010 and 2009, respectively. Preferred stock outstanding included Class A cumulative perpetual preferred stock totaling $182.0 million, $182.0 million and $200.0 million at

December 31, 2011, 2010 and 2009, respectively. Class B noncumulative subordinated perpetual preferred stock, issued in 2010, totaled $300.0 million at December 31, 2011 and 2010. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to the preferred stock issuance, regulatory limitations on third-party capital require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. Dividends on the Class B preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock ranks junior, both as to dividends and upon liquidation to our Class A preferred stock, and senior to all of our outstanding common stock and participation certificates. "Dividend/patronage stopper" clauses in the preferred stock offerings require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and was required before payment of the December 31, 2011, bank investment and direct note patronage to associations and OFIs could be paid.

Accumulated other comprehensive income increased $3.6 million, or 17.0 percent, to $25.1 million at December 31, 2011, from a $21.5 million gain at December 31, 2010, due to an increase of $5.0 million in unrealized net gains on the bank's investments, and $2.0 million in amortization of net prior service credits related to retirement benefits, net of an increase of $3.4 million in unrealized losses on the bank's cash flow hedges. The increase in unrealized net gains on investments was primarily attributable to the effects of lower market interest rates on the bank's Farmer Mac guaranteed AMBS portfolio and continued high demand for its agency mortgage-backed securities. The $3.4 million increase of unrealized losses on cash flow hedges is the result of maturities and unwinding of cash flow interest rate swaps and the purchase of the interest rate caps the bank held at December 31, 2011. The bank held no cash flow interest rate swaps at December 31, 2011.

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,

	2011	2010	2009	Regulatory Minimum
Permanent capital ratio	**20.85%**	22.00%	15.98%	7.00%
Total surplus ratio	**17.36**	17.83	12.47	7.00
Core surplus ratio	**10.48**	10.67	7.11	3.50
Collateral ratio	**108.27**	107.91	105.83	103.00

The regulatory minimum for the collateral ratio is 103.00 or, if there is outstanding subordinated debt, 104.00. The required minimum for the bank in 2011, 2010 and 2009 was 104.00. For additional information about the bank's capital, see Note 9, "Shareholders' Equity" to the accompanying financial statements.

Operational Risk Management

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

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

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

Political Risk Management

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

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

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and a postretirement benefits plan other than pension, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011, for public entities or for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The bank chose to adopt for annual periods for fiscal years ending after December 15, 2011, which resulted in additional disclosures.

In June 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provision of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium) are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not impact the district's financial condition or results of operations, but will result in additional disclosure requirements.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt

Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this Standard does not impact the bank's financial condition or results of operations, but results in additional disclosures.

Regulatory Matters

As of December 31, 2011, the Farm Credit Administration had enforcement actions in place against four associations in the district, which have not had, and are not expected to have, a significant impact on the bank.

On March 2, 2011, the Board of Governors of the Federal Reserve System (FRB) published a final rule amending Regulation Z (Truth in Lending). The final rule implements Section 1461 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act). Section 1461 amends Regulation Z to provide a separate, higher rate threshold for determining when the FRB's escrow requirement applies to higher priced mortgage loans that exceed the maximum principal obligation eligible for purchase by Freddie Mac. The final rule was effective on April 1, 2011.

On March 2, 2011, the FRB published a proposed rule that would amend Regulation Z to implement certain amendments to the Truth in Lending Act (TILA) made by the Dodd-Frank Act. Regulation Z currently requires creditors to establish escrow accounts for higher priced mortgage loans secured by a first lien on a dwelling. The proposal would implement statutory changes made by the Dodd-Frank Act that lengthen the time for which a mandatory escrow account established for a higher priced mortgage loan must be maintained. In addition, the proposal would implement the Act's disclosure requirements regarding escrow accounts. The proposal also would exempt certain loans from the statute's escrow requirement. The primary exemption would apply to mortgage loans extended by creditors that operate predominantly in rural or underserved areas, originate a limited number of mortgage loans and do not maintain escrow accounts for any mortgage loans they service. The comment period for this proposed rule expired May 2, 2011.

On May 11, 2011, FCA, together with the Office of the Comptroller of the Currency, the FRB, the Federal Deposit Insurance Corporation (FDIC), and the Federal Housing Finance Agency, published a proposed rule that would establish minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap participants and major security-based swap participants subject to those agencies' regulation. This rule would implement sections 731 and 764 of the Dodd-Frank Act requiring these agencies to adopt rules to establish capital requirements and initial and variation margin requirements for noncleared swaps and noncleared security-based swaps. The comment period for this proposed rule expired July 11, 2011.

On May 11, 2011, the FRB published a proposed rule amending Regulation Z to implement amendments to TILA made by the Dodd-Frank Act. Regulation Z currently prohibits a creditor from making a higher priced mortgage loan without regard to the consumer's ability to repay the loan. The proposal would implement statutory changes made by the Dodd-Frank Act that expand the scope of the ability-to-repay requirement to cover any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage or temporary loan). In addition, the proposal would establish standards for complying with the ability-to-repay requirement, including by making a "qualified mortgage." The proposal also implements the Act's limits on prepayment penalties. Finally, the proposal would require creditors to retain evidence of compliance with this rule for three years after a loan is consummated. The comment period for this proposed rule expired July 21, 2011.

On May 25, 2011, FCA published a final rule that amended its rules on loan policies to permit System institutions with direct lending authority to purchase from the FDIC loans to farmers, ranchers, producers or harvesters of aquatic products and cooperatives that meet eligibility and scope of financing requirements in order to provide liquidity and a stable source of funding and credit for borrowers in rural areas affected by the failure of lending institutions insured by the FDIC. This rule became effective July 12, 2011.

On May 25, 2011, the FCA published a final rule that lowered the limit on extensions of credit to a single borrower for each System institution operating under Title I or II from 25 percent to 15 percent of an institution's lending limit base, and requires each System institution to adopt written policies that effectively identify, limit, measure and monitor their exposures to loan and lease concentration risks. This rule became effective on July 1, 2011.

On May 25, 2011, FCA published a proposed rule amending its regulations requiring boards of directors of System institutions to adopt an operational and strategic business plan to include, among other things, strategies on diversity and inclusion within the institution's workforce, management and governance structure, an assessment of the progress the institution has made in accomplishing its diversity and inclusion strategies, an assessment of the strengths and weaknesses of the institution's workforce, management, and governance, and describing the institution's workforce and management succession program. In addition, each plan would be required to include a marketing plan that furthers the objective of the System to be responsive to the credit needs of all eligible and creditworthy agricultural producers and other eligible persons with specific attention to diversity and inclusion. The comment period for this proposed regulation expired July 25, 2011.

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

On July 15, 2011, the FRB and the Federal Trade Commission published a final rule that requires disclosure of credit scores and information relating to credit scores if a credit score of a consumer is used in setting the material terms of credit. The amendments reflect the new requirements in the Fair Credit Reporting Act that were added by section 1100F of the Dodd-Frank Act. This rule became effective August 15, 2011.

On July 15, 2011, the FRB published a final rule that amends certain model notices in the FRB's Regulation B, which implements the Equal Credit Opportunity Act. The amendments include the disclosure of credit scores and information relating to credit scores in the notice if a credit score is used in taking adverse action. This rule implements section 1100F of the Dodd-Frank Act. The rule became effective on August 15, 2011.

On July 28, 2010, FCA, together with the Office of the Comptroller of the Currency, the FRB, the FDIC, the Office of Thrift Supervision and the National Credit Union Administration, published a joint final rule to implement the requirement of the Secure and Fair Enforcement for Mortgage Licensing Act (the S.A.F.E. Act) to develop and maintain a system for registering mortgage loan originators employed by institutions regulated by these agencies. The rule became effective October 1, 2010, and compliance became mandatory on July 29, 2011. Effective July 21, 2011, the Dodd-Frank Act granted to the Bureau of Consumer Financial Protection (the "Bureau") rulemaking authority pursuant to the S.A.F.E. Act with respect to employees of institutions regulated by FCA. On December 19, 2011, the Bureau published an interim final rule establishing a new Regulation G, which substantially duplicates the federal agencies' largely identical coordinated rules and does not impose any new substantive obligations on regulated entities.

On August 18, 2011, FCA published a proposed rule that would strengthen its regulations governing investment management, interest rate risk management, and association investments, revise the list of eligible investments, and reduce the regulatory burden for divestiture of investments that fail to meet eligibility criteria after purchase. The comment period for this proposed rule expired November 16, 2011.

On August 26, 2011, FCA published an ANPRM soliciting comments on compliance with section 939A of the Dodd-Frank Act which requires removal of all regulatory requirements relating to credit rating and substitution of other alternative creditworthiness standards. The comment period for this ANPRM expired November 25, 2011.

On October 17, 2011, FCA, together with the Office of the Comptroller of the Currency, the Federal Reserve System, the FDIC and the National Credit Union Administration, published notice with request for comment on new Interagency Questions and Answers Regarding Flood Insurance relating to insurable value and force placement of flood insurance. This guidance became effective upon publication.

On November 1, 2011, FCA published with a request for comments a Notice of Draft Second Amended and Restated Market Access Agreement proposed to be entered into by the System banks and the Funding Corporation which would replace the Amended and Restated Market Access Agreement approved by FCA on January 9, 2003. On December 15, 2011, FCA published notice of its approval of the Second Amended and Restated Market Access Agreement, and the Agreement was signed and became effective on January 1, 2012.

On November 8, 2011, the Internal Revenue Service published an ANPRM to facilitate development of a proposed rule with respect to the definition of "governmental benefit plans" in which the agency proposed that a "fact-and-circumstances" test be applied to determine governmental plan status. The deadline for comments was February 6, 2012.

Following the ANPRM on this subject previously published November 18, 2010, FCA published a notice of proposed rulemaking on January 23, 2012, requesting comments on regulations related to System institutions' disclosures to shareholders and investors on compensation, retirement programs and related benefits for senior officers, highly compensated individuals, and certain individual employees or other groups of employees. The comment period for this proposed rule expires March 23, 2012.

On December 27, 2011, FCA published a proposed rule amending its liquidity regulations to strengthen liquidity risk management of System banks, improve the quality of assets maintained in the banks' liquidity reserve and bolster the ability of System banks to fund their obligations and continue their operations during times of economic, financial or market adversity. The comment period for this rule expired February 27, 2012.

BALANCE SHEETS

Farm Credit Bank of Texas

(dollars in thousands)	2011	December 31, 2010	2009
Assets			
Cash	**$ 424,667**	$ 436,866	$ 470,425
Federal funds sold and overnight investments	**20,687**	20,438	20,490
Investment securities	**3,160,683**	3,076,946	2,143,485
Loans	**10,287,377**	10,464,034	11,033,114
Less allowance for loan losses	**15,659**	28,678	31,602
Net loans	**10,271,718**	10,435,356	11,001,512
Accrued interest receivable	**41,314**	45,298	48,709
Other property owned, net	**28,748**	2,838	639
Premises and equipment, net	**13,814**	15,833	12,348
Other assets	**87,603**	74,628	78,894
Total assets	**$ 14,049,234**	$ 14,108,203	$ 13,776,502
Liabilities and Shareholders' Equity			
Liabilities			
Bonds and notes, net	**$ 12,645,541**	$ 12,779,932	$ 12,769,479
Subordinated debt	**50,000**	50,000	50,000
Accrued interest payable	**35,751**	43,869	68,106
Reserve for credit losses	**607**	314	870
Preferred stock dividends payable	**21,881**	21,881	—
Other liabilities	**85,098**	61,349	66,755
Total liabilities	**12,838,878**	12,957,345	12,955,210
Commitments and contingencies (Note 12)			
Shareholders' Equity			
Preferred stock	**482,000**	482,000	200,000
Capital stock	**216,839**	228,399	237,361
Allocated retained earnings	**14,438**	11,144	8,029
Unallocated retained earnings	**471,933**	407,821	365,031
Accumulated other comprehensive income	**25,146**	21,494	10,871
Total shareholders' equity	**1,210,356**	1,150,858	821,292
Total liabilities and shareholders' equity	**$ 14,049,234**	$ 14,108,203	$ 13,776,502

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

STATEMENTS OF INCOME

Farm Credit Bank of Texas

(dollars in thousands)	**2011**	Year Ended December 31, 2010	2009
Interest Income			
Investment securities	**$ 58,712**	$ 67,918	$ 88,122
Loans	**363,767**	415,339	477,262
Total interest income	**422,479**	483,257	565,384
Interest Expense			
Bonds, notes and subordinated debt	**195,650**	270,737	396,172
Net Interest Income	**226,829**	212,520	169,212
Provision for credit losses	**16,465**	28,523	33,648
Net interest income after provision for credit losses	**210,364**	183,997	135,564
Noninterest Income			
Patronage income	**17,028**	16,643	17,136
Fees for services to associations	**4,245**	8,557	9,039
Fees for loan-related services	**11,304**	13,094	8,725
Gain from sale of investment securities	**—**	—	7,607
Refunds from Farm Credit System Insurance Corporation	**—**	7,982	—
Other losses, net	**(1,987)**	—	—
Other income, net	**182**	300	1,098
Impairment losses on investments			
Total other-than-temporary impairment losses	**(2,906)**	(2,743)	(11,804)
Less: portion of loss recognized in other comprehensive income	**(819)**	(913)	(6,511)
Net impairment loss recognized in earnings	**(2,087)**	(1,830)	(5,293)
Total noninterest income	**28,685**	44,746	38,312
Noninterest Expenses			
Salaries and employee benefits	**34,368**	33,392	33,613
Occupancy and equipment	**7,914**	6,494	5,857
Insurance Fund premiums	**2,551**	2,044	8,963
Loss (gain) on other property owned	**1,389**	(491)	12
Other operating expenses	**18,631**	18,854	18,823
Total noninterest expenses	**64,853**	60,293	67,268
Net Income	**$ 174,196**	$ 168,450	$ 106,608

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, 2008	$ 200,000	$ 227,212	$ 6,114	$ 336,999	$ (25,783)	$ 744,542
Noncredit portion of previous other-than-temporary impairment losses	—	—	—	1,527	(1,527)	—
Balance at January 1, 2009	200,000	227,212	6,114	338,526	(27,310)	744,542
Comprehensive income						
Net income	—	—	—	106,608	—	106,608
Change in pension and postretirement benefit plans	—	—	—	—	55	55
Net change in unrealized net gains on investment securities	—	—	—	—	41,868	41,868
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	(6,511)	(6,511)
Net change in unrealized net gains on cash flow hedge derivatives	—	—	—	—	2,769	2,769
Total comprehensive income	—	—	—	106,608	38,181	144,789
Capital stock issued	—	10,461	—	—	—	10,461
Capital stock and allocated retained earnings retired	—	(312)	(107)	—	—	(419)
Cash dividends – preferred stock	—	—	—	(15,122)	—	(15,122)
Patronage						
Cash	—	—	—	(62,959)	—	(62,959)
Shareholders' equity	—	—	2,022	(2,022)	—	—
Balance at December 31, 2009	200,000	237,361	8,029	365,031	10,871	821,292
Comprehensive income						
Net income	—	—	—	168,450	—	168,450
Change in pension and postretirement benefit plans	—	—	—	—	841	841
Net change in unrealized net gains on investment securities	—	—	—	—	12,697	12,697
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	(913)	(913)
Net change in unrealized net losses on cash flow hedge derivatives	—	—	—	—	(2,002)	(2,002)
Total comprehensive income	—	—	—	168,450	10,623	179,073
Issuance of Class B preferred stock	300,000	—	—	—	—	300,000
Issuance costs on preferred stock	—	—	—	(3,432)	—	(3,432)
Repurchase of Class A preferred stock	(18,000)	—	—	—	—	(18,000)
Net premium and costs on repurchase of preferred stock	—	—	—	(529)	—	(529)
Capital stock and allocated retained earnings issued	—	2,609	626	—	—	3,235
Capital stock retired	—	(11,571)	—	—	—	(11,571)
Preferred stock dividends accrued	—	—	—	(21,881)	—	(21,881)
Cash dividends – preferred stock	—	—	—	(23,720)	—	(23,720)
Patronage						
Cash	—	—	—	(73,609)	—	(73,609)
Shareholders' equity	—	—	2,489	(2,489)	—	—
Balance at December 31, 2010	482,000	228,399	11,144	407,821	21,494	1,150,858
Comprehensive income						
Net income	—	—	—	174,196	—	174,196
Change in pension and postretirement benefit plans	—	—	—	—	2,037	2,037
Net change in unrealized net gains on investment securities	—	—	—	—	5,680	5,680
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	(689)	(689)
Net change in unrealized net losses on cash flow hedge derivatives	—	—	—	—	(3,376)	(3,376)
Total comprehensive income	—	—	—	174,196	3,652	177,848
Capital stock and allocated retained earnings issued	—	2,512	333	—	—	2,845
Capital stock retired	—	(14,072)	—	—	—	(14,072)
Preferred stock dividends accrued	—	—	—	(21,881)	—	(21,881)
Cash dividends – preferred stock	—	—	—	(21,880)	—	(21,880)
Patronage						
Cash	—	—	—	(63,362)	—	(63,362)
Shareholders' equity	—	—	2,961	(2,961)	—	—
Balance at December 31, 2011	**$ 482,000**	**$ 216,839**	**$ 14,438**	**$ 471,933**	**$ 25,146**	**$ 1,210,356**

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

STATEMENTS OF CASH FLOWS

Farm Credit Bank of Texas

(dollars in thousands)	2011	2010	2009
	Year Ended December 31,		
Cash Flows From Operating Activities			
Net income	**$ 174,196**	$ 168,450	$ 106,608
Reconciliation of net income to net cash provided by operating activities			
Provision for credit losses	**16,465**	28,523	33,648
Provision for losses on other property owned	**1,371**	—	—
Depreciation and amortization on premises and equipment	**2,466**	1,946	1,485
Accretion of net discount on loans	**(5,884)**	(130)	(337)
Amortization and accretion on debt instruments	**(4,319)**	(4,821)	(4,045)
Accretion of net premium (discount) on investments	**6,910**	(6,938)	4,343
Gain on sale of investment securities	**—**	—	(7,607)
Loss on impairment of available-for-sale investments	**2,087**	1,830	5,293
Allocated equity patronage from System bank	**(12,460)**	(12,476)	(11,762)
Gain on sales of other property owned, net	**(105)**	(513)	(14)
Decrease in accrued interest receivable	**3,984**	3,411	14,923
(Increase) decrease in other assets, net	**(3,098)**	8,672	(3,708)
Decrease in accrued interest payable	**(8,118)**	(24,237)	(28,741)
(Decrease) increase in other liabilities, net	**(4,789)**	(13,262)	9,143
Net cash provided by operating activities	**168,706**	150,455	119,229
Cash Flows From Investing Activities			
Net (increase) decrease in federal funds sold	**(249)**	52	156,208
Investment securities			
Purchases	**(974,765)**	(1,888,081)	(1,391,158)
Proceeds from maturities, calls and prepayments	**887,022**	971,512	2,195,367
Proceeds from sales	**—**	—	106,331
Redemption of investment in Farmer Mac preferred stock	**—**	7,000	—
Decrease in loans, net	**125,592**	575,779	444,925
(Expenditures) proceeds from (purchase) sale of loans	**—**	(32,822)	(100,000)
Proceeds from sales of other property owned, net	**8,092**	1,276	9
Expenditures for premises and equipment	**(2,593)**	(5,431)	(7,061)
Net cash provided by (used in) investing activities	**43,099**	(370,715)	1,404,621
Cash Flows From Financing Activities			
Bonds and notes issued	**15,285,508**	19,497,527	42,684,817
Bonds and notes retired	**(15,413,746)**	(19,483,209)	(43,682,950)
Preferred stock issued	**—**	300,000	—
Issuance costs on preferred stock	**—**	(3,432)	—
Preferred stock repurchased	**—**	(18,000)	—
Net premium and costs on repurchase of preferred stock	**—**	(529)	—
Capital stock issued	**2,845**	3,235	10,461
Capital stock retired and allocated retained earnings distributed	**(14,072)**	(11,571)	(419)
Cash dividends on preferred stock	**(21,880)**	(23,720)	(15,122)
Cash patronage distributions paid	**(62,659)**	(73,600)	(63,305)
Net cash (used in) provided by financing activities	**(224,004)**	186,701	(1,066,518)
Net (decrease) increase in cash	**(12,199)**	(33,559)	457,332
Cash at beginning of year	**436,866**	470,425	13,093
Cash at End of Year	**$ 424,667**	$ 436,866	$ 470,425
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ —**	$ —	$ 8,109
Loans transferred to other property owned	**35,268**	2,962	648
Net increase in unrealized gains on investment securities	**4,991**	11,783	33,830
Preferred stock dividends payable	**21,881**	21,881	—
Patronage distributions payable	**10,361**	9,658	9,649
Traded but not settled participation loan sales	**—**	—	12,973
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	**$ (1,834)**	$ 956	$ (30,548)
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 203,768**	$ 294,974	$ 424,913

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

Farm Credit Bank of Texas

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

Note 1 — Organization and Operations

A. Organization:

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

As of December 31, 2011, the nation was served by four Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB) — collectively, the "System banks" — which has nationwide lending authority for lending to cooperatives. The ACB also has the lending authorities of an FCB within its chartered territories. With the merger of CoBank, ACB and U.S. AgBank, FCB effective January 1, 2012, the nation is currently served by three FCBs and the one ACB. The bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district's one FLCA, 16 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs), and preferred stockholders jointly owned the bank at December 31, 2011. The FLCA and ACAs collectively are referred to as associations.

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

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

B. Operations:

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

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

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, human resources and marketing. The fees charged by the bank for these services are included in the bank's noninterest income. Effective April 2011, the bank decided to bill associations for direct pass-through expenses only, and not to bill for allocated expenses.

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

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

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) — provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.

- Farm Credit System Building Association — leases premises and equipment to the FCA, as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company — as a reciprocal insurer, provides insurance services to its member organizations.

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

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

Note 2 — Summary of Significant Accounting Policies

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

The accompanying financial statements include the accounts of the bank and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests. The multiemployer 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 and the Federal Reserve.

B. Investment Securities and Federal Funds:

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

Most of the bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2011, 2010 and 2009. These investments are reported at fair value, and unrealized holding gains and losses on investments are netted and reported as a separate component of members' equity in the balance sheet. Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired. The bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the bank would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value. Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The bank does not hold investments for trading purposes.

The bank may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration. These programs allow the bank to make investments that further the System's mission to serve rural America. Mission-related investments are not included in the bank's liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) are considered other investments in the available-for-sale portfolio and are also excluded from the limitation and the bank's liquidity calculations. Mission-related investments for which the bank had the intent and ability to hold to maturity were classified as held-to-maturity prior to 2010 and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

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

C. Loans and Reserves for Credit Losses:

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

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

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the bank or association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the bank's economic loss and avoid foreclosure. Concessions vary by program, are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Impaired 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 that is considered uncollectible is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest). Loans are charged off at the time they are determined to be uncollectible.

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, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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

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

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

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model. Allowance and reserves for credit losses consist of the allowance for loan losses, which is recorded on the balance sheet as a reduction from loans, and the reserve for losses on letters of credit and unfunded commitments, which is recorded as a liability on the balance sheet. The reserve for losses on letters of credit and unfunded commitments is management's estimate of probable credit losses related to unfunded commitments and letters of credit.

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

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

D. Other Property Owned:

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

E. Premises and Equipment:

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

F. Other Assets and Other Liabilities:

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

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at December 31, 2011, 2010 and 2009.

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

G. Employee Benefit Plans:

Employees of the bank participate in one of two districtwide retirement plans (a defined benefit plan and a defined contribution plan) and are eligible to participate in the 401(k) plan of the district. Within the 401(k) plan, a certain percentage of employee contributions is matched by the bank. The 401(k) plan costs are expensed as incurred. Additionally, certain qualified individuals in the bank may participate in a separate, nonqualified 401(k) plan. Certain qualified individuals in the bank participated in a separate nonqualified supplemental defined benefit pension plan which was terminated effective January 16, 2011.

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

As described more fully in Note 10, "Employee Benefit Plans," the bank's supplemental pension plan is accounted for and reported in accordance with authoritative accounting guidance. Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the bank's supplemental pension plan which is a nonqualified defined benefit deferred compensation plan. By terminating the supplemental pension plan, no further vesting or benefit accrual occurred under the plan following January 16, 2011, for the respective participants. All remaining unpaid vested benefits were distributed in a cash lump-sum payment to the participating bank employees after the one-year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the plan was not material to the bank's financial results and is reflected in salary and employee benefits in the December 31, 2011, statement of income.

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

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

H. Income Taxes:

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

I. Derivative Instruments and Hedging Activity:

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

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

J. Fair Value Measurements:

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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

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

The fair value disclosures are presented in Note 14, "Fair Value Measurements."

K. Recently Issued or Adopted Accounting Pronouncements:

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and a postretirement benefits plan other than pension, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: (a) a description of the nature of plan benefits, (b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and (c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011, for public entities or for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The bank chose to adopt for annual periods for fiscal years ending after December 15, 2011, which resulted in additional disclosures.

In June 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provision of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium) are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not impact the district's financial condition or results of operations, but will result in additional disclosure requirements.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this Standard does not impact the bank's financial condition or results of operations, but results in additional disclosures.

L. Off-Balance-Sheet Credit Exposures:

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

Note 3 — Investment Securities

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

Investments in the available-for-sale liquidity portfolio at December 31, 2011, 2010 and 2009, follow:

December 31, 2011	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
FDIC-guaranteed corporate debt	**$ 169,871**	**$ 128**	**$ —**	**$ 169,999**	**0.36%**
Corporate debt	**83,306**	**8**	**(850)**	**82,464**	**1.08**
Federal agency collateralized mortgage-backed securities					
GNMA	**1,689,535**	**29,635**	**(12)**	**1,719,158**	**1.80**
FNMA and FHLMC	**1,011,508**	**12,626**	**(586)**	**1,023,548**	**1.88**
Other collateralized mortgage-backed securities	**49,208**	**—**	**(8,336)**	**40,872**	**6.11**
Asset-backed securities	**15,080**	**2**	**(1,361)**	**13,721**	**1.65**
Total liquidity investments	**$ 3,018,508**	**$42,399**	**$(11,145)**	**$ 3,049,762**	**1.78%**

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	$ 300,531	$ 1,724	$ (164)	$ 302,091	0.84%
Federal agency collateralized mortgage-backed securities					
GNMA	1,650,736	22,543	(701)	1,672,578	1.88
FNMA and FHLMC	873,286	13,910	(345)	886,851	2.20
Other collateralized mortgage-backed securities	71,192	68	(6,342)	64,918	5.97
Asset-backed securities	11,493	1	(1,489)	10,005	3.13
Total liquidity investments	$ 2,907,238	$38,246	$ (9,041)	$ 2,936,443	1.97%

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Corporate debt	$ 131,815	$ 1,918	$ —	$ 133,733	1.56%
Federal agency collateralized mortgage-backed securities					
GNMA	1,031,841	17,007	(5,211)	1,043,637	2.79
FNMA and FHLMC	812,053	15,859	(210)	827,702	3.63
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%

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

	December 31, 2011				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 112,597**	**$ —**	**$ (1,676)**	**$ 110,921**	**4.79%**

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

There were no investments in the available-for-sale other investments portfolio at December 31, 2009. There were no investments in the held-to-maturity portfolio at December 31, 2011, December 31, 2010, or December 31, 2009.

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of available-for-sale liquidity portfolio at December 31, 2011, follows:

	Due in one year or less	**Due after one year through five years**	**Due after five years through 10 years**	**Due after 10 years**	**Total**
FDIC-guaranteed corporate debt	$169,999	$ —	$ —	$ —	$ 169,999
Corporate debt	—	82,464	—	—	82,464
Federal agency collateralized mortgage-backed securities					
GNMA	—	—	3,638	1,715,520	1,719,158
FNMA and FHLMC	50	17,783	180,754	824,961	1,023,548
Other collateralized mortgage-backed securities	—	—	122	40,750	40,872
Asset-backed securities	—	739	—	12,982	13,721
Total	$170,049	$ 100,986	$ 184,514	$ 2,594,213	$ 3,049,762
Total amortized cost	$169,920	$ 101,358	$ 181,453	$ 2,565,777	$ 3,018,508
Weighted average yield	0.36%	1.68%	2.19%	1.85%	1.78%

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, 2011, the CMO portfolio had a weighted average remaining life of approximately two years.

Investments in the available-for-sale other investments portfolio at December 31, 2011, follows:

	Due after one year through five years
Fair value of agricultural mortgage-backed securities	$ 110,921
Total amortized cost	$ 112,597
Weighted average yield	4.79%

The ratings of the eligible investments held for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk must meet the applicable regulatory guidelines, which require these securities to be high quality, senior class and rated triple-A at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through overcollateralization and the priority of payments of senior classes over junior classes. The bank performs analysis based on expected behavior of the loans, whereby these loan performance scenarios are applied against each security's credit-support structure to monitor credit-enhancement sufficiency to protect the investment. The model output includes projected cash flows, including any shortfalls in the capacity of the underlying collateral to fully return the original investment, plus accrued interest.

If an investment no longer meets the credit rating criteria, the investment becomes ineligible. The bank must dispose of an investment that becomes ineligible within six months, unless the Farm Credit Administration approves, in writing, a plan that authorizes the bank to divest over a longer period of time. At December 31, 2011, the bank held 11 investments that were ineligible for liquidity purposes by FCA standards. Those ineligible securities had an amortized cost basis of $47.9 million and a fair value of $39.4 million at December 31, 2011. The bank has received approval from the FCA to continue to hold these investments.

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

	Year Ended December 31,		
	2011	2010	2009
Proceeds on sales	**$ —**	$ —	$ 153,119
Realized gains on sales	**—**	—	7,607
Realized losses due to impairment	**2,087**	1,830	5,293

At December 31, 2011, the bank had 36 investments that were in a loss position. The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position. The continuous loss position is based on the date the impairment occurred.

	December 31, 2011					
	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	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Corporate debt	**72,455**	**(850)**	**—**	**—**	**72,455**	**(850)**
Federal agency collateralized mortgage-backed securities						
GNMA	**—**	**—**	**8,575**	**(12)**	**8,575**	**(12)**
FNMA and FHLMC	**207,672**	**(530)**	**20,801**	**(56)**	**228,473**	**(586)**
Other collateralized mortgage-backed securities	**11,232**	**(1,936)**	**29,639**	**(6,400)**	**40,871**	**(8,336)**
Asset-backed securities	**739**	**(3)**	**3,449**	**(1,358)**	**4,188**	**(1,361)**
Total	**$ 292,098**	**$ (3,319)**	**$ 62,464**	**$ (7,826)**	**$ 354,562**	**$ (11,145)**

	December 31, 2010					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FDIC-guaranteed corporate debt	$ 199,490	$ (164)	$ —	$ —	$ 199,490	$ (164)
Federal agency collateralized mortgage-backed securities						
GNMA	395,835	(700)	—	—	395,835	(700)
FNMA and FHLMC	118,925	(346)	—	—	118,925	(346)
Other collateralized mortgage-backed securities	9,647	(626)	50,691	(5,716)	60,338	(6,342)
Asset-backed securities	—	—	6,342	(1,489)	6,342	(1,489)
Total	$ 723,897	$ (1,836)	$ 57,033	$ (7,205)	$ 780,930	$ (9,041)

	December 31, 2009					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FDIC-guaranteed corporate debt	$ —	$ —	$ —	$ —	$ —	$ —
Federal agency collateralized mortgage-backed securities						
GNMA	492,613	(5,210)	—	—	492,613	$ (5,210)
FNMA and FHLMC	14,129	(30)	33,840	(182)	47,969	$ (212)
Other collateralized mortgage-backed securities	2,233	(4)	103,708	(13,216)	105,941	(13,220)
Asset-backed securities	—	—	28,307	(3,351)	28,307	(3,351)
Total	$ 508,975	$ (5,244)	$ 165,855	$ (16,749)	$ 674,830	$ (21,993)

Although net unrealized gain on investment securities has increased by $5.0 million, the fair value of some investments in the portfolios has been impacted as a result of turmoil in the credit markets. As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary, including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (iii) whether an entity does not expect to recover the security’s entire amortized cost basis (even if it does not intend to sell).

The bank performs a quarterly evaluation on a security-by-security basis considering all available information. If the bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss would equal the entire difference between amortized cost and fair value of the security. When the bank does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost; adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral; payment structure of the security; ratings by rating agencies; the creditworthiness of bond insurers; and volatility of the fair value changes. The bank uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, the bank considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

The bank recognized other-than-temporary impairment losses on five mortgage-backed investments and one asset-backed investment during 2011. The credit portion of the impairment losses, totaling $2,087 for 2011, was recognized as a loss in earnings of $1,895 in the first quarter, and $192 in the second quarter. The non-credit-related impairment losses on the six investments, totaling $819, are included as a charge against other comprehensive income. In 2010, the bank recognized other-than-temporary impairment losses on four mortgage-backed securities and two asset-backed securities; the credit portion of the impairment losses, totaling $1,830, was recognized as a loss in earnings of $1,342 in the first quarter, $474 in the second quarter and $14 in the fourth quarter. Also, in accordance with guidance issued in 2009, $1,527 in non-credit-related impairment losses taken as a charge against earnings during 2008 was added back to retained earnings and charged against accumulated other comprehensive income during the first quarter of 2009.

As the bank has no intent of selling the securities deemed other-than-temporarily impaired and will not more likely than not be required to sell the securities before recovery, the credit loss portion of impairment was recognized through earnings for 2011. To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank utilizes an independent third party's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Applicable securities are identified through prior analysis based on the deterioration of price and credit ratings. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan level data. Loan level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The default rates used at December 31, 2011, ranged from 2.7 percent to 12.0 percent for non-agency mortgage-backed securities and ranged from 8.3 percent to 13.5 percent for the asset-backed securities. Prepayment rate assumptions are based on historical prepayment rates, and ranged from 3.9 percent to 14.4 percent for non-agency mortgage-backed securities and from 1.5 percent to 2.5 percent for the asset-backed securities at December 31, 2011. At December 31, 2011, the loss severity assumptions ranged from 31.2 percent to 52.9 percent for non-agency mortgage-backed securities and from 58.3 percent to 64.2 percent for the asset-backed securities. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

The following table details the activity related to the credit loss component of the amortized cost of debt securities that have been written down for other-than-temporary impairment and the credit component of the loss that is recognized in earnings for the past three years:

	For the Twelve Months Ended December 31,		
	2011	2010	2009
Credit loss component, beginning of period	**$ 7,834**	$ 6,005	$ 712
Additions:			
Initial credit impairment	**241**	300	3,594
Subsequent credit impairment	**1,846**	1,529	1,699
Credit loss component, end of period	**$ 9,921**	$ 7,834	$ 6,005

Note 4 — Loans and Reserves for Credit Losses

Loans comprised the following categories at December 31:

	2011	2010	2009
Direct notes receivable from district associations and OFIs	**$ 6,972,663**	$ 7,530,019	$ 8,304,420
Participations purchased	**3,296,472**	2,905,985	2,715,889
Other bank-owned loans	**18,242**	28,030	12,805
Total loans	**$ 10,287,377**	$ 10,464,034	$ 11,033,114

A summary of the bank's loan type follows at December 31:

	2011	2010	2009
Direct notes receivable from district associations	$ 6,889,762	$ 7,454,282	$ 8,210,542
Real estate mortgage	358,157	425,945	592,604
Production and intermediate term	413,077	346,302	324,185
Agribusiness			
Loans to cooperatives	154,942	232,105	109,785
Processing and marketing	1,094,211	824,956	650,106
Farm-related business	126,764	21,783	31,466
Communication	217,823	198,597	184,319
Energy	813,577	810,287	757,935
Water and waste disposal	94,563	50,000	50,000
Rural home	29	1,791	1,847
Mission-related	41,571	22,249	26,447
Loans to other financial institutions	82,901	75,737	93,878
Total	$ 10,287,377	$ 10,464,034	$ 11,033,114

The bank purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information on loan participations, excluding syndications, at December 31, 2011.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 235,098	$ 90,209	$ 72,893	$ —	$ 307,991	$ 90,209
Production and intermediate term	477,028	141,906	49,378	—	526,406	141,906
Agribusiness	1,151,598	431,528	103,600	—	1,255,198	431,528
Communication	275,622	61,788	—	—	275,622	61,788
Energy	906,216	92,560	—	—	906,216	92,560
Water and waste disposal	101,075	6,512	—	—	101,075	6,512
Direct note receivable from district associations	—	3,400,000	—	—	—	3,400,000
Mission-related	14,417	—	—	—	14,417	—
Total	**$ 3,161,054**	**$ 4,224,503**	**$ 225,871**	**$ —**	**$3,386,925**	**$ 4,224,503**

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.

At December 31, 2011, the bank had a total of $3.4 billion of direct notes sold to another System bank. The sales included participations of nine of its direct notes receivable from district associations. The purpose of these sales was to diversify the credit exposure of the bank by providing capital for liquidity and expansion of the capital markets loan participations portfolio.

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

Commodity	**2011**	2010	2009
Livestock	**37%**	38%	38%
Crops	**13**	13	14
Timber	**10**	11	11
Cotton	**4**	5	5
Poultry	**3**	3	4
Dairy	**3**	3	3
Rural home	**1**	1	1
Other	**29**	26	24
Total	**100%**	100%	100%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

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

In March 2010, the bank purchased loans which had experienced credit deterioration and other property owned from a district association. The purchase of the loan assets and other property owned by the bank was completed to ensure the district association remained a viable stand-alone institution. This purchase activity avoided a nonaccrual classification of a district association direct note receivable and protected the bank's charter in the state where the district association was located and has lending authorities. The loans, which had book balances at the association totaling $40,069, were purchased at fair value of $32,822. The fair value was derived by discounting the total estimated cash flows of $36,341 using appropriate yield curves, resulting in an accretable discount of $3,519. The bank recognized additional provisions for loan losses totaling $2,001 related to these loans during 2010, the effect of which reduces the resulting accretable discount, which will be accreted into interest income on a level-yield basis over the life of the loans. At December 31, 2010, after the payoff of one of the loans in December 2010 and the transfer of loans to two borrowers to other property owned (OPO) in November 2010, the balance of these loans, net of the unaccreted discount of $1,814, was $21,911. At December 31, 2011, after the payoffs of two loans and the movement of four loans to OPO, the balance of these loans, net of the unaccreted discounts of $439, was $12,949. Provision for loan losses on these loans in 2011 totaled $2.3 million. The financial impact of the purchases to the bank is negligible due to the size of the bank's balance sheet and its financial strength.

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties. The bank's impaired loans consisted of participations purchased and other bank-owned loans; no direct notes to district associations were impaired at December 31, 2011, 2010 and 2009.

	December 31,		
	2011	2010	2009
Nonaccrual loans			
Current as to principal and interest	**$ 52,561**	$ 55,131	$ 66,608
Past due	**50,133**	65,068	45,307
Total nonaccrual loans	**102,694**	120,199	111,915
Impaired accrual loans			
Restructured accrual loans	**2,552**	354	647
Total impaired accrual loans	**2,552**	354	647
Total impaired loans	**$ 105,246**	$ 120,553	$ 112,562

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

	December 31, 2011	December 31, 2010	December 31 2009
Nonaccrual loans:			
Real estate mortgage	**$ 65,774**	$ 77,120	$ 44,452
Production and intermediate term	**14,190**	17,551	15,954
Agribusiness	**10,073**	21,291	43,086
Communication	**3,096**	4,237	6,872
Rural residential real estate	**—**	—	7
Energy & water/ waste disposal	**9,043**	—	1,544
Mission-related	**518**	—	—
Total nonaccrual loans	**102,694**	120,199	111,915
Accruing restructured loans:			
Real estate mortgage	**132**	354	647
Agribusiness	**2,420**	—	—
Total accruing restructured loans	**2,552**	354	647
Total nonperforming loans	**105,246**	120,553	112,562
Other property owned, net	**28,748**	2,838	639
Total nonperforming assets	**$ 133,994**	$ 123,391	$ 113,201

One credit quality indicator utilized by the bank is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- **Acceptable** – assets expected to be fully collectible and represent the highest quality
- **Other assets especially mentioned (OAEM)** – assets are currently collectible but exhibit some potential weakness
- **Substandard** – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan
- **Doubtful** – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- **Loss** – assets are considered uncollectible

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

	2011	2010	2009
Real estate mortgage:			
Acceptable	**69.3%**	69.0%	80.5%
OAEM	**10.7**	3.1	1.9
Substandard/Doubtful	**20.0**	27.9	17.6
	100.0%	100.0%	100.0%
Production and intermediate term:			
Acceptable	**93.1%**	84.9%	78.6%
OAEM	**3.0**	8.1	14.2
Substandard/Doubtful	**3.9**	7.0	7.2
	100.0%	100.0%	100.0%
Agribusiness:			
Acceptable	**91.5%**	86.7%	81.4%
OAEM	**6.1**	9.1	8.8
Substandard/Doubtful	**2.4**	4.2	9.8
	100.0%	100.0%	100.0%
Energy & water/waste disposal:			
Acceptable	**95.9%**	98.9%	99.8%
OAEM	**1.9**	—	—
Substandard/Doubtful	**2.2**	1.1	0.2
	100.0%	100.0%	100.0%
Communication:			
Acceptable	**98.6%**	97.9%	96.3%
OAEM	**—**	—	—
Substandard/Doubtful	**1.4**	2.1	3.7
	100.0%	100.0%	100.0%
Rural residential real estate:			
Acceptable	**100.0%**	100.0%	99.4%
OAEM	**—**	—	0.2
Substandard/Doubtful	**—**	—	0.4
	100.0%	100.0%	100.0%
Direct notes to associations:			
Acceptable	**86.9%**	74.3%	88.1%
OAEM	**2.2**	18.4	7.7
Substandard/Doubtful	**10.9**	7.3	4.2
	100.0%	100.0%	100.0%
Loans to other financing institutions:			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Mission-related:			
Acceptable	**92.2%**	87.3%	100.0%
OAEM	**0.5**	0.9	—
Substandard/Doubtful	**7.3**	11.8	—
	100.0%	100.0%	100.0%
Total loans:			
Acceptable	**88.3%**	78.4%	88.0%
OAEM	**2.9**	14.4	6.9
Substandard/Doubtful	**8.8**	7.2	5.1
	100.0%	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2011:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ 243	$ 33,597	$ 33,840	$ 327,136	$ 360,976	$ —
Production and intermediate term	—	4,316	4,316	410,173	414,489	—
Agribusiness	—	2,934	2,934	1,378,443	1,381,377	—
Energy & water/waste disposal	—	9,043	9,043	905,249	914,292	—
Communication	—	—	—	218,123	218,123	—
Rural residential real estate	—	—	—	29	29	—
Direct notes to associations	—	—	—	6,908,416	6,908,416	—
Loans to OFIs	—	—	—	83,023	83,023	—
Mission-related	—	—	—	41,792	41,792	—
Total	$ 243	$ 49,890	$ 50,133	$ 10,272,384	$ 10,322,517	$ —

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2011, the total recorded investment of troubled debt restructured loans was $17,483, including $14,931 classified as nonaccrual and $2,552 classified as accrual, with specific allowance for loan losses of $631. As of December 31, 2011, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $1,695.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the year ended December 31, 2011. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$ 889	$ 889
Production and intermediate term	9,098	9,098
Total	$ 9,987	$ 9,987

* Premodification represents the recorded investment prior to restructuring, and postmodification represents the recorded investment following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs and may also reflect a previous direct write-down of the investment.

There were no payment defaults on troubled debt restructurings that occurred within the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Additional impaired loan information at December 31, 2011, is as follows:

	Recorded Investment at 12/31/2011	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 32,700	$ 44,635	$ 6,693	$ 40,888	$ 22
Production and intermediate term	2,982	3,015	37	2,741	12
Processing and marketing	3,217	3,487	2,155	9,190	4
Energy & water/waste disposal	9,043	9,043	850	8,511	—
Communication	2,455	2,455	2,000	2,504	—
Total	$ 50,397	$ 62,635	$ 11,735	$ 63,834	$ 38
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 33,206	$ 33,241	$ —	$ 61,339	$ 924
Production and intermediate term	11,208	11,208	—	11,763	279
Processing and marketing	9,276	11,640	—	7,158	157
Energy & water/waste disposal	—	8,575	—	1	4
Communication	641	641	—	1,278	—
Mission-related	518	3,657	—	2,534	1
Total	$ 54,849	$ 68,962	$ —	$ 84,073	$ 1,365
Total impaired loans:					
Real estate mortgage	$ 65,906	$ 77,876	$ 6,693	$ 102,227	$ 946
Production and intermediate term	14,190	14,223	37	14,504	291
Processing and marketing	12,493	15,127	2,155	16,348	161
Energy & water/waste disposal	9,043	17,618	850	8,512	4
Communication	3,096	3,096	2,000	3,782	—
Mission-related	518	3,657	—	2,534	1
Total	$ 105,246	$ 131,597	$ 11,735	$ 147,907	$ 1,403

*Unpaid principal balance represents the contractual obligations of the loans.

Additional impaired loan information at December 31, 2010, is as follows:

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

*Unpaid principal balance represents the contractual obligations of the loans.

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

	2011	2010	2009
Interest income which would have been recognized under the original loan terms	**$ 4,971**	$ 5,839	$ 8,288
Less: interest income recognized	**1,403**	1,536	4,200
Foregone interest income	**$ 3,568**	$ 4,303	$ 4,088

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:										
Balance at December 31, 2010	$ 16,836	$ 1,323	$ 5,242	$ 3,417	$ 1,809	$ 4	$ —	$ —	$ 47	$ 28,678
Charge-offs	(19,278)	(641)	(3,469)	—	(3,319)	—	—	—	(3,139)	(29,846)
Recoveries	12	—	328	—	315	—	—	—	—	655
Provision for loan losses	9,835	(258)	1,995	(1,254)	3,046	(4)	—	—	3,105	16,465
Other	(293)	—	—	—	—	—	—	—	—	(293)
Balance at December 31, 2011	$ 7,112	$ 424	$ 4,096	$ 2,163	$ 1,851	$ —	$ —	$ —	$ 13	$ 15,659
Ending Balance: individually evaluated for impairment	$ 5,466	$ —	$ 2,155	$ 2,000	$ 850	$ —	$ —	$ —	$ —	$ 10,471
Ending Balance: collectively evaluated for impairment	$ 419	$ 387	$ 1,941	$ 163	$ 1,001	$ —	$ —	$ —	$ 13	$ 3,924
Ending Balance: loans acquired with deteriorated credit quality	$ 1,227	$ 37	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,264
Recorded Investments in Loans Outstanding										
Balance at December 31, 2011	$ 360,976	$ 414,489	$ 1,381,377	$ 218,123	$ 914,292	$ 29	$ 6,908,416	$ 83,023	$ 41,792	$ 10,322,517
Ending Balance for loans individually evaluated for impairment	$ 65,907	$ 14,189	$ 12,493	$ 3,096	$ 9,043	$ —	$ —	$ —	$ 518	$ 105,246
Ending Balance for loans collectively evaluated for impairment	$ 287,211	$ 395,209	$ 1,368,884	$ 215,027	$ 905,249	$ 29	$ 6,908,416	$ 83,023	$ 41,274	$ 10,204,322
Ending Balance for loans acquired with deteriorated credit quality	$ 7,858	$ 5,091	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 12,949

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

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on letters of credit and unfunded commitments. At December 31, 2011, 2010 and 2009, the bank had a reserve for losses on letters of credit and unfunded commitments of $607, $314 and $870, respectively, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31, 2011	2010	2009
Leasehold improvements	**$ 1,158**	$ 1,147	$ 1,142
Furniture and equipment	**23,427**	23,582	18,614
	24,585	24,729	19,756
Accumulated depreciation	**(10,771)**	(8,896)	(7,408)
Total	**$ 13,814**	$ 15,833	$ 12,348

Included in the bank's furniture and equipment at December 31, 2011, is $10.5 million in capitalized costs related to the bank's development of a new lending system. The system, designed for participation loans and direct notes, was implemented effective July 2010. Depreciation on that system began upon implementation. During 2011, the bank charged off $2.1 million in costs that had been capitalized in 2008 and 2009 related to lending systems data warehouse projects, which were determined to be inconsistent with subsequent designs for an overall enterprise information technologies roadmap outlining the needs and activities of the future, including data marts. The new systems are designed to enhance the accounting and informational capabilities related to district association lending as well as the bank's capital markets loan portfolios. Also included in furniture and equipment is $735 in costs capitalized in 2011 to the bank's development of data mart projects.

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space. Under the terms of the lease amendment, the bank will pay annual base rental ranging from $18 per square foot in the first year to $26 per square foot in the last year. Annual lease expenses for the facility, including certain operating expenses passed through from the landlord, were $3.4 million, $2.6 million and $2.8 million for 2011, 2010 and 2009, respectively.

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

	Minimum Lease Payments
2012	$ 2,119
2013	1,589
2014	1,060
2015	1,654
2016	2,266
Thereafter	19,778
Total minimum lease payments	$ 28,466

Note 6 — Other Property Owned

Other property owned (OPO), consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. OPO totaled $28,748 (net of a $1.4 million allowance for losses on OPO), $2,838 and $639 at December 31, 2011, 2010 and 2009, respectively. OPO at December 31, 2011, consisted of $20,247 in six interests in real estate and $9,872 in preferred and common stock of one borrower.

Net gain (loss) on OPO, net, consists of the following for the years ended:

	December 31:		
	2011	2010	2009
Gain on sale, net	**$ 105**	$ 512	$ 14
Carrying value adjustments	**(1,371)**	—	—
Operating expense, net	**(123)**	(21)	(26)
Net (loss) gain on other property owned, net	**$ (1,389)**	$ 491	$ (12)

Note 7 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2011	2010	2009
Investment in other System bank	**$ 47,439**	$ 34,979	$ 22,504
Other accounts receivable	**23,204**	19,435	19,594
Unamortized debt issue costs	**11,123**	9,242	10,017
Fair value of derivatives	**1,726**	6,512	2,526
Receivable on loan sales	—	—	12,973
Farmer Mac preferred stock	—	—	7,000
Other, net	**4,111**	4,460	4,280
Total	**$ 87,603**	$ 74,628	$ 78,894

Other liabilities comprised the following at December 31:

	2011	2010	2009
Payable to associations for cash management services	**$ 29,619**	$ 21,816	$ 13,660
Accounts payable - other	**21,281**	9,349	11,927
Patronage payable	**10,361**	9,658	9,649
Obligation for nonpension postretirement benefits	**8,359**	8,153	7,212
Mortgage life additional reserve	**3,762**	3,393	3,393
FCSIC premium payable	**2,551**	2,044	8,963
Supplemental pension	**2,844**	1,905	6,018
Accrued building lease payable	**1,336**	1,250	1,497
Fair value of derivatives	**486**	5	30
Other, net	**4,499**	3,776	4,406
Total	**$ 85,098**	$ 61,349	$ 66,755

Note 8 — Bonds and Notes

Systemwide Debt Securities:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Systemwide bonds, medium-term notes and discount notes (Systemwide debt securities) are the joint and several liability of the System banks. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2011, the bank had such specified eligible assets totaling $13.9 billion and obligations and accrued interest payable totaling $12.7 billion, resulting in excess eligible assets of $1.2 billion.

The System banks and the Funding Corporation have entered into the Market Access Agreement (MAA), which established criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2011, 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, 2011, 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
2012	$ 3,030.9	0.68%	$ —	—%	$ 1,614.0	0.16%	$ 4,644.9	0.50%
2013	2,030.8	0.89	—	—	—	—	2,030.8	0.89
2014	1,818.3	1.13	—	—	—	—	1,818.3	1.13
2015	1,056.3	1.72	—	—	—	—	1,056.3	1.72
2016	1,113.6	1.89	—	—	—	—	1,113.6	1.89
Subsequent years	1,981.6	3.06	—	—	—	—	1,981.6	3.06
Total	$ 11,031.5	1.44%	$ —	—%	$ 1,614.0	0.16%	$ 12,645.5	1.28%

In the preceding table, the weighted average interest rate reflects the effects of interest rate swaps and caps 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 16, "Derivative Instruments and Hedging Activity."

Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2011, was 149 days.

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2011 *(dollars in thousands)*:

Year of Maturity	Amount	Range of First Call Dates
2012	$ —	
2013	1,145,000	1/6/2012-12/19/2012
2014	1,375,000	1/2/2012-11/21/2012
2015	795,000	1/1/2012-12/7/2012
2016	855,000	1/12/2012-11/28/2012
Subsequent years	931,000	1/1/2012-6/22/2015
Total	$ 5,101,000	1/1/2012-6/22/2015

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

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and Systemwide debt securities (insured debt) of insured System banks to the extent net assets are available in the Insurance Fund. All other liabilities in the financial statements are uninsured. At December 31, 2011, the assets of the Insurance Fund aggregated $3.39 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal and interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

Subordinated Debt:

In September 2008, the bank issued $50.0 million of 8.406 percent unsecured subordinated notes due in 2018, generating proceeds of $49.4 million. The proceeds were used to increase regulatory permanent capital and total surplus pursuant to Farm Credit Administration regulations and for general corporate purposes. Due to regulatory limitations on third-party capital (including preferred stock and subordinated debt) instituted upon the issuance of the bank's Class B Noncumulative Subordinated Perpetual Preferred Stock, subordinated debt is no longer qualified for inclusion in permanent capital or total surplus. This debt is unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest is payable semi-annually on March 15 and September 15. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, the issuing bank may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt is not considered Systemwide debt and is not guaranteed by the Farm Credit System or any banks in the System. Payments on the subordinated notes are not insured by the Farm Credit Insurance Fund. In accordance with FCA's approval of the bank's subordinated debt offering, the bank's minimum net collateral ratio for all regulatory purposes while any subordinated debt is outstanding will be 104 percent, instead of the 103 percent stated by regulation.

Other:

The bank maintains a $150.0 million commercial bank committed line of credit to support possible general short-term credit needs. The current line of credit will mature on June 29, 2012, at which time it is expected to be renewed.

Note 9 — Shareholders' Equity

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

A. Description of Bank Equities:

Class A Cumulative Perpetual Preferred Stock (Class A preferred stock) – On November 7, 2003, the bank issued 100,000 shares of $1,000 per share par value Class A preferred stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate is 7.561 percent, payable semi-annually to December 15, 2013, after which dividends are payable quarterly at a rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of cumulative perpetual preferred stock with the same terms. During 2010, the bank repurchased $18.0 million par value of the Class A preferred stock at a net premium and costs of $529. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. Dividends on preferred stock are recorded as declared. The Class A 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 2009, Class A preferred stock dividends of $15,122 were declared and paid. In 2010, Class A preferred stock dividends of $21,851 were declared, of which $14,970 were paid and $6,881 were payable at December 31, 2010, which was an accrual of the amount payable on the next dividend date, June 15, 2011, required by "dividend/patronage stopper" clauses in the preferred stock offerings. The clauses require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and was required before payment of the December 31, 2010, bank investment and direct note patronage to associations and OFIs could be paid. In 2011, Class A preferred stock dividends of $13,761 were declared and paid. At December 31, 2011, dividends payable on Class A preferred stock totaled $6,881.

Class B Noncumulative Subordinated Perpetual Preferred Stock (Class B preferred stock) – On August 26, 2010, the bank issued $300.0 million of Class B noncumulative 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 noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B preferred stock ranks junior, both as to dividends and upon liquidation, to our Class A preferred stock, and senior to all of our outstanding capital stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. In 2010, Class B preferred stock dividends of $23,750 were declared, of which $8,750 were paid and $15,000 were payable at December 31, 2010, which was an accrual of the amount payable on the next dividend date, June 15, 2011, required by "dividend/patronage stopper" clauses in the preferred stock offerings. In 2011, Class B preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2011, dividends payable on Class B preferred stock totaled $15,000.

Class A Voting Common Stock – According to the bank's bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCA are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of $5 per share) and allocated retained earnings. The current investment required of the associations is 2 percent of their average borrowings from the bank. No Class A voting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. There were 43,078 shares, 45,326 shares and 47,078 shares of Class A voting common stock issued and outstanding at December 31, 2011, 2010 and 2009, respectively. Class A voting common stock includes 724 shares purchased by district associations as a condition of the bank's Capitalized Participation Pool (CPP) program. Under the CPP program, the stock investment that the bank requires is 1.6 percent of each AMBS pool and 8 percent of each loan pool.

Class A Nonvoting Common Stock – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of $5 per share) in the bank based on a minimum and maximum of 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of the OFIs' average borrowings from the bank. No Class A nonvoting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 290 shares, 354 shares and 395 shares of Class A nonvoting common stock issued and outstanding at December 31, 2011, 2010 and 2009, respectively. One OFI paid off its direct note in December 2011, resulting in a retirement of stock of $231.

Allocated retained earnings of $14,438 at December 31, 2011, consisted of $1,686 of patronage refunds allocated to certain PCAs, and $12,752 allocated equity for the payment of patronage on loans participated with another System bank.

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

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

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

	2011	2010	2009
Class A voting common stock – Associations	$ 215,389	$ 226,630	$ 235,388
Class A nonvoting common stock – Other Financing Institutions	1,450	1,769	1,973
Total common stock	216,839	228,399	237,361
Preferred stock	482,000	482,000	200,000
Allocated retained earnings			
Associations	1,686	1,353	727
Other entities	12,752	9,791	7,302
Total allocated retained earnings	14,438	11,144	8,029
Total capital stock and allocated retained earnings	$ 713,277	$ 721,543	$445,390

Patronage may be paid to the holders of Class A voting common stock, Class A nonvoting 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 2011, $63,362 in cash patronages were declared to district associations, OFIs and other entities, compared to $73,609 in 2010 and $62,959 in 2009. Patronage in 2011 consisted of direct loan patronage of $44,612, patronage on certain participations of $10,364, patronage on association and OFI investment in the bank of $5,369 and capitalized participation pool patronage of $3,017.

B. Regulatory Capitalization Requirements and Restrictions:

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

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

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

	2011	2010	2009	Regulatory Minimum
Permanent capital ratio	20.85%	22.00%	15.98%	7.00%
Total surplus ratio	17.36	17.83	12.47	7.00
Core surplus ratio	10.48	10.67	7.11	3.50
Collateral ratio	108.27	107.91	105.83	103.00

C. Accumulated Other Comprehensive (Income) Loss:

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

	2011	2010	2009
Unrealized losses on other-than-temporarily impaired investments	$ 6,117	$ 5,428	$ 8,038
Unrealized gains on other investments available-for-sale, net	(35,694)	(30,014)	(20,840)
Supplemental pension benefit plans	—	2,193	4,013
Other postretirement benefit plans	(1,251)	(1,407)	(2,386)
Unrealized losses on cash flow interest rate caps	5,682	2,306	304
Total	$ (25,146)	$ (21,494)	$ (10,871)

Note 10 — Employee Benefit Plans

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

The structure of the district's DB plan is characterized as multiemployer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district 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 legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of directors of the bank. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2011.

The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the association chooses to stop participating in some of its multiemployer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the bank's contributions, and the percentage of bank contribution to total plan contributions for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Funded status of plan	**64.9%**	71.6%	61.4%
Bank's contribution	**$ 3,635,158**	$ 2,592,534	$ 5,620,560
Percentage of bank's contribution to total contributions	**15.9%**	13.0%	17.6%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 72.6 percent, 78.8 percent and 73.5 percent at December 31, 2011, 2010 and 2009, respectively.

Additionally, certain qualified individuals in the bank participated 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 assets is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2011. Actuarial information regarding the bank's nonqualified supplemental pension plan's benefit obligations and funded status are disclosed in the following tables.

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

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

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

	2011	2010	2009
District DB plan	**$ 3,635**	$ 2,593	$ 5,620
Supplemental DB plan	**3,208**	2,852	956
DC plan	**822**	857	718
401(k) plan	**717**	775	687
Supplemental 401(k) plan	**2**	116	121
Total	**$ 8,384**	$ 7,193	$ 8,102

The supplemental DB plan expense increased $1.9 million in 2010 due to supplemental pension settlement expense related to withdrawing participants.

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

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer 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 but will be responsible for 100 percent of the related premiums.

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

	Supplemental Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	**2011**	2010	2009
Accumulated benefit obligation, end of year	**$ 2,844**	$ 1,610	$ 3,879			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ 1,905**	$ 6,019	$ 5,219	**$ 8,153**	$ 7,213	$ 7,132
Service cost	**—**	155	90	**219**	190	194
Interest cost	**95**	238	317	**455**	426	438
Plan participants' contributions	**—**	—	—	**165**	157	138
Plan amendments	**—**	—	—	**—**	—	—
Settlements	**—**	—	—	**—**	—	—
Curtailment loss	**1,108**	—	—	**—**	—	—
Actuarial (gain) loss	**(187)**	638	393	**(133)**	679	(198)
Benefits paid	**(77)**	(5,145)	—	**(511)**	(512)	(491)
Projected benefit obligation, end of year	**$ 2,844**	$ 1,905	$ 6,019	**$ 8,348**	$ 8,153	$ 7,213
Change in plan assets						
Plan assets at fair value, beginning of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Actual return on plan assets	**—**	—	—	**—**	—	—
Company contributions	**77**	5,145	—	**346**	354	353
Plan participants' contributions	**—**	—	—	**165**	158	138
Benefits paid	**(77)**	(5,145)	—	**(511)**	(512)	(491)
Plan assets at fair value, end of year	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Reconciliation of funded status						
Unfunded status	**$ (2,844)**	$ (1,905)	$ (6,019)	**$ (8,348)**	$ (8,153)	$ (7,213)
Contributions between measurement date and fiscal year end	**—**	—	—	**—**	—	—
Net benefit (liability) at end of year	**$ (2,844)**	$ (1,905)	$ (6,019)	**$ (8,348)**	$ (8,153)	$ (7,213)
Amounts recognized in the statement of financial position						
Other liabilities	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	**$ —**	$ 692	$ 2,158	**$ 65**	$ 198	$ (481)
Prior service cost (credit)	**—**	1,501	1,855	**(1,316)**	(1,605)	(1,905)
Total	**$ —**	$ 2,193	$ 4,013	**$ (1,251)**	$ (1,407)	$ (2,386)
Net periodic benefit cost						
Service cost	**$ —**	$ 155	$ 90	**$ 219**	$ 190	$ 194
Interest cost	**95**	238	317	**455**	426	438
Expected return on plan assets	**—**	—	—	**—**	—	—
Amortization of:						
Transition obligation (asset)	**—**	—	—	**—**	—	—
Prior service cost (credit)	**—**	354	354	**(289)**	(300)	(300)
Net actuarial loss	**64**	234	195	**—**	—	—
Net periodic benefit cost	**$ 159**	$ 981	$ 956	**$ 385**	$ 316	$ 332
Settlement/curtailment expense	**3,049**	1,871	—	**—**	—	—
Total benefit cost	**$ 3,208**	$ 2,852	$ 956	**$ 385**	$ 316	$ 332
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss	**$ (187)**	$ 638	$ 393	**$ (133)**	$ 679	$ (198)
Amortization of net actuarial gain	**(505)**	(2,103)	(195)	**—**	—	—
Settlement expense	**—**	—	—	**—**	—	—
Prior service costs	**—**	—	—	**—**	—	—
Amortization of prior service costs	**(1,501)**	(354)	(354)	**289**	300	300
Termination recognition of prior service costs	**—**	—	—	**—**	—	—
Net change	**$ (2,193)**	$ (1,819)	$ (156)	**$ 156**	$ 979	$ 102
AOCI amounts expected to be amortized in 2012						
Prior service cost (credit)	**$ —**			**$ (235)**		
Net actuarial loss (gain)	**—**			**—**		
Total	**$ —**			**$ (235)**		

	Supplemental Pension Benefits			Other Postretirement Benefits		
Weighted-average assumptions used to determine benefit obligation as of December 31						
Measurement date	**12/31/2011**	12/31/2010	12/31/2009	**12/31/2011**	12/31/2010	12/31/2009
Discount rate	**N/A**	3.15%	4.25%	**5.10%**	5.70%	6.05%
Rate of compensation increase	**N/A**	3% in 2011 up to 3.5% in 2012	6% in 2010 down to 4% in 2012			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**8.5%/6.75%**	7.5%/6.5%	8.0%/7.0%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**8.00%**	10.00%	10.50%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2018**	2017	2017
Weighted-average assumptions used to determine net periodic cost for year ended December 31						
Measurement date	**12/31/2010**	12/31/2009	12/31/2008	**12/31/2010**	12/31/2009	12/31/2008
Discount rate	**3.15%**	4.25%	6.30%	**5.70%**	6.05%	6.30%
Expected return on plan assets	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Rate of compensation increase	**3.0%**	6.0%	7% in 2009 down to 4% in 2012			
Health care cost trend rate assumed for next year (pre/post-65)-medical				**7.5%/6.5%**	8.0%/7.0%	8.5%/6.5%
Health care cost trend rate assumed for next year (pre/post-65)-prescriptions				**10.00%**	10.50%	11.00%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2017**	2017	2015

Effect of Change in Assumed Health Care Cost Trend Rates

Effect on total service cost and interest cost components	
One-percentage-point increase	$ 126
One-percentage-point decrease	(100)
Effect on year-end postretirement benefit obligation	
One-percentage-point increase	$ 1,390
One-percentage-point decrease	(1,125)

Expected Future Cash Flow Information

	Supplemental Pension Benefits	Other Postretirement Benefits
Expected Benefit Payments		
Fiscal 2012	$ 2,844	$ 332
Fiscal 2013	–	355
Fiscal 2014	–	379
Fiscal 2015	–	409
Fiscal 2016	–	454
Fiscal 2017 - 2021	–	2,508
Expected Contributions		
Fiscal 2012	$ 2,844	$ 332

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

Note 11 — 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 $244,215, $305,160 and $364,620 for 2011, 2010 and 2009, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 9, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $4,245, $8,557 and $9,039 for 2011, 2010 and 2009, respectively, and was included in the bank's noninterest income. Effective in April 2011, the bank will only bill associations for direct pass-through expenses and no longer bills for allocated expenses.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2011, 2010 or 2009.

Note 12 — Commitments and Contingencies

The district 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, 2011, were approximately $184.8 billion.

In the normal course of business, the bank incurs a certain amount of claims, litigation, and other legal and administrative proceedings, all of which are considered incidental to the normal conduct of business. The bank believes it has meritorious defenses to the claims currently asserted against it, and, with respect to such legal proceedings, intends to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interest of the bank and its shareholders.

On at least a quarterly basis, the bank assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that the bank would incur a loss and the amount of the loss could be reasonably estimated, the bank would record a liability in its financial statements. These liabilities would be increased or decreased to reflect any relevant developments on a quarterly basis. For other matters, where a loss is not probable or the amount of the loss is not estimable, the bank does not record a liability.

Currently, 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 any resulting losses are not probable, and that the ultimate liability, if any, resulting from a lawsuit and other pending actions will not be material in relation to the financial position, results of operations or cash flows of the bank.

Note 13 — Financial Instruments With Off-Balance-Sheet Risk

The bank may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage its exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2011, $2.773 billion of commitments to extend credit and $111.0 million of standby letters of credit were outstanding.

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

The bank also participates in standby letters of credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the bank. At December 31, 2011, $111.0 million of standby letters of credit with a fair value of $2.3 million was included in other liabilities. Outstanding standby letters of credit generally have expiration dates ranging from 2012 to 2016.

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 14 — Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2011, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2011

	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	**$ 20,687**	$ —	$ 20,687	$ —
Investments available-for-sale	**3,160,683**	—	2,922,977	237,706
Derivative assets	**1,726**	—	1,726	—
Assets held in nonqualified benefit trusts	**280**	280	—	—
Total assets	**$ 3,183,376**	$ 280	$ 2,945,390	$ 237,706
Liabilities:				
Derivative liabilities	**$ 486**	$ —	$ 486	$ —
Standby letters of credit	**2,320**	—	2,320	—
Total liabilities	**$ 2,806**	$ —	$ 2,806	$ —

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2011:

	Corporate Debt	Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:				
Balance at Jan. 1, 2011	$ —	$ 240,888	$ 6,760	$ 247,648
Net (losses) gains included in other comprehensive income	(842)	657	131	(54)
Net losses included in earnings	—	(1,934)	(153)	(2,087)
Purchases, issuances and settlements	83,306	52,915	(3,288)	132,933
Transfers out of Level 3	—	(140,733)	—	(140,733)
Balance at Dec. 31, 2011	$ 82,464	$ 151,793	$ 3,450	$ 237,707
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at Dec. 31, 2011	$ —	$ 1,934	$ 153	$ 2,087

There were no transfers of assets or liabilities into or out of Level 1 from other levels during 2011. At December 31, 2010, Level 3 investments included two agency mortgage-backed securities due to the fact that their valuations were based on Level 3 criteria (broker quotes) and certain non-agency mortgage-backed securities, asset-backed securities and nonguaranteed, noncollateralized corporate debt. In 2011, the two agency mortgage-backed securities, totaling $35,468, were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2. In addition, four agency mortgage-backed securities purchased in 2011 and originally valued using independent third-party valuations using Level 3 criteria were subsequently valued at $105,265 using independent third-party valuation services using Level 2 criteria and transferred to Level 2.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement at December 31, 2011					
	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	**$ 103,908**	$ —	$ —	$ 103,908	$ (29,847)
Other property owned	**28,748**	—	—	28,748	(1,389)
Total assets	**$ 132,656**	$ —	$ —	$ 132,656	(31,236)

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

Fair Value Measurement at December 31, 2010				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 20,438**	$ —	$ 20,438	$ —
Investments available-for-sale	**3,076,946**	—	2,829,298	247,648
Derivative assets	**6,512**	—	6,512	—
Assets held in nonqualified benefit trusts	**369**	369	—	—
Total assets	**$ 3,104,265**	$ 369	$ 2,856,248	$ 247,648
Liabilities:				
Derivative liabilities	**$ 5**	$ —	$ 5	$ —
Standby letters of credit	**2,398**	—	2,398	—
Total liabilities	**$ 2,403**	$ —	$ 2,403	$ —

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2010:

	Corporate Debt	Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:				
Balance at Jan. 1, 2010	$ —	$ —	$ —	$ —
Net losses included in other comprehensive income	—	(4,619)	—	(4,619)
Net losses included in earnings	—	—	—	—
Purchases, issuances and settlements	—	145,122	—	145,122
Transfers into of Level 3	—	100,385	6,760	107,145
Balance at Dec. 31, 2010	$ —	$ 240,888	$ 6,760	$ 247,648
The amount of losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at Dec. 31, 2010	$ —	$ 1,438	$ 392	$ 1,830

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

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

Fair Value Measurement at December 31, 2010					
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 50,293**	$ —	$ —	$ 50,293	$ (33,176)
Other property owned	**2,838**	—	—	2,838	491
Total assets	**$ 53,131**	$ —	$ —	$ 53,131	$ (32,685)

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

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

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

	Commercial Paper	Mortgage-Backed Securities	Total
Available-for-sale investment securities:			
Balance at January 1, 2009	$ 99,992	$ —	$ 99,992
Net losses included in other comprehensive income	—	(376)	(376)
Net losses included in earnings	—	(3,017)	(3,017)
Purchases, issuances and settlements	—	1,000	1,000
Transfers out of Level 3	(99,992)	(36,479)	(136,471)
Transfers into Level 3	—	38,872	38,872
Balance at December 31, 2009	$ —	$ —	$ —

The amount of gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2009	$ 5,293

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

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

VALUATION TECHNIQUES

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

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. At December 31, 2011, Level 3 securities included primarily certain non-agency mortgage-backed and asset-backed securities valued using independent third-party valuation services. Level 3 assets at December 31, 2011, also include the bank's AMBS portfolio which is valued by the bank using a model that incorporates underlying rates and current yield curves.

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and cash flow derivatives.

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

Standby Letters of Credit

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

Loans

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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. At December 31, 2011, impaired loans with a fair value of $103,908 were included in loans.

Other Property Owned

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

Note 15 — 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, 2011, 2010 and 2009.

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

	December 31, 2011		December 31, 2010		December 31, 2009	
Financial assets	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash, federal funds sold and investment securities	**$ 3,606,037**	**$ 3,606,037**	$ 3,534,250	$ 3,534,250	$ 2,634,400	$ 2,634,400
Loans	**10,287,377**	**10,620,285**	10,464,034	10,705,755	11,033,114	11,176,487
Allowance for loan losses	**(15,659)**	**—**	(28,678)	—	(31,602)	—
Loans, net	**10,271,718**	**10,620,285**	10,435,356	10,705,755	11,001,512	11,176,487
Derivative assets	**1,726**	**1,726**	6,512	6,512	2,526	2,526
Financial liabilities						
Bonds and notes	**12,645,541**	**12,868,118**	12,779,932	12,873,642	12,769,479	12,862,844
Subordinated debt	**50,000**	**56,963**	50,000	52,851	50,000	50,696
Derivative liabilities	**486**	**486**	5	5	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:

A. Cash and Federal Funds Sold:

The carrying value is a reasonable estimate of fair value.

B. Investment Securities:

Valuation methods for available-for-sale investments for liquidity, mission-related and other purposes, are described in Note 14, "Fair Value Measurements."

C. 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 current loan origination rates as well as on management estimates of credit risk, management has no basis to determine whether the fair values presented would be indicative of the assumptions and adjustments that a purchaser of System loans would seek in an actual sale, which could be less.

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. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

D. Bonds and Notes:

Systemwide bonds and notes are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide bond instruments and Treasury issues.

E. Subordinated Debt:

As discussed in Note 8, "Bonds and Notes," the bank issued subordinated debt in 2008. The fair value of these obligations is estimated based upon the Treasury yield curve.

F. Derivative Assets and Liabilities:

Exchange-traded derivatives are valued using quoted prices. However, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters. See Note 14, "Fair Value Measurements."

Note 16 — Derivative Instruments and Hedging Activity

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

The bank enters into derivatives, particularly fair value interest rate swaps and cash flow interest rate swaps, primarily to lower interest rate risk. The bank substantially offsets this risk by concurrently entering into offsetting agreements with non-System counterparties. Fair value hedges allow the bank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to the bank if floating-rate borrowings were made directly. Under fair value hedge arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating-rate index. At December 31, 2011, the bank had three fair value hedges with a total notional amount of $175.0 million.

The bank's interest-earning assets (principally loans and investments) tend to be medium-term floating-rate instruments, while the related interest-bearing liabilities tend to be short- or medium-term fixed-rate obligations. Given this asset-liability mismatch, fair value hedges in which the bank pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the bank's net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, the bank also enters into swaps in which it receives the floating rate and pays the fixed rate (pay fixed swaps) when necessary to reduce its net position.

The bank has also purchased interest rate caps in order to reduce the impact of rising interest rates on their floating-rate assets. At December 31, 2011, the bank held interest rate caps with a notional amount of $645.0 million and a fair value of $1.2 million. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2011, is summarized in the following table:

	Receive Fixed Swaps	Pay Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2011	$ 125,000	$ 25,000	$ 645,000	$ 795,000
Additions	100,000	—	—	100,000
Maturities/Amortizations	(50,000)	(25,000)	—	(75,000)
Balance at December 31, 2011	**$ 175,000**	$ —	**$ 645,000**	**$ 820,000**

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

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed upon thresholds; the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. At December 31, 2011, the bank had credit exposure to counterparties, net of collateral of $1.7 million, as compared with $6.5 million for the same period of the prior year.

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

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

	Remaining Years to Maturity							
($ in millions)	**Less Than 1 Year**	**More Than 1 to 5 Years**	**More Than 5 Years**	**Total**	**Maturity Distribution Netting**	**Exposure**	**Collateral Held**	**Exposure Net of Collateral**
Moody's Credit Rating								
A2	$ —	$ 0.2	$ —	$ 0.2	$ —	$ 0.2	$ —	$ 0.2
Aa1	0.6	0.3	0.3	1.2	—	1.2	—	1.2
Aa3	—	0.3	—	0.3	—	0.3	—	0.3

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

Fair-Value Hedges:

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

Cash Flow Hedges:

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At December 31, 2011, the bank held interest rate caps with a notional amount of $645.0 million and a fair value of $1.2 million, but held no cash flow interest rate swaps.

Derivatives Not Designated as Hedges:

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

Fair Values of Derivative Instruments:

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

	Balance Sheet Location	Fair Value 12/31/2011	Fair Value 12/31/2010	Fair Value 12/31/2009	Balance Sheet Location	Fair Value 12/31/2011	Fair Value 12/31/2010	Fair Value 12/31/2009
Receive fixed	Other assets	$ 499	$ 1,848	$ 921	Other liabilities	$ 486	$ —	$ 30
Pay fixed	Other assets	—	—	—	Other liabilities	—	5	—
Interest rate caps	Other assets	1,227	4,664	1,605	Other liabilities	—	—	—

The following table sets forth the amount of gain (loss) recognized in Other Comprehensive Income (OCI) for the year ended December 31, 2011 and 2010:

	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) December 31,	
	2011	2010
Interest rate caps	**$ (3,437)**	$ (1,996)
Cash flow derivatives	**5**	(5)

	Amount of Gain Reclassified From AOCI Into Income (Effective Portion) December 31,	
	2011	2010
Interest expense	**$ 56**	$ —

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

	Maturities of 2011 Derivative Products and Other Financial Instruments							
December 31, 2011 *($ in millions)*	2012	2013	2014	2015	2016	Subsequent Years	Total	Fair Value
Total Systemwide debt obligations:								
Fixed rate	$ 2,925	$ 1,756	$ 1,818	$ 1,056	$ 1,114	$ 1,982	$ 10,651	$ 10,868
Weighted average interest rate	0.67%	0.99%	1.13%	1.72%	1.89%	3.06%	1.48%	
Variable rate	$ 1,720	$ 275	$ —	$ —	$ —	$ —	$ 1,995	$ 2,001
Weighted average interest rate	0.22%	0.26%	—	—	—	—	0.23%	
Total Systemwide debt obligations	$ 4,645	$ 2,031	$ 1,818	$ 1,056	$ 1,114	$ 1,982	$ 12,646	$ 12,869
Weighted average interest rate	0.50%	0.89%	1.13%	1.72%	1.89%	3.06%	1.28%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ 75	$ 100	$ —	$ —	$ —	$ —	$ 175	$ —
Weighted average receive rate	2.23%	0.28%	—	—	—	—	1.17%	
Weighted average pay rate	0.28%	<0.01%	—	—	—	—	0.12%	
Pay fixed swaps								
Notional value	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	
Interest rate caps								
Notional value	$ —	$ —	$ 130	$ 325	$ 140	$ 50	$ 645	$ 1
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	

Note 17 — Selected Quarterly Financial Information (Unaudited)

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

2011	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 59,976**	**$ 56,862**	**$ 52,549**	**$ 57,442**	**$ 226,829**
Provision for credit losses	**10,452**	**(520)**	**559**	**5,974**	**16,465**
Noninterest expense (income), net	**7,719**	**7,920**	**7,539**	**12,990**	**36,168**
Net income	**$ 41,805**	**$ 49,462**	**$ 44,451**	**$ 38,478**	**$ 174,196**

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

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

Note 18 — 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 multiemployer structure of certain of the district's retirement and benefit plans results in the recording of these plans only in the district's combined financial statements.

	Year Ended December 31,		
Balance Sheet Data	**2011**	2010	2009
Cash	**$ 8,052**	$ 16,456	$ 30,542
Investment securities	**127,245**	154,616	35,827
Loans	**12,205,997**	12,594,842	13,316,686
Less allowance for loan losses	**98,458**	134,467	113,129
Net loans	**12,107,539**	12,460,375	13,203,557
Accrued interest receivable	**118,908**	131,765	156,805
Other property owned, net	**59,208**	75,286	52,685
Other assets	**314,186**	316,290	325,840
Total assets	**$12,735,138**	$13,154,788	$13,805,256
Notes payable	**$10,286,567**	$10,837,130	$11,613,442
Other liabilities	**245,109**	218,178	181,479
Total liabilities	**10,531,676**	11,055,308	11,794,921
Capital stock and participation certificates	**81,311**	82,643	63,983
Retained earnings	**2,122,288**	2,014,996	1,937,914
Accumulated other comprehensive (loss) income	**(137)**	1,841	8,438
Total shareholders' equity	**2,203,462**	2,099,480	2,010,335
Total liabilities and shareholders' equity	**$12,735,138**	$13,154,788	$13,805,256

	Year Ended December 31,		
Income Statement	**2011**	2010	2009
Interest income	**$ 654,338**	$ 700,828	$ 760,041
Interest expense	**269,164**	329,562	391,099
Net interest income	**385,174**	371,266	368,942
Provision for loan losses	**28,583**	112,934	138,492
Net interest income after provision for loan losses	**356,591**	258,332	230,450
Noninterest income	**74,232**	93,131	87,291
Other expense	**186,458**	176,079	196,163
Provision for (benefit from) income taxes	**1,175**	(291)	(2,609)
Net income	**$ 243,190**	$ 175,675	$ 124,187

Note 19 — Subsequent Events

The bank has evaluated subsequent events through February 29, 2012, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of February 29, 2012.

Description of Business

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

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

Board of Directors and Senior Officers

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

The following represents certain information regarding the board of directors and senior officers of the bank as of February 29, 2012, including business experience during the past five years:

DIRECTORS

James F. Dodson, 58, joined the board of directors in 2003, and his current term expires December 31, 2014. He served as vice chairman from 2009 through 2011, and was elected chairman in January 2012. He is a past chairman of the Texas AgFinance, FCS Board of Directors and a former member of the Texas Farm Credit District's Stockholders Advisory Committee. He is chairman of the Texas District Farm Credit Council board and serves on the bank's audit and compensation committees. Dodson grows cotton, corn and milo, and operates a seed sales business with his family in Robstown, Texas. He is the president of Dodson Farms, Inc. and Dodson Ag, Inc. and is a partner in Legacy Farms and 3-D Farms, all of which are farming operations. He is also a partner in Weber Greene Ltd. and managing partner in Weber Station LLC, both of which are farm real estate management companies. Dodson is vice chairman of the board of the National Cotton Council of America, a trade organization, and serves on the boards of Gulf Coast Cooperative, an agricultural retail cooperative, and the South Texas Cotton and Grain Association, a trade organization. He is also past chairman of the American Cotton Producers of the National Cotton Council of America, a trade organization.

Lester Little, 61, joined the board of directors in 2009 and his term will expire December 31, 2014. He was elected vice chairman in January 2012. Prior to joining the bank board, Little was chairman of the Capital Farm Credit Board of Directors and previously served as vice chairman of the Texas Farm Credit District's Stockholders Advisory Committee. He also was a member of the district's Association Business Advisory Committee. Little is vice chairman of the bank's audit committee and a member of the bank's compensation committee. He is from Hallettsville, Texas, and owns and operates a farm, and offers custom-farming services. He is a member of the Farm Bureau, an agriculture trade organization, and serves on the Lavaca Regional Water Planning Group, a regional water planning authority in Texas.

Ralph W. Cortese, 65, joined the board of directors in 1995, and his current term expires December 31, 2013. Cortese served as chairman from 2000 through 2011. Prior to joining the bank board, Cortese was chairman of the PCA of Eastern New Mexico Board of Directors. Early in his career, he was vice president of Roswell PCA. He is president of Cortese Farm and Ranch Inc., a farming and ranching operation, and is from Fort Sumner, New Mexico. He operates a cow/calf and yearling operation on grass and in the feedlot, and raises irrigated alfalfa. Cortese is chairman of the bank's compensation committee and a member of the bank's audit committee. In January 2012, he was elected to serve on the board of the Federal Farm Credit Banks Funding Corporation, to a term beginning March 15, 2012. He is also a board member of the Texas Agricultural Cooperative Council, an industry association, and serves as chief financial officer for his local church. From 2003 to 2008, Cortese served on the board of the Federal Agricultural Mortgage Corporation (Farmer Mac), a government agency chartered to create a secondary market for agricultural loans. He is a former board member of the American Land Foundation, a property rights organization.

Joe R. Crawford, 74, began his first term on the board of directors in 1998, and his current term expires December 31, 2012. Previously, he was a member of the FLBA of North Alabama Board of Directors. He also served on the Tenth District FLBA Legislative Advisory Committee. Crawford is a member of the bank's audit and compensation committees. He is a director on the board and an audit committee member of the Federal Farm Credit Banks Funding Corporation, and his term will expire March 14, 2012. 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, all of which are agriculture trade organizations. Crawford, who lives near Baileyton, Alabama, has owned and operated a cattle business since 1968.

Elizabeth G. Flores, 67, joined the board of directors in August 2006 as an outside director, and her current term expires December 31, 2012. She was mayor of Laredo, Texas, where she resides, from 1998 to 2006. Previously, she was senior vice president of Laredo National Bank. Flores is a member of the bank's audit and compensation committees. She also serves on the boards of the Texas Agricultural Cooperative Council, an industry association, and the TMF Health Quality Institute, a nonprofit consulting company. She is a graduate of Leadership Texas 1995, a leadership program for women professional and community leaders for the state of Texas, and Leadership America 2008, a national leadership program for women professional and community leaders. In 2010, Flores was appointed to serve as a member of the Farm Credit System Diversity Workgroup. She is a partner in a family ranching and real estate business. She is a former member of the Federal Reserve Board Consumer Advisory Council.

Jon M. Garnett, 67, began his first term on the board of directors in 1999, and his current term expires December 31, 2013. He was board vice chairman from 2000 through 2008. Prior to joining the bank board, he was chairman of the Panhandle-Plains Land Bank, FLCA Board of Directors. In January 2003, he joined the national Farm Credit Council (FCC) Board of Directors as a district representative, became vice chairman in 2009 and has been chairman since January 2011. In addition, he is chairman of the FCC board's executive committee, vice chairman of its legislative committee and a member of its coordinating committee. He is a member of the bank's audit committee and is vice chairman of the bank's compensation committee. Garnett is a member of the State Technical Committee for the Natural Resources Conservation Service, an agency of the United States Department of Agriculture. He raises grain and forage and runs stocker cattle near Spearman, Texas, and is president of Garnett Farms, Inc., a farming operation.

William F. Staats, 74, joined the board of directors in 1997 as an outside director, and his current term expires December 31, 2014. 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 Financial Education Foundation and Money Management International, both of which are credit counseling agencies. He also serves on the boards of SevenOaks Capital Associates, LLC, a diversified financial services company providing working capital to trucking firms, and Lakeside Bank, a community bank in Lake Charles, Louisiana. He is vice chairman of the Farm Credit System audit committee, is chairman of the bank's audit committee, serves on the bank's compensation committee, and is the bank's designated financial expert. He is also a member of the Texas Lutheran University Board of Regents.

Committees

The board of directors has established an audit committee and a compensation committee. All members of the board serve on both the audit committee and the compensation committee. As the need arises, a member of the board of directors will also participate in the functions of the bank's credit review committee. The responsibilities of each board committee are set forth in its respective approved charter.

The disclosure of director and senior officer information included in this disclosure information and index was reviewed by the compensation committee prior to the annual report's issuance (including the disclosure information and index) on February 29, 2012.

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. An annual compensation amount is considered as a retainer for all services performed by the director in an official capacity during the year except for extraordinary services for which additional compensation may be paid. The annual retainer fee is to be paid in equal monthly installments. Compensation for 2011 was paid at the rate of $52,800 per year, payable at $4,400 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. Additional compensation was approved by the board during 2011 to Ms. Flores for participation as faculty in a panel discussion at a Farm Credit Council Director Leadership Conference held in December 2011. The additional compensation of $3,000 was paid in January 2012 and is not reflected in the table below. No director received non-cash compensation exceeding $5,000 in 2011. Total cash compensation paid to all directors as a group during 2011 was $369,600. Information for each director for the year ended December 31, 2011, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid
James F. Dodson	31.5	27.5	$ 52,800
Lester Little	31.0	24.5	52,800
Ralph W. Cortese	31.5	24.5	52,800
Joe R. Crawford	31.5	30.5	52,800
Elizabeth G. Flores	31.5	37.0	52,800
Jon M. Garnett	31.5	24.5	52,800
William F. Staats	31.5	25.0	52,800
			$ 369,600

*Includes travel time, but does not include time required to prepare for board meetings.

**Includes audit committee meetings, compensation committee meetings, credit review committee meetings, special assignments, training and travel time.

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2011, 2010 and 2009 totaled $144,376, $120,413 and $131,507, respectively. The increase in expenses in 2011 as compared to prior years was primarily due to an overall increase in costs for travel related to airlines and lodging for meetings related to official assignments and training. A copy of the bank's travel policy is available to shareholders upon request.

SENIOR OFFICERS

Name and Title	Time in Position	Experience - Past Five Years	Other Business Interests – Past Five Years
Larry R. Doyle, *Chief Executive Officer*	8.5 years	Chief Executive Officer, FCBT	He served as a member of the board of directors for the Federal Farm Credit Banks Funding Corporation, with his term expiring in 2011.
Kurt Thomas, *Senior Vice President, Chief Credit Officer*	1 year 7 months	Vice President and Unit Manager Association Direct Lending Group	He served as a member of the board of governors for the Farm Credit System Captive Insurance Corporation with his term expiring in February 2011.
Kyle Pankonien, *Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary*	4 years	Vice President, Corporate Affairs, Deputy General Counsel, FCBT	
Amie Pala, *Chief Financial Officer*	1 year 5 months	Vice President of Financial Management	
Allen Buckner, *Chief Operations Officer*	1 year 6 months	Vice President of Lending Systems 2007–2010; Vice President, Credit Operations and Risk Management 2006–2007; Chief Executive Officer, Heritage Land Bank, ACA, January 2006–December 2006	
Stan Ray, *Chief Administrative Officer*	1 year 5 months	Vice President of Marketing and Corporate Relations	He serves on the AgFirst/FCBT Plan Sponsor Committee and the Texas District Benefits Administration Committee, and is president of the Texas District Farm Credit Council, a trade organization. He is a member of the board of directors for the following organizations: Texas Agriculture Finance Authority, a service providing arm of the Texas Department of Agriculture; Texas FFA Foundation, a nonprofit organization promoting youth in agriculture; Grow Texas Foundation, a nonprofit organization advocating the agriculture industry; and Texas Agricultural Cooperative Council, an industry association.
Susan Wallar, *Chief Audit Executive*	Appointed January 2012	Vice President of Internal Audit	She serves as a member of the board of governors for the Farm Credit System Captive Insurance Corporation.

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, without encouraging excessive risk; and,
- Market-based base salaries, benefits and bonus compensation will position the bank to be a competitive employer in the financial services marketplace.

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

Chief Executive Officer (CEO) Compensation Table and Policy

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

The following table summarizes the compensation paid to the CEO of the bank during 2011, 2010 and 2009.

Summary Compensation Table for the CEO

		Annual					
Name of Chief Executive Officer	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	Total
Larry R. Doyle	2011	$ 1,250,048	$ 1,250,000	$ 116,660	$ 20,868	$ —	$ 2,637,576
Larry R. Doyle	2010	750,029	—	82,331	20,486	—	852,846
Larry R. Doyle	2009	750,029	—	167,901	20,627	4,178,570	5,117,127

(a) Gross salary for year presented.

(b) Bonus compensation is presented in the year earned, and bonuses are paid within the first 30 days of the subsequent calendar year. For 2011, a signing bonus of $500,000 was paid in January 2011 for the execution and effective date of the memorandum of understanding previously discussed. Also included in the 2011 bonus compensation is a bonus paid in January 2012 of $750,000 for the performance of the bank during 2011. For 2010 and 2009, no bonus for performance was paid to the CEO in accordance with the Compensation Agreement entered into in November 2008 between the bank and the CEO.

(c) For 2011, 2010 and 2009, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. See the Pension Benefits Table Narrative Disclosure for a more detailed explanation regarding the Compensation Agreement entered into in November 2008.

(d) Deferred/Perquisites include contributions to a 401(k) plan, automobile benefits, and premiums paid for life insurance.

(e) For 2009, Other reflects the remaining proration of the $4,500,000 payment paid in January 2010 pursuant to the Compensation Agreement between the bank and the CEO. In 2008, a Compensation Agreement between the bank and the CEO was entered into for the CEO's agreement to no longer participate in the Farm Credit Bank of Texas Supplemental Pension Plan. See the Pension Benefits Table Narrative Disclosure for a more detailed explanation of the Compensation Agreement and the payments provided thereunder.

Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2011:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2011
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	37.890	$ 1,247,168	$ 0

Pension Benefits Table Narrative Disclosure for the CEO

The CEO participates in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Through the end of 2008, the CEO also participated in the Farm Credit Bank of Texas Supplemental Pension Plan (the "Supplemental Pension Plan"), which is a nonqualified deferred compensation plan. Compensation, as defined in the Pension Plan, includes wages, incentive and bonus compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement or transfer of employment; severance payments; retention bonuses; taxable fringe benefits; and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The CEO's Pension Plan benefit is offset by the CEO's pension benefits from another Farm Credit System institution. The present value of the CEO's accumulated Pension Plan benefit is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 59. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly 2 years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Supplemental Pension Plan restores benefits under the Pension Plan that are limited or reduced (a) by the imposition of Internal Revenue Code limits, (b) by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of "Compensation" in the Pension Plan, (c) by the commencement of benefits prior to "Normal Retirement Age" for a participant who has satisfied the rule of 85 and is at least age 55, or (d) by a service period of greater than 35 years. After calculating the amount of Pension Plan benefits that are restored in the Supplemental Pension Plan, that amount is grossed-up for income taxes at a fixed rate. Supplemental Pension Plan benefits are payable 30 days after separation from service as a lump-sum amount.

Under a Compensation Agreement between the bank and the CEO that was executed in November 2008, the board approved the settlement of the bank's obligations to the CEO under the Supplemental Pension Plan in order (a) to limit the bank's potential future liability under the Supplemental Pension Plan; (b) to decrease the impact upon the bank and the Supplemental Pension Plan of changes in compensation paid to the CEO, changes in interest rates, and changes in law; (c) to remove uncertainty for the bank and the CEO with respect to the amount of the Supplemental Pension Plan benefit; (d) to agree upon a fixed amount of compensation for the CEO during 2009 and 2010; and (e) to provide incentives for the CEO to remain employed at least through the period involving the development of an important lending systems project. Pursuant to the terms and conditions of the Compensation Agreement, the CEO received the following benefits: (i) a payment of $8,500,000 in January 2009; (ii) deferred compensation in the amount of $4,500,000 paid to the CEO in January 2010, and (iii) annual base salary of $750,000 for 2009 and 2010. In exchange for those benefits, the Compensation Agreement provided that the CEO would not (1) participate in the Supplemental Pension Plan after January 1, 2009; (2) actively participate in another nonqualified plan the bank has established; (3) earn any bonuses for performance during 2009 or 2010; and (4) receive the set severance payment of $1,000,000 which was provided under Mr. Doyle's "employment at will" agreement dated February 26, 2003. The Compensation Agreement was not an employment contract. The deferred compensation provisions of the Compensation Agreement are intended to be an unfunded nonqualified deferred compensation plan for tax purposes, are not intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code, and are intended to be exempt from ERISA as a governmental plan exempted under ERISA § 4(b)(1). The Compensation Agreement was drafted to comply with the provisions of Section 409A of the Internal Revenue Code. The Compensation Agreement was superseded by the memorandum of understanding executed with an effective date of January 2, 2011.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to the aggregate number of senior officers of the bank during 2011 and 2010 and the five highest paid officers of the bank during 2009. Amounts reflected in the table are presented in the year the compensation is earned.

Summary Compensation Table

Name of Individual or Group	Year	Annual Salary (a)	Annual Bonus (b)	Annual Deferred/Perquisites (c)	Annual Other (d)	Total
Aggregate number of senior officers: (excludes Chief Executive Officer)						
6	2011	$ 1,534,398	$ 479,813	$ 1,632,082	$ –	$ 3,646,293
7	2010	2,379,479	409,876	5,223,633	28,512	8,041,500
5	2009	1,317,567	417,510	143,369	–	1,878,446

(a) Gross salary, including retention plan compensation for certain senior officers.
(b) Bonuses paid within the first 30 days of the subsequent calendar year.
(c) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance. For 2011, Deferred/Perquisites also includes payments of $1,478,241 to certain senior officers from the discontinuation of the Supplemental Pension Plan effective January 16, 2011, with payment to the respective individuals on January 31, 2012, and educational assistance paid on behalf of a senior officer. For 2010, Deferred/Perquisites also includes payments of $5,078,396 to certain senior officers that withdrew from the Supplemental Pension Plan in 2010.
(d) Other for 2010 reflects an amount paid to one senior officer for their remaining annual leave hours at retirement. No such amounts were paid or earned in 2011 or 2009.

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

Other senior officers of the bank are eligible for deferred compensation plans and can participate in a retention plan, at the discretion and approval of the bank board's compensation committee. Amounts paid in 2011, 2010 and 2009 to any senior officer associated with the retention plan are reflected in the salary column in the above table. Senior officers, other than the CEO, participate in a bank discretionary bonus program, whose terms and conditions are detailed in writing as a Success Sharing Plan, with awards annually approved by the board's compensation committee. Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2011.

Disclosure of the compensation paid during 2011 to any senior officer or officer included in the table is available and will be disclosed to shareholders of the institution and stockholders of the district's associations upon written request.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. A copy of the bank's travel policy is available to shareholders upon request.

Bank employees, other than the CEO, can earn compensation above base salary through an annual Success Sharing Plan, which the bank adopted in 2001. The Success Sharing Plan is based upon the achievement of bank performance, which is approved by the bank board's compensation committee, annually, and payment is determined by the compensation committee in its discretion. The compensation committee typically evaluates for purposes of the Success Sharing Plan several key financial indicators, the bank's list of accomplishments as it relates to the bank's strategic objectives and operational projects for that respective year and employee survey results on the bank's services and work environment. The compensation committee has the discretion to determine the amount of the Success Sharing Plan awarded and the percentage of the award target that will be funded. In addition, the bank maintains a retention plan, which is determined at the discretion and approval of the bank board's compensation committee. The Farm Credit Bank of Texas Employee Retention Plan (Retention Plan) is an unfunded nonqualified deferred compensation plan that was created and approved by the bank's board of directors in 2007 as a means to induce specific employees to accomplish certain activities and remain with the bank for a defined period of time. Participants are nominated by the CEO and approved by the bank board's compensation committee. The Retention Plan is constructed to be flexible as to the length of the retention period and the amounts paid for each year of successful participation in the Retention Plan. Certain senior officers and other bank employees, other than the CEO, have participated in the Retention Plan with individual three-year plans that paid a fixed percentage of their salary as long as they were still employed on the anniversary or ending date coincident with the effective date of each participant's plan year. As of December 31, 2011, the certain bank senior officers and other bank employees had met the conditions of the plan and the respective cash payments occurred according to the three-year plans. No employee, including any senior officer, is currently actively participating in the Retention Plan. Thus, no obligations for the Retention Plan are presented for the bank as of December 31, 2011.

Effective January 16, 2011, the bank's board of directors approved the termination and liquidation of the Farm Credit Bank of Texas Supplemental Pension Plan (the "Supplemental Pension Plan"), a nonqualified deferred compensation plan. As previously noted, the Supplemental Pension Plan restores benefits under the Pension Plan that are limited or reduced (a) by the imposition of Internal Revenue Code limits, (b) by the exclusion of deferrals to a nonqualified deferred compensation plan from the definition of "Compensation" in the Pension Plan, (c) by the commencement of benefits prior to "Normal Retirement Age" for a participant who has satisfied the rule of 85 and is at least age 55, or (d) by a service period of greater than 35 years. By terminating the Supplemental Pension Plan, no further vesting or benefit accrual occurred under the Supplemental Pension Plan following January 16, 2011, for the respective participants. All remaining unpaid vested benefits shall be distributed in a cash lump-sum payment to the participating bank employees after the one-year deferral period as required by Section 409A of the Internal Revenue Code. The impact of the termination and liquidation of the Supplemental Pension Plan was not material to the bank's financial results and is reflected in the December 31, 2011, financial results of the bank.

Description of Property

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility located at 4801 Plaza on the Lake Drive, Austin, Texas. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space.

Legal Proceedings

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

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 12, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2011.

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 9, "Shareholders' Equity," to the accompanying financial statements, and in the "Management's Discussion and Analysis" included in this annual report to shareholders.

Description of Liabilities

The bank's debt outstanding is described in Note 8, "Bonds and Notes," to the accompanying financial statements. The bank's contingent liabilities are described in Note 12, "Commitments and Contingencies," to the accompanying financial statements.

Selected Financial Data

The selected financial data for the five years ended December 31, 2011, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

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

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

Transactions With Senior Officers and Directors

The policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 11, "Related Party Transactions," to the accompanying financial statements.

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 $244,215, $305,160 and $364,620 for 2011, 2010 and 2009, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 9, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was $4,245, $8,557 and $9,039 for 2011, 2010 and 2009, respectively, and was included in the bank's noninterest income. Effective in April 2011, the bank will only bill associations for direct pass-through expenses and no longer bill for allocated expenses.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2011, 2010 or 2009.

Relationship With Public Accountants

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

The bank's audit committee approves all services provided by the independent public accountants. During 2011, the bank incurred fees of $444 thousand for bank and combined district financial statement audit services provided by the independent public accountants, PricewaterhouseCoopers LLP. During 2011, the bank incurred $77 thousand for non-audit services provided by the independent public accountants which were approved by the bank's audit committee prior to commencement of these services. The non-audit services provided by PricewaterhouseCoopers LLP for the bank included Phase II lending system package selection and service provider due diligence, and third-party assurance readiness assessment.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 29, 2012, and the report of management in this annual report to shareholders, are incorporated herein by reference.

The Farm Credit Bank of Texas and its affiliated associations' (district) annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit

Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720 or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports can be requested by e-mailing fcb@farmcreditbank.com. The bank's and district's quarterly reports are available approximately 40 days after the end of each fiscal quarter. The bank's and district's annual reports will be posted on the bank's website (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.

Borrower Information Regulations

Farm Credit Administration (FCA) regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

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, 2011	
(dollars in thousands)	**Number of Loans**	**Volume**
Total loans and commitments	67,211	$ 19,616,496
Loans and commitments to young farmers and ranchers	12,062	$ 1,794,248
Percent of loans and commitments to young farmers and ranchers	17.9%	9.1%
Loans and commitments to beginning farmers and ranchers	34,044	$ 6,812,568
Percent of loans and commitments to beginning farmers and ranchers	50.7%	34.7%

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

	For the Year Ended December 31, 2011	
(dollars in thousands)	**Number of Loans**	**Volume**
Total new loans and commitments	13,264	$ 6,591,889
New loans and commitments to young farmers and ranchers	1,933	$ 503,480
Percent of new loans and commitments to young farmers and ranchers	14.6%	7.6%
New loans and commitments to beginning farmers and ranchers	4,938	$ 1,524,719
Percent of new loans and commitments to beginning farmers and ranchers	37.2%	23.1%

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

	At December 31, 2011				
	Annual Gross Sales				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
Total number of loans and commitments	15,933	16,922	19,697	14,659	67,211
Number of loans and commitments to small farmers and ranchers	11,965	13,343	15,038	8,298	48,644
Percent of loans and commitments to small farmers and ranchers	75.1%	78.9%	76.3%	56.6%	72.4%
Total loans and commitments volume	$ 1,671,393	$ 1,024,440	$ 2,600,773	$ 14,319,890	$ 19,616,496
Total loans and commitments to small farmers and ranchers volume	$ 269,237	$ 737,472	$ 1,936,801	$ 4,930,090	$ 7,873,600
Percent of loans and commitments volume to small farmers and ranchers	16.1%	72.0%	74.5%	34.4%	40.1%

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

	For the Year Ended December 31, 2011				
	Annual Gross Sales				
(dollars in thousands)	$50 Thousand or Less	$50 to $100 Thousand	$100 to $250 Thousand	More Than $250 Thousand	Total
Total number of new loans and commitments	3,341	2,451	3,275	4,197	13,264
Number of new loans and commitments to small farmers and ranchers	2,277	1,864	2,141	1,410	7,692
Percent of new loans and commitments to small farmers and ranchers	68.2%	76.1%	65.4%	33.6%	58.0%
Total new loans and commitments volume	$ 84,786	$ 183,506	$ 539,377	$ 5,784,220	$ 6,591,889
Total new loans and commitments to small farmers and ranchers volume	$ 63,035	$ 140,195	$ 343,160	$ 990,619	$ 1,537,009
Percent of loan and commitment volume to small farmers and ranchers	74.3%	76.4%	63.6%	17.1%	23.3%