STAYING THE COURSE

2012 FIRST QUARTER REPORT

FARM CREDIT BANK OF TEXAS

MARCH 31, 2012

FIRST QUARTER 2012

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

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three months ended March 31, 2012. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2011 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

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

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

The bank and its affiliated associations collectively are referred to as the district. At March 31, 2012, the bank provided financing to 17 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2012, was $34,225, a decrease of $7,580, or 18.1 percent, over the same period of 2011. The decrease in net income for the three months ended March 31, 2012, consisted of a $4,725 decrease in net interest income, a $4,128 increase in provision for credit losses and a $781 increase in noninterest expense, offset by a $2,054 increase in noninterest income.

Net Interest Income

Net interest income for the three months ended March 31, 2012, was $55,251, a decrease of $4,725, or 7.9 percent, over the same period of 2011. The decrease in net interest income was attributable to a 17-basis-point decrease in the bank's interest rate spread to 154 basis points, slightly offset by the effects of a volume increase of $92.9 million in the bank's average earning assets. The interest rate spread decrease included a 31-basis-point decrease in the effective rate on earning assets, net of a 14-basis-point reduction in the effective rate on debt for the three months ended March 31, 2012, compared to the three months ended March 31, 2011. The effective rates on earning assets have decreased due to borrowers' repricings on earning assets in a lower-interest-rate environment. Also, there has been compression in interest rate spreads due to current conditions in the financial markets. The increase in the bank's average earning assets included an increase in its investment and participation loan portfolios, offset by a decrease in the bank's direct notes from associations. The decrease in direct notes receivable from district associations were primarily related to general economic conditions, which resulted in a decline in demand for rural real estate, pay-downs afforded by high commodity prices for some district borrowers and enhanced credit standards. Interest expense for the first quarter of 2012 included a $4,129 increase in concession expenses recognized on callable debt related to a $2.5 billion increase in debt called in the first quarter of 2012, compared to the same period in 2011. The bank will benefit prospectively from calling debt and replacing it with lower cost debt; however, the benefit is due to the current low interest rate environment and is not expected to continue indefinitely.

Provision for Credit Losses

The bank's provision for credit losses for the three months ended March 31, 2012, totaled $14,580, an increase of $4,128, or 39.5 percent, over the $10,452 provision for the first three months of 2011. The provision for credit losses for the three months ended March 31, 2012, consisted primarily of specific provisions related to ethanol, land in transition and meat packing plants sectors. The increases in provision for credit losses for the three months ended March 31, 2012, from the same period of 2011 result from decreases in collateral valuations.

Noninterest Income

Noninterest income for the three months ended March 31, 2012, was $9,347, an increase of $2,054, or 28.2 percent, over the same period of 2011. The increase was due mainly to a $1,894 decrease in credit losses recognized on other-than-temporarily impaired investments, a $1,134 increase in loan-related fee income, a $350 increase in patronage income and a $119 increase in all other income items, collectively, offset by a $1,443 decrease in services billed to associations. The $1,894 decrease in credit losses recognized on other-than-temporarily impaired investments reflects the difference between the credit losses of $1,895 and $1 recognized during the three months ended March 31, 2011 and 2012, respectively. Projected credit losses for other-than-temporarily impaired investments remained relatively consistent with prior periods' projections, resulting in a small amount of additional credit impairment at March 31, 2012. The increase in loan-related fee income is primarily due to an $884 increase in prepayment fees and a $250 increase in participation fee income. The decrease in services billed to associations reflects the bank's decision effective April 2011 to bill associations for direct pass-through expenses only and no longer bill for allocated expenses.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2012, was $15,793, an increase of $781, or 5.2 percent, over the same period of 2011. The increase was attributable to a $1,826 increase in losses on other property owned (OPO) and a $510 increase in other operating expenses, offset by a $1,478 decrease in salaries and employee benefits, a $51 decrease in occupancy and equipment expenses and a $26 decrease in premiums assessed by the Insurance Fund. The increase in losses on OPO included a $1,582 increase in provision for losses on OPO, a $132 increase in net expenses on OPO and a $112 increase in losses on disposition of OPO. The increase in other operating expenses included a $339 increase in assessments from the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and a $280 increase in advertising and member relations expense, offset by a $53 decrease in travel expenses and a $56 decrease in all other expenses, collectively. The $1,478 decrease in salaries and benefits included an $825 decrease in expense related to the supplemental pension plan which was terminated in January 2011, a $500 decrease related to the January 2011 signing bonus paid to the CEO and a $235 decrease in contributions to the district defined benefit pension plan, offset by an $82 increase in all other salary and benefit expenses, collectively. Premiums to the Insurance Fund decreased due primarily to the effects of a premium rate decrease from the 6-basis-point rate in 2011 to a rate of 5 basis points for 2012.

Key results of operations comparisons:

	Annualized for the Three Months Ended 3/31/2012	Annualized for the Three Months Ended 3/31/2011
Return on average assets	**0.97%**	1.20%
Return on average shareholders' equity	**11.17%**	14.45%
Net interest income as a percentage of average earning assets	**1.62%**	1.79%
Charge-offs, net of recoveries, to average loans	**0.47%**	0.09%
Operating expenses as a percentage of net interest income and noninterest income	**21.27%**	21.98%
Operating expenses as a percentage of average earning assets	**0.40%**	0.44%

Other Comprehensive Income (Loss)

In June 2011, guidance entitled “Comprehensive Income – Presentation of Comprehensive Income” was issued, which required a more prominent financial statement presentation of other comprehensive income in the financial statements. Previously the presentation of the elements of other comprehensive income in the Statements of Changes in Shareholders’ Equity was acceptable. The new guidance requires the presentation of other comprehensive income along with the components of net income, or in a separate financial statement immediately following the Statements of Income. Retrospective application is required. The bank has elected to use the single statement approach, presenting the elements of net income and comprehensive income in a single Statement of Comprehensive Income.

Other comprehensive income consists of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. In the balance sheet, they are included in accumulated other comprehensive income in the shareholders’ equity section. For the bank, these elements include unrealized gains or losses on the bank’s available-for-sale investment portfolio, elements of certain pension and retirement benefit changes, and changes in the value of cash flow derivative instruments.

The table below summarizes elements included in other comprehensive income for the quarters ended March 31:

	Quarter Ended March 31, 2012	Quarter Ended March 31, 2011
Change in unrealized gains on available-for-sale securities		
Net change in unrealized gains on investment securities	**$ (230)**	$ (9,800)
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	**1,754**	227
Reclassification adjustment for OTTI credit losses included in net income	**1**	1,895
Net change in unrealized gains (losses) on securities	**1,525**	(7,678)
Change in retirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(59)**	(73)
Amortization of net losses	**-**	16
Amortization of net loss due to curtailment/termination	**-**	533
Net change in retirement benefit plans	**(59)**	476
Change in cash flow derivative instruments		
Losses on interest rate caps	**(419)**	(1,184)
Gains on cash flow interest rate swaps	**-**	5
Reclassification of loss recognized in interest expense	**60**	1
Net change in cash flow derivative instruments	**(359)**	(1,178)
Other comprehensive income (loss)	**$ 1,107**	$ (8,380)

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2012, was $10,622,496, an increase of $335,119, or 3.3 percent, compared to $10,287,377 at December 31, 2011. The increase in the loan portfolio is mainly attributable to growth in the bank's participation loan portfolio, offset by a decrease in the bank's direct loans to associations and other financing institutions. The decrease in direct loans receivable from district associations were primarily related to general economic conditions, which resulted in a decline in demand for rural real estate, pay-downs afforded by high commodity prices for some district borrowers, and enhanced credit standards.

In 2011, the bank purchased $18,317 in loan participations from a district association in a Capitalized Participation Pool (CPP) transaction, and in January 2012 purchased another $2,336 in loan participations from the association under the same terms. The purchases represent 80.0 percent of the outstanding balances of the loans placed by the association in the CPP. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the association bought bank stock equal to 8.0 percent of the purchased loans' par value. CPP loans held at March 31, 2012, totaled $18,494.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 93.8 percent of total loans and accrued interest at March 31, 2012, compared to 91.2 percent at December 31, 2011.

The table below summarizes the balances of the bank's high-risk assets at March 31, 2012, compared to the balances at December 31, 2011:

	March 31, 2012	Increase (Decrease) $	Increase (Decrease) %	December 31, 2011
Nonaccrual loans	**$ 89,238**	$ (13,456)	(13.10) %	$ 102,694
Formally restructured loans	**2,511**	(41)	(1.61)	2,552
Total impaired loans	**91,749**	(13,497)	(12.82)	105,246
Other property owned, net	**33,062**	4,314	15.01	28,748
Total high-risk assets	**$ 124,811**	$ (9,183)	(6.85) %	$ 133,994

The decrease in nonaccrual loans included loans in the timber, land in transition and ethanol sectors due mainly to charge-offs of $12.3 million and transfers to OPO of $6.5 million. During the three months ended March 31, 2012, the bank recorded charge-offs totaling $12.3 million against the allowance for loan losses due to known losses on loans in the ethanol and land in transition sectors. At March 31, 2012, $32.3 million, or 36.2 percent, of the bank's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At March 31, 2012, the bank had $42.5 million in nonaccrual loans on which cash payments are recognized as interest income, compared to $42.8 million at December 31, 2011. The increase in other property owned included a $5,756 net increase in real estate properties held and a $1,442 increase in the allowance for losses on other property owned. The increase in properties held included from the addition of one property totaling $6,480, net of the sale of one property totaling $737. The bank had no loans 90 days or more past due and still accruing interest at March 31, 2012, or December 31, 2011.

Impaired loans, consisting of nonaccrual loans and formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.9 percent of gross loans at March 31, 2012, and 1.0 percent of gross loans at December 31, 2011. The bank had other property owned with a fair value totaling $33,062 at March 31, 2012, which included the collateral on three bank participation loans and the collateral on four loans purchased from a district association, net of a $2,812 allowance for losses on one of the other properties owned.

At March 31, 2012, the bank had reserves for credit losses totaling $18,649, including an allowance for loan losses of $18,031 and a reserve for losses on unfunded commitments of $618. The allowance for loan losses of $18,031 equated to 0.17 percent of total loans outstanding and 0.5 percent of participation loans outstanding. The allowance for loan losses at March 31, 2012, was attributable to participation loans and loans purchased from a district association. The $618 reserve for losses on unfunded commitments was a general reserve for losses on letters of credit, representing management's estimate of probable credit losses related to letters of credit.

The allowance for loan losses as a percentage of impaired loans was 19.65 percent as of March 31, 2012, as compared to 14.9 percent as of December 31, 2011. The nature of the collateral (primarily first lien real estate) supporting many of the impaired loans is considered in the determination of necessary allowances for loan losses.

Liquidity and Funding Sources

Cash and investment securities totaled $3,524,123, or 24.6 percent, of total assets at March 31, 2012, compared to $3,606,037, or 25.7 percent, at December 31, 2011, a decrease of $81,914, or 2.3 percent. At March 31, 2012, the bank's cash balance was $260,058, a $164,609 decrease from December 31, 2011. Cash held at the Federal Reserve Bank at March 31, 2012, totaled $245,526, compared to $391,832 at December 31, 2011. Levels of cash and other highly liquid assets are managed to meet loan demand, debt servicing and other liquidity needs. At March 31, 2012, the bank had 229 days of liquidity to cover cash flows required for maturing debt obligations. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $272,207, or 2.1 percent.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $3.09 billion at March 31, 2012, and consisted primarily of federal agency collateralized mortgage-backed securities, FDIC-guaranteed corporate debt, corporate debt, other collateralized mortgage-backed securities and asset-backed securities. The bank's other investments, totaling $137.5 million, consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations, including a $31.5 million purchase from an association in January 2012. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

The bank's liquidity portfolio consisted of FDIC-guaranteed corporate debt, corporate debt, mortgage-backed securities and asset-backed securities. The majority of the bank's mortgage-backed securities were federal agency collateralized mortgage-backed securities, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The following table summarizes the bank's liquidity portfolio holdings:

	March 31, 2012		December 31, 2011	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
FDIC-guaranteed corporate debt	**$ 97,364**	**$ 97,390**	$ 169,871	$ 169,999
Corporate debt	**83,303**	**83,166**	83,306	82,464
Federal agency collateralized mortgage-backed securities:				
GNMA	**1,615,063**	**1,642,812**	1,689,535	1,719,158
FNMA and FHLMC	**1,175,327**	**1,186,940**	1,011,508	1,023,548
Other collateralized mortgage-backed securities	**46,857**	**41,847**	49,208	40,872
Asset-backed securities	**38,965**	**37,671**	15,080	13,721
Total available-for-sale investments	**$ 3,056,879**	**$ 3,089,826**	$ 3,018,508	$ 3,049,762

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

	March 31, 2012		December 31, 2011	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 139,370**	**$ 137,525**	$ 112,597	$ 110,921

Federal agency collateralized mortgage-backed securities comprised 91.6 percent of the bank's liquidity portfolio at March 31, 2012. Pricing on agency securities remains strong due to stabilization in the agency market and steady demand for quality agency structures. The increase in asset-backed securities (ABS) was due to purchases of two equipment-related ABS totaling $25,000 in the first quarter of 2012.

At March 31, 2012, the bank had five mortgage-backed securities (MBS) and two ABS that were considered other-than-temporarily impaired (OTTI). During the three months ended March 31, 2012, there was a credit loss on one OTTI investment which totaled $1. The non-credit-related unrealized losses on the bank's other-than-temporarily impaired investments, totaling $4.3 million, is included in accumulated other comprehensive income. The bank performs other-than-temporary impairment assessments on investment securities based on evaluations of both current and future market and credit conditions at each quarter end. The process for evaluation of impairment of investments is more fully discussed in Note 2, "Investments."

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

At March 31, 2012, the bank held 11 investments that were ineligible for liquidity purposes by FCA regulations, due to credit ratings that were below AAA by all NRSROs. Those ineligible securities had an amortized cost basis of $45,682 and a fair value of $40,093 at March 31, 2012.

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

	Eligible				Ineligible				
March 31, 2012	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated	AA/Aa	BB/Ba	CCC/Caa	CC/Ca	Total
FDIC-guaranteed corporate debt*	$ 30,014	$ -	$ -	$ 67,376	$ -	$ -	$ -	$ -	$ 97,390
Corporate debt	-	53,472	-	29,694	-	-	-	-	83,166
Federal agency collateralized mortgage-backed securities*									
GNMA	-	-	-	1,642,812	-	-	-	-	1,642,812
FNMA and FHLMC	-	-	-	1,186,940	-	-	-	-	1,186,940
Other collateralized mortgage-backed securities	-	-	-	3,285	6,335	9,308	20,315	2,604	41,847
Asset-backed securities	9,439	-	25,033	1,668	-	-	1,531	-	37,671
Total	$ 39,453	$ 53,472	$ 25,033	$ 2,931,775	$ 6,335	$ 9,308	$ 21,846	$ 2,604	$ 3,089,826

	Eligible				Ineligible				
December 31, 2011	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated	AA/Aa	BB/Ba	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 and 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

* 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.

Capital Resources

At March 31, 2012, the bank had $482.0 million in preferred stock outstanding, consisting of $182.0 million in Class A cumulative perpetual preferred stock and $300.0 million of Class B noncumulative subordinated perpetual preferred stock.

As of March 31, 2012, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At March 31, 2012, the bank's permanent capital ratio was 18.07 percent, core surplus was 9.25 percent, total surplus was 14.91 percent and the net collateral ratio was 108.39 percent. Shareholders' equity at March 31, 2012, totaled $1,244,462, an increase of $34,106 from December 31, 2011. This increase is the result of net income of $34,225 for the three months ended March 31, 2012, and $1,107 increase in accumulated other comprehensive income, offset by patronage paid of $1,226, primarily on the associations' and OFIs' stock investment in the bank. Other comprehensive income of $1,107 included an increase in unrealized gains on investments of $1,525, net of a $359 increase in unrealized losses on cash flow derivative instruments and a $59 amortization of other postretirement benefits. The increase in unrealized gains on investment securities was due primarily to changes in the market value of fixed-rate mortgage-backed securities, whose values have improved as interest rates have decreased.

Key financial condition comparisons:

	March 31, 2012	December 31, 2011
Permanent capital ratio	**18.07%**	20.85%
Net collateral ratio	**108.39%**	108.27%
Allowance and reserve for credit losses to total loans	**0.18%**	0.16%

OTHER

CONDITIONS IN THE TEXAS FARM CREDIT DISTRICT

The first quarter of 2012 brought much needed spring rainfall across portions of Texas and the eastern district states, improving crop and pasture conditions compared to the widespread drought conditions experienced during 2011. Timely rainfall across eastern, central, and portions of the coastal prairies in Texas have improved soil moisture conditions for recently planted crops. With the exception of a small portion of southeastern Alabama, most of Alabama, Mississippi and Louisiana have had adequate rainfall to support spring planting conditions and improve pasture for cattle.

Drought is still a critical factor for most of the state of New Mexico and portions of western Texas, along with the panhandle region where conditions remain very poor for both irrigated and dry-land farmers. Many borrowers collected crop insurance which has mitigated much of the distress caused by the drought throughout the district during 2011. While crop prices continue to be relatively strong, higher input costs will continue to be a challenge as we move into the summer months. During 2011, cattle liquidation reduced herd sizes across the district; however, strong foreign export demand and high cattle prices continue to allow many district producers to sell herds and capture profit rather than face increasing costs of holding cattle. Moving into the summer months of 2012, the district will continue to monitor weather patterns and the possible continuation of drought conditions, which could add to a decrease in loan volume and increase production costs.

While drought conditions adversely impacted district agriculture during 2011, overall district portfolios were not significantly impacted, and a large portion of exposure is supported by additional, non-agriculturally dependent sources of repayment helping to support the credit quality of the existing borrowers. As we continue into 2012, strong agricultural commodity prices, continued economic growth and high levels of district portfolio diversification should play key roles in maintaining borrower credit quality and assisting in loan growth.

FCSIC BOARD APPROVAL OF DISTRIBUTION OF EXCESS RESERVES

On April 24, 2012, the FCSIC board of directors approved the distribution of reserves in excess of the statutory secure base amount of 2 percent of adjusted outstanding insured debt at year-end 2011. Distributions totaling $221.9 million will be made to System account-holders, including $17.5 million scheduled for distribution to the Texas Farm Credit District entities.

RATING AGENCY ACTIONS

Moody's Investor Service Rating Actions

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.

Fitch Ratings Actions

On March 8, 2012, Fitch Ratings applied revised criteria for rating all financial institutions' hybrid capital instruments. This resulted in the downgrades of 1,068 outstanding hybrid capital instruments across the financial services sector. The impact to the bank was a downgrade in its cumulative preferred stock rating from "A" to "BBB+" and a downgrade in its noncumulative preferred stock rating from "A" to "BB." Fitch continues to rate the bank's long- and short-term Issuer Default Rating at "AA-" and "F1+" with a stable outlook.

REGULATORY MATTERS

During the quarter ended March 31, 2012, a written enforcement agreement from the Farm Credit Administration (FCA) to a district association was replaced with a new agreement. As of March 31, 2012, FCA 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.

The undersigned certify that we have reviewed the March 31, 2012, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

May 10, 2012

Controls and Procedures

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

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

May 10, 2012

Balance Sheets

(dollars in thousands)	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Cash	**$ 260,058**	$ 424,667
Federal funds sold and overnight investments	**36,714**	20,687
Investment securities	**3,227,351**	3,160,683
Loans	**10,622,496**	10,287,377
Less allowance for loan losses	**18,031**	15,659
Net loans	**10,604,465**	10,271,718
Accrued interest receivable	**44,480**	41,314
Other property owned, net	**33,062**	28,748
Premises and equipment, net	**15,725**	13,814
Other assets	**87,070**	87,603
Total assets	**$ 14,308,925**	$ 14,049,234
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 12,917,748**	$ 12,645,541
Subordinated debt	**50,000**	50,000
Accrued interest payable	**37,717**	35,751
Reserve for credit losses	**618**	607
Preferred stock dividends payable	**21,881**	21,881
Other liabilities	**36,499**	85,098
Total liabilities	**13,064,463**	12,838,878
Commitments and contingent liabilities (Note 4)		
Shareholders' equity		
Preferred stock, net	**482,000**	482,000
Capital stock	**216,839**	216,839
Allocated retained earnings	**14,435**	14,438
Unallocated retained earnings	**504,935**	471,933
Accumulated other comprehensive income	**26,253**	25,146
Total shareholders' equity	**1,244,462**	1,210,356
Total liabilities and shareholders' equity	**$ 14,308,925**	$ 14,049,234

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2012	2011
Interest Income		
Investment securities	**$ 15,100**	$ 15,455
Loans	**85,393**	93,659
Total interest income	**100,493**	109,114
Interest Expense		
Bonds, notes and subordinated debt	**45,242**	49,138
Total interest expense	**45,242**	49,138
Net interest income	**55,251**	59,976
Provision for credit losses	**14,580**	10,452
Net interest income after provision for loan losses	**40,671**	49,524
Noninterest Income		
Patronage income	**4,986**	4,636
Fees for services to associations	**537**	1,980
Loan-related fees	**3,571**	2,437
Miscellaneous income, net	**254**	135
Impairment losses on investments		
Total other-than-temporary impairment losses	**(22)**	(465)
Less: portion of (loss) gain recognized in other comprehensive income	**(21)**	1,430
Net impairment loss recognized in earnings	**(1)**	(1,895)
Total noninterest income	**9,347**	7,293
Noninterest Expense		
Salaries and employee benefits	**6,650**	8,128
Occupancy and equipment	**2,011**	2,062
Insurance Fund premiums	**580**	606
Losses on other property owned, net	**2,052**	226
Other operating expenses	**4,500**	3,990
Total noninterest expense	**15,793**	15,012
Net Income	**34,225**	41,805
Other comprehensive income (loss)		
Change in postretirement benefit plans	**(59)**	476
Change in unrealized gain on investments	**1,525**	(7,678)
Change in cash flow derivative instruments	**(359)**	(1,178)
Total other comprehensive income (loss)	**1,107**	(8,380)
Comprehensive Income	**$ 35,332**	$ 33,425

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2010	$ 482,000	$ 228,399	$ 11,144	$ 407,821	$ 21,494	$ 1,150,858
Net income	-	-	-	41,805	-	41,805
Other comprehensive loss	-	-	-	-	(8,380)	(8,380)
Patronage distributions						
Cash	-	-	-	(1,442)	-	(1,442)
Balance at March 31, 2011	$ 482,000	$ 228,399	$ 11,144	$ 448,184	$ 13,114	$ 1,182,841
Balance at December 31, 2011	$ 482,000	$ 216,839	$ 14,438	$ 471,933	$ 25,146	$ 1,210,356
Net income	-	-	-	34,225	-	34,225
Other comprehensive income	-	-	-	-	1,107	1,107
Capital stock issued	-	749	-	-	-	749
Capital stock retired	-	(749)	-	-	-	(749)
Patronage distributions						
Cash	-	-	-	(1,226)	-	(1,226)
Shareholders' equity	-	-	(3)	3	-	-
Balance at March 31, 2012	**$ 482,000**	**$ 216,839**	**$ 14,435**	**$ 504,935**	**$ 26,253**	**$ 1,244,462**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2012	2011
Operating activities		
Net income	**$ 34,225**	$ 41,805
Reconciliation of net income to net cash provided by operating activities		
Provision for credit losses	**14,580**	10,452
Provision for losses on other property owned	**1,792**	210
Depreciation and amortization on premises and equipment	**683**	620
Accretion of net discount on loans	**(239)**	(105)
Amortization and accretion on debt instruments	**(1,010)**	(1,113)
Amortization of net premium on investment securities	**186**	2,705
Losses from sales of other property owned, net	**118**	6
Losses on impairment of investments available-for-sale	**1**	1,895
Allocated equity patronage from System bank	**(12,440)**	(12,240)
Increase in accrued interest receivable	**(3,166)**	(85)
Decrease in other assets	**12,491**	8,634
Increase in accrued interest payable	**1,966**	3,096
Decrease in other liabilities	**(20,852)**	(8,554)
Net cash provided by operating activities	**28,335**	47,326
Investing activities		
Net (increase) decrease in federal funds	**(16,027)**	106
Investment securities		
Purchases	**(348,097)**	(216,968)
Proceeds from maturities, calls and prepayments	**282,768**	204,915
(Increase) decrease in loans, net	**(370,879)**	45,599
Proceeds from sales of other property owned, net	**619**	67
Expenditures for premises and equipment	**(2,594)**	(414)
Net cash (used in) provided by investing activities	**(454,210)**	33,305
Financing activities		
Bonds and notes issued	**4,901,218**	2,211,314
Bonds and notes retired	**(4,628,365)**	(2,488,553)
Capital stock issued	**749**	-
Capital stock retired and allocated retained earnings distributed	**(749)**	-
Cash patronage distributions paid	**(11,587)**	(11,100)
Net cash provided by (used in) financing activities	**261,266**	(288,339)
Net decrease in cash	**(164,609)**	(207,708)
Cash at beginning of year	**424,667**	436,866
Cash at end of quarter	**$ 260,058**	$ 229,158
Supplemental schedule of noncash investing and financing activities		
Loans transferred to other property owned	**$ 6,493**	$ -
Net increase (decrease) in unrealized gains on investment securities	**1,525**	(7,679)
Supplemental schedule of noncash changes in fair value related to hedging activities		
Increase (decrease) in bonds and notes	**$ 364**	$ (355)
Supplemental information		
Interest paid	**$ 43,276**	$ 46,042

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to shareholders (Annual Report). These unaudited first quarter 2012 financial statements should be read in conjunction with the Annual Report.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled “Balance Sheet - Disclosures about Offsetting Assets and Liabilities.” The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

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, 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, 2012 for non-public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the bank or district combined financial condition or results of operation.

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 previous option that permitted the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provide 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 did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In December 2011, the FASB issued guidance to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the statement. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral was effective at the same time the new standard on comprehensive income was adopted.

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, as more fully outlined in the 2011 Annual Report to Shareholders. The amendments are to be applied prospectively. The adoption of this guidance during the first quarter of 2012 did not impact the financial condition or results of operations but resulted in additional disclosures.

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 troubled debt restructuring (TDR). In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the System, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The new disclosures about troubled debt restructuring activity are required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The guidance requires disclosure about the nature and extent of financing receivables modified as troubled debt restructuring by class and the effect on the allowance for credit losses. Such disclosures are effective for annual reporting periods ending after December 15, 2011. The adoption of this guidance did not impact the bank's financial condition or results of operations, but resulted in additional disclosures.

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

The bank and its affiliated associations (district), are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. At March 31, 2012, the bank provided financing to 17 district associations and certain other financing institutions.

NOTE 2 — INVESTMENTS

Available for Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of FDIC-guaranteed corporate debt instruments, other corporate debt instruments, mortgage-backed investments (MBS) and asset-backed investments (ABS). The majority of the liquidity portfolio's MBS were federal agency collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations. A summary of the amortized cost and fair value of investment securities available for sale, at March 31, 2012, and December 31, 2011, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at March 31, 2012:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	$ 97,364	$ 26	$ -	$ 97,390	0.44 %
Corporate debt	83,303	169	(306)	83,166	1.12
Federal agency collateralized mortgage-backed securities					
GNMA	1,615,063	28,239	(490)	1,642,812	1.79
FNMA and FHLMC	1,175,327	12,830	(1,217)	1,186,940	1.54
Other collateralized mortgage-backed securities	46,857	-	(5,010)	41,847	6.19
Asset-backed securities	38,965	32	(1,326)	37,671	0.81
Total available-for-sale investments	**$ 3,056,879**	**$ 41,296**	**$ (8,349)**	**$ 3,089,826**	**1.69** %

Investments in the available-for-sale other investments portfolio at March 31, 2012:

	March 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	**$ 139,370**	**$ -**	**$ (1,845)**	**$ 137,525**	**4.74** %

Investments in the available-for-sale liquidity portfolio at December 31, 2011:

	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 available-for-sale investments	$ 3,018,508	$ 42,399	$ (11,145)	$ 3,049,762	1.78 %

Investments in the available-for-sale other investments portfolio at 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 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at March 31, 2012:

Investments in the available-for-sale liquidity portfolio:

	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	$ 97,390	$ -	$ -	$ -	$ 97,390
Corporate debt	-	83,166	-	-	83,166
Federal agency collateralized mortgage-backed securities					
GNMA	-	-	3,434	1,639,378	1,642,812
FNMA and FHLMC	32	11,385	159,041	1,016,482	1,186,940
Other collateralized mortgage-backed securities	-	-	101	41,746	41,847
Asset-backed securities	-	25,198	-	12,473	37,671
Total fair value	**$ 97,422**	**$ 119,749**	**$ 162,576**	**$ 2,710,079**	**$ 3,089,826**
Total amortized cost	**$ 97,395**	**$ 119,525**	**$ 159,197**	**$ 2,680,762**	**$ 3,056,879**
Weighted average yield	**0.44%**	**1.27%**	**2.15%**	**1.73%**	**1.69%**

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

		Due after One Year through Five Years
Fair value of agricultural mortgage-backed securities	$	137,525
Total amortized cost	**$**	**139,370**
Weighted average yield		**4.74%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at March 31, 2012. The continuous loss position is based on the date the impairment was first identified:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FDIC-guaranteed corporate debt	$ -	$ -	$ -	$ -	$ -	$ -
Corporate debt	29,693	(306)	-	-	29,693	(306)
Federal agency collateralized mortgage-backed securities						
GNMA	461,799	(533)	27,467	(41)	489,266	(574)
FNMA and FHLMC	445,502	(1,133)	-	-	445,502	(1,133)
Other collateralized mortgage-backed securities	2,082	(6)	39,765	(5,004)	41,847	(5,010)
Asset-backed securities	9,439	(49)	3,199	(1,277)	12,638	(1,326)
Total	**$ 948,515**	**$ (2,027)**	**$ 70,431**	**$ (6,322)**	**$ 1,018,946**	**$ (8,349)**

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

For the three months ended March 31, 2012, the bank recognized other-than-temporary impairment credit losses on one of its seven other-than-temporarily impaired investments. Credit losses were recognized on one asset-backed security totaling $1. The non-credit-related net decrease in fair value on the bank's other-than-temporarily impaired investments for the three months ended March 31, 2012, totaling $21, is included as a charge against other comprehensive income. At March 31, 2012, the bank had five mortgage-backed securities and two asset-backed securities that were considered to be other-than-temporarily impaired.

As the bank has no intention to sell the securities deemed other-than-temporarily impaired and will not more likely than not be required to sell the securities before recovery, the credit loss portion of impairment was recognized through earnings for the first three months of 2012. To measure the amount related to credit loss in the determination of other-than-temporary impairment, the bank utilizes a third-party vendor's services for cash flow modeling and projection of credit losses for specific non-agency residential mortgage-backed securities and subprime asset-backed securities. Applicable securities are identified through prior analysis based on the deterioration of price and credit ratings. Significant inputs utilized in the methodology of the modeling include assumptions surrounding market data (interest rates and home prices) and the applicable securities' loan level data. Loan level data evaluated includes loan status, coupon and resets, FICO scores, loan-to-value, geography, property type, etc. Loan level data is then combined with assumptions surrounding future behavior of home prices, prepayment rates, default rates and loss severity to arrive at cash flow projections for the underlying collateral. Default rate assumptions are generally estimated using historical loss and performance information to estimate future defaults. The default rates used at March 31, 2012, ranged from 2.9 percent to 12.5 percent for non-agency mortgage-backed securities and ranged from 8.5 percent to 14.2 percent for the asset-backed securities. Prepayment rate assumptions are based on historical prepayment rates and ranged from 4.4 percent to 14.2 percent for non-agency mortgage-backed securities and ranged from 1.3 percent to 2.3 percent for the asset-backed securities at March 31, 2012. At March 31, 2012, the loss severity assumptions ranged from 33.2 percent to 53.4 percent for non-agency mortgage-backed securities and ranged from 58.6 percent to 65.4 percent for the asset-backed securities. The present value of these cash flow projections is then evaluated against the specific security's structure and credit enhancement to determine if the bond will absorb losses.

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

	For the Three Months Ended March 31,	
	2012	2011
Credit loss component, beginning of period	**$ 9,921**	$ 7,834
Additions:		
Initial credit impairment	**-**	241
Subsequent credit impairment	**1**	1,654
Credit loss component, end of period	**$ 9,922**	$ 9,729

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

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

	March 31, 2012	December 31, 2011
Direct notes receivable from district associations and OFIs	**$ 6,904,635**	$ 6,972,663
Participations purchased	**3,702,113**	3,296,472
Other bank-owned loans	**15,748**	18,242
Balance at end of period	**$ 10,622,496**	$ 10,287,377

A summary of the bank's loans by type follows:

	March 31, 2012	December 31, 2011
Direct notes receivable from district associations	**$ 6,829,024**	$ 6,889,762
Real estate mortgage	**339,161**	358,157
Production and intermediate term	**402,401**	413,077
Loans to cooperatives	**291,794**	154,942
Processing and marketing	**1,307,762**	1,094,211
Farm-related business	**124,204**	126,764
Communication	**231,047**	217,823
Energy (utilities)	**886,492**	813,577
Water and waste disposal	**95,244**	94,563
Rural residential real estate	**30**	29
Loans to other financing institutions	**75,611**	82,901
Mission-related	**39,726**	41,571
	$ 10,622,496	$ 10,287,377

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 regarding the balances of participations purchased and sold, excluding syndications, at March 31, 2012.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 275,703	$ 283,805	$ 52,629	$ -	$ 328,332	$ 283,805
Production and intermediate term	413,850	167,254	47,216	-	461,066	167,254
Agribusiness	1,460,367	604,737	82,333	1,465	1,542,700	606,202
Communication	291,680	64,144	-	-	291,680	64,144
Energy	978,515	106,899	5,918	-	984,433	106,899
Water and waste disposal	102,107	6,479	-	-	102,107	6,479
Mission-related	5,385	-	-	-	5,385	-
Direct note receivable from district associations	-	3,400,000	-	-	-	3,400,000
Total	**$ 3,527,607**	**$ 4,633,318**	**$ 188,096**	**$ 1,465**	**$ 3,715,703**	**$ 4,634,783**

In 2011, the bank purchased $18,317 in loan participations from a district association in a Capitalized Participation Pool (CPP) transaction, and in January 2012 purchased another $2,336 in loan participations from the association under the same terms. The purchases represent 80.0 percent of the outstanding balances of the loans placed by the association in the CPP. As a condition of the transactions, the bank redeemed stock in the amount of 2.0 percent of the par value of the loans purchased, and the association bought bank stock equal to 8.0 percent of the purchased loans' par value. CPP loans held at March 31, 2012, totaled $18,494.

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

	March 31, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 48,929**	$ 65,774
Production and intermediate term	**11,832**	14,190
Agribusiness	**19,109**	10,073
Communication	**3,066**	3,096
Energy and water/waste disposal	**5,863**	9,043
Mission-related	**439**	518
Total nonaccrual loans	**89,238**	102,694
Accruing restructured loans:		
Real estate mortgage	**92**	132
Agribusiness	**2,419**	2,420
Total accruing restructured loans	**2,511**	2,552
Total nonperforming loans	**91,749**	105,246
Other property owned	**33,062**	28,748
Total nonperforming assets	**$ 124,811**	$ 133,994

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

- Acceptable – assets are 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 shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	**73.6 %**	69.3 %
OAEM	**10.3**	10.7
Substandard/Doubtful	**16.1**	20.0
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**93.5 %**	93.1 %
OAEM	**3.1**	3.0
Substandard/Doubtful	**3.4**	3.9
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**93.2 %**	91.5 %
OAEM	**4.9**	6.1
Substandard/Doubtful	**1.9**	2.4
	100.0 %	100.0 %
Energy and water/waste disposal:		
Acceptable	**95.7 %**	95.9 %
OAEM	**2.6**	1.9
Substandard/Doubtful	**1.7**	2.2
	100.0 %	100.0 %
Communication:		
Acceptable	**98.7 %**	98.6 %
OAEM	**-**	-
Substandard/Doubtful	**1.3**	1.4
	100.0 %	100.0 %
Rural residential real estate:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Direct notes to associations:		
Acceptable	**87.3 %**	86.9 %
OAEM	**4.8**	2.2
Substandard/Doubtful	**7.9**	10.9
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	**92.6 %**	92.2 %
OAEM	**-**	0.5
Substandard/Doubtful	**7.4**	7.3
	100.0 %	100.0 %
Total loans:		
Acceptable	**89.3 %**	88.3 %
OAEM	**4.5**	2.9
Substandard/Doubtful	**6.2**	8.8
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) for the entire loan portfolio (including nonaccrual loans) as of:

March 31, 2012

	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 > 90 Days and Accruing
Real estate mortgage	$ 17,303	$ 28,124	$ 45,427	$ 296,534	$ 341,961	$ -
Production and intermediate term	-	2,300	2,300	401,301	403,601	-
Agribusiness	1,239	2,933	4,172	1,728,777	1,732,949	-
Communication	-	-	-	231,396	231,396	-
Energy and water/waste disposal	-	5,863	5,863	982,623	988,486	-
Rural residential real estate	-	-	-	30	30	-
Direct notes to associations	-	-	-	6,846,236	6,846,236	-
Loans to other financing institutions	-	-	-	75,679	75,679	-
Mission-related	-	438	438	39,661	40,099	-
Total	**$ 18,542**	**$ 39,658**	**$ 58,200**	**$ 10,602,237**	**$ 10,660,437**	**$ -**

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 > 90 Days 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	-
Communication	-	-	-	218,123	218,123	-
Energy and water/waste disposal	-	9,043	9,043	905,249	914,292	-
Rural residential real estate	-	-	-	29	29	-
Direct notes to associations	-	-	-	6,908,416	6,908,416	-
Loans to other financing institutions	-	-	-	83,023	83,023	-
Mission-related	-	-	-	41,792	41,792	-
Total	$ 243	$ 49,890	$ 50,133	$ 10,272,384	$ 10,322,517	$ -

Additional impaired loan information is as follows:

	At March 31, 2012			At December 31, 2011		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Real estate mortgage	**$ 15,869**	**$ 19,773**	**$ 3,136**	$ 32,700	$ 44,635	$ 6,693
Production and intermediate term	**940**	**3,026**	**403**	2,982	3,015	37
Processing and marketing	**13,959**	**13,959**	**3,881**	3,217	3,487	2,155
Communication	**2,431**	**2,431**	**2,000**	2,455	2,455	2,000
Energy and water/waste disposal	**5,863**	**9,044**	**3,925**	9,043	9,043	850
Total	**$ 39,062**	**$ 48,233**	**$ 13,345**	$ 50,397	$ 62,635	$ 11,735
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 33,152**	**$ 42,608**	**$ -**	$ 33,206	$ 33,241	$ -
Production and intermediate term	**10,892**	**10,718**	**-**	11,208	11,208	-
Processing and marketing	**7,569**	**9,934**	**-**	9,276	11,640	-
Communication	**635**	**635**	**-**	641	641	-
Energy and water/waste disposal	**-**	**8,575**	**-**	-	8,575	-
Mission-related	**439**	**3,579**	**-**	518	3,657	-
Total	**$ 52,687**	**$ 76,049**	**$ -**	$ 54,849	$ 68,962	$ -
Total impaired loans:						
Real estate mortgage	**$ 49,021**	**$ 62,381**	**$ 3,136**	$ 65,906	$ 77,876	$ 6,693
Production and intermediate term	**11,832**	**13,744**	**403**	14,190	14,223	37
Processing and marketing	**21,528**	**23,893**	**3,881**	12,493	15,127	2,155
Communication	**3,066**	**3,066**	**2,000**	3,096	3,096	2,000
Energy and water/waste disposal	**5,863**	**17,619**	**3,925**	9,043	17,618	850
Mission-related	**439**	**3,579**	**-**	518	3,657	-
Total	**$ 91,749**	**$ 124,282**	**$ 13,345**	$ 105,246	$ 131,597	$ 11,735

	For the Quarter Ended March 31, 2012		For the Year Ended December 31, 2011	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Real estate mortgage	**$ 18,069**	**$ -**	$ 40,888	$ 22
Production and intermediate term	**2,952**	**-**	2,741	12
Processing and marketing	**6,238**	**194**	9,190	4
Communication	**2,449**	**-**	2,504	-
Energy and water/waste disposal	**8,940**	**-**	8,511	-
Total	**$ 38,648**	**$ 194**	$ 63,834	$ 38
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 42,000**	**$ 231**	$ 61,339	$ 924
Production and intermediate term	**10,806**	**53**	11,763	279
Processing and marketing	**9,131**	**51**	7,158	157
Communication	**639**	**-**	1,278	-
Energy and water/waste disposal	**-**	**-**	1	4
Mission-related	**489**	**-**	2,534	1
Total	**$ 63,065**	**$ 335**	$ 84,073	$ 1,365
Total impaired loans:				
Real estate mortgage	**$ 60,069**	**$ 231**	$ 102,227	$ 946
Production and intermediate term	**13,758**	**53**	14,504	291
Processing and marketing	**15,369**	**245**	16,348	161
Communication	**3,088**	**-**	3,782	-
Energy and water/waste disposal	**8,940**	**-**	8,512	4
Mission-related	**489**	**-**	2,534	1
Total	**$ 101,713**	**$ 529**	$ 147,907	$ 1,403

The average recorded investment in impaired loans for the three months ended March 31, 2012, was $101.7 million. The bank recognized interest income of $529 on impaired loans during the three months ended March 31, 2012.

At March 31, 2012, impaired loans of $39.1 million had a related specific allowance of $13.3 million, while the remaining $52.7 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The bank's impaired loans included loans which were acquired in March 2010 with evidence of credit deterioration. The loans are recorded at the present value of expected future cash flows. These loans had a balance of $10,535 and $12,949 at March 31, 2012, and December 31, 2011, respectively, net of the unaccreted discount of $384 and $439, at March 31, 2012, and December 31, 2011, respectively. During the three months ended March 31, 2012, the bank recorded provisions for loan losses related to these loans totaling $3,146 and net charge-offs totaling $2,513. The allowance for loan losses related to these loans was $1,897 and $1,264 at March 31, 2012, and December 31, 2011, respectively.

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as 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, 2011	$ 7,112	$ 424	$ 4,096	$ 2,163	$ 1,851	$ -	$ -	$ -	$ 13	$ 15,659
Charge-offs	(7,075)	(2,053)	-	-	(3,125)	-	-	-	-	(12,253)
Recoveries	20	-	36	-	-	-	-	-	-	56
Provision for loan losses	3,405	2,388	2,045	89	6,660	-	-	-	(7)	14,580
Other *	(11)	-	-	-	-	-	-	-	-	(11)
Balance at March 31, 2012	$ 3,451	$ 759	$ 6,177	$ 2,252	$ 5,386	$ -	$ -	$ -	$ 6	$ 18,031
Ending Balance at March 31, 2012:										
Individually evaluated for impairment	$ 1,643	$ -	$ 3,881	$ 2,000	$ 3,925	$ -	$ -	$ -	$ -	$ 11,449
Collectively evaluated for impairment	$ 314	$ 356	$ 2,296	$ 252	$ 1,461	$ -	$ -	$ -	$ 6	$ 4,685
Loans acquired with deteriorated credit quality	$ 1,494	$ 403	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,897
Balance at December 31, 2010	$ 16,883	$ 1,323	$ 5,242	$ 3,417	$ 1,809	$ 4	$ -	$ -	$ -	$ 28,678
Charge-offs	-	-	-	-	(2,750)	-	-	-	-	(2,750)
Recoveries	-	-	-	-	315	-	-	-	-	315
Provision for loan losses	6,520	(34)	1,549	(99)	2,520	(4)	-	-	-	10,452
Other *	(483)	-	-	-	-	-	-	-	-	(483)
Balance at March 31, 2011	$ 22,920	$ 1,289	$ 6,791	$ 3,318	$ 1,894	$ -	$ -	$ -	$ -	$ 36,212
Ending Balance at March 31, 2011										
Individually evaluated for impairment	$ 19,823	$ 641	$ 3,614	$ 3,000	$ -	$ -	$ -	$ -	$ -	$ 27,078
Collectively evaluated for impairment	$ 332	$ 545	$ 3,177	$ 318	$ 1,894	$ -	$ -	$ -	$ -	$ 6,266
Loans acquired with deteriorated credit quality	$ 2,765	$ 103	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,868
Recorded Investments in Loans Outstanding:										
Ending balance at March 31, 2012	$ 341,961	$ 403,601	$ 1,732,949	$ 231,396	$ 988,486	$ 30	$ 6,846,236	$ 75,679	$ 40,099	$ 10,660,437
Individually evaluated for impairment	$ 49,021	$ 11,832	$ 21,528	$ 3,066	$ 5,863	$ -	$ -	$ -	$ 439	$ 91,749
Collectively evaluated for impairment	$ 285,454	$ 388,720	$ 1,711,421	$ 228,330	$ 982,623	$ 30	$ 6,846,236	$ 75,679	$ 39,660	$ 10,558,153
Loans acquired with deteriorated credit quality	$ 7,486	$ 3,049	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,535
Ending balance at March 31, 2011	$ 414,578	$ 321,044	$ 1,279,506	$ 189,795	$ 870,515	$ 34	$ 7,260,992	$ 84,725	$ 22,434	$ 10,443,623
Individually evaluated for impairment	$ 93,200	$ 15,399	$ 21,072	$ 4,201	$ 10,954	$ -	$ -	$ -	$ -	$ 144,826
Collectively evaluated for impairment	$ 298,040	$ 300,071	$ 1,258,434	$ 185,594	$ 859,561	$ 34	$ 7,260,992	$ 84,725	$ 22,434	$ 10,269,885
Loans acquired with deteriorated credit quality	$ 23,338	$ 5,574	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 28,912

* Reserve for losses on unfunded commitments and standby letters of credit recorded in other liabilities

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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 March 31, 2012, the total recorded investment of troubled debt restructured loans was $17,054, including $14,542 classified as nonaccrual and $2,511 classified as accrual, with specific allowance for loan losses of $631. As of March 31, 2012, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $1,695.

The following table summarizes TDR loan balances by loan type at March 31, 2012:

	Loans Modified as TDRs	TDRs in Nonaccrual Status
Real estate mortgage	$ 2,918	$ 2,825
Production and intermediate term	8,784	8,783
Agribusiness	5,352	2,934
Total	$ 17,054	$ 14,542

During the quarter ended March 31, 2012, there were no restructured loans designated as troubled debt restructurings. During the period there were no payment defaults on loans that were restructured during 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.

NOTE 4 — COMMITMENTS AND CONTINGENT LIABILITIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at March 31, 2012, were approximately $186.7 billion.

In the normal course of business, the bank has various outstanding commitments and contingent liabilities, including the possibility of actions against the bank in which claims for monetary damages may be asserted. Upon the basis of current information, management and legal counsel are of the opinion 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 5 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," of the 2011 Annual Report for a more complete description.

Assets and liabilities recorded at fair value on a recurring basis at March 31, 2012, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at March 31, 2012			
	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	**$ 36,714**	$ -	$ 36,714	$ -
Investments available for sale:				
Corporate debt	**180,556**	-	165,826	14,730
Mortgage-backed securities	**2,871,599**	-	2,797,116	74,483
Asset-backed securities	**37,671**	-	34,472	3,199
Mission-related and other available-for-sale investments	**137,525**	-	-	137,525
Derivative assets	**1,185**	-	1,185	-
Assets held in nonqualified benefit trusts	**209**	209	-	-
Total assets	**$ 3,265,459**	$ 209	$ 3,035,313	$ 229,937
Liabilities:				
Standby letters of credit	**$ 2,320**	$ -	$ 2,320	$ -
Total liabilities	**$ 2,320**	$ -	$ 2,320	$ -

The following table summarizes the estimated fair value of financial instruments at March 31, 2012, which are not recorded on the balance sheet at fair value:

	Fair Value Measurements at March 31, 2012			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Loans	**$ 10,942,123**	$ -	$ -	$ 10,942,123
Total assets	**$ 10,942,123**	$ -	$ -	$ 10,942,123
Liabilities:				
Systemwide debt securities	**$ 13,103,455**	$ -	$ -	$ 13,103,455
Subordinated debt	**56,383**	-	-	56,383
Total liabilities	**$ 13,159,838**	$ -	$ -	$ 13,159,838

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2012, to March 31, 2012:

	Corporate Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:					
Balance at January 1, 2012	$ 82,464	$ 40,872	$ 110,921	$ 3,450	$ 237,707
Net gains (losses) included in other comprehensive income	(52)	3,305	(169)	81	3,165
Net losses included in earnings	-	-	-	(1)	(1)
Purchases, issuances and settlements	-	30,306	26,773	(331)	56,748
Transfers out of Level 3	(67,682)	-	-	-	(67,682)
Balance at March 31, 2012	$ 14,730	$ 74,483	$ 137,525	$ 3,199	$ 229,937
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 March 31, 2012	$ -	$ -	$ -	$ 1	$ 1

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended March 31, 2012. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The net purchases and settlements in agricultural mortgage-backed securities include the bank's purchase of additional AMBS from a district association during the quarter ended March 31, 2012. At March 31, 2012, Level 3 investments included one agency MBS and one corporate debt investment due to the fact that their valuations were based on Level 3 criteria (broker quotes) and certain non-agency MBS and non-agency ABS backed by home equity. In the first quarter of 2012, corporate debt which had previously been included in Level 3 were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2012, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement at March 31, 2012				
	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	**$ 86,428**	$ -	$ -	$ 86,428	**$ (12,253)**
Other property owned	**33,062**	-	-	33,062	**(2,052)**
Total assets	**$ 119,490**	$ -	$ -	$ 119,490	**$ (14,305)**

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

	Fair Value Measurements 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:				
Corporate debt	**252,463**	-	169,999	82,464
Mortgage-backed securities	**2,783,578**	-	2,742,706	40,872
Asset-backed securities	**13,721**	-	10,271	3,450
Mission-related and other available-for-sale investments	**110,921**	-	-	110,921
Derivative assets	**1,726**	-	1,726	-
Assets held in nonqualified benefit trusts	**280**	280	-	-
Total assets	**$ 3,183,376**	$ 280	$ 2,945,389	$ 237,707
Liabilities:				
Derivative liabilities	**$ 486**	$ -	$ 486	$ -
Standby letters of credit	**2,320**	-	2,320	-
Total liabilities	**$ 2,806**	$ -	$ 2,806	$ -

The following table summarizes the estimated fair value of financial instruments at December 31, 2011, which are not recorded on the balance sheet at fair value:

	Fair Value Measurements 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:				
Loans	**$ 10,620,285**	$ -	$ -	$ 10,620,285
Total assets	**$ 10,620,285**	$ -	$ -	$ 10,620,285
Liabilities:				
Systemwide debt securities	**$ 12,868,118**	$ -	$ -	$ 12,868,118
Subordinated debt	**56,963**	-	-	56,963
Total liabilities	**$ 12,925,081**	$ -	$ -	$ 12,925,081

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2011, to March 31, 2011:

	Corporate Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:					
Balance at January 1, 2011	$ -	$ 100,385	$ 140,503	$ 6,760	$ 247,648
Net gains included in other comprehensive income	79	3,208	407	83	3,777
Net losses included in earnings	-	(1,852)	-	(43)	(1,895)
Purchases, issuances and settlements	21,867	(6,672)	(3,182)	(941)	11,072
Transfers out of Level 3	-	(35,467)	-	-	(35,467)
Balance at March 31, 2011	$ 21,946	$ 59,602	$ 137,728	$ 5,859	$ 225,135
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 March 31, 2011	$ -	$ 1,852	$ -	$ 43	$ 1,895

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the quarter ended March 31, 2011. At January 1, 2011, 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 and asset-backed securities. In the quarter ended March 31, 2011, these two securities, totaling $35,467, were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2. There were no other transfers into or out of Level 2 during the quarter ended March 31, 2011.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011, for each of the fair value hierarchy levels 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)

Valuation Techniques

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

Investments Available for Sale

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

Derivative Assets and Liabilities

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

Assets Held in Nonqualified Benefit 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.

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

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

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

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

Systemwide Debt Securities

Systemwide debt securities 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 debt securities and Treasury securities. We estimate an appropriate yield-spread taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing and pricing levels in the related USD interest rate swap market.

Subordinated Debt

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

Other Property Owned

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

NOTE 6 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

	Receive-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2012	$ 175	$ 645	$ 820
Additions	-	-	-
Maturities/Amortizations	-	-	-
Balance at March 31, 2012	**$ 175**	**$ 645**	**$ 820**

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

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. The bank does not anticipate nonperformance by any of these counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. Another way the bank minimizes the risk of credit losses from derivatives is that substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached, which thresholds may vary depending on the counterparty's credit rating. At March 31, 2012, and December 31, 2011, the bank's exposure to counterparties, net of collateral, was $1.2 million and $1.7 million, respectively. At March 31, 2012, and December 31, 2011, the bank had posted no securities as collateral.

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the bank's asset/liability and treasury functions. The bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the bank's board of directors through the bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the bank's overall interest rate risk-management strategies. The bank held no derivatives that were not designated as hedges at March 31, 2012, or December 31, 2011.

Fair Value Hedges

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

Cash Flow Hedges

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

Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value 3/31/2012	Fair Value 12/31/2011	Balance Sheet Location	Fair Value 3/31/2012	Fair Value 12/31/2011
Receive fixed	Other assets	$ 376	$ 499	Other liabilities	$ -	$ 486
Interest rate caps	Other assets	808	1,227	Other liabilities	-	-

Derivatives designated as hedging instruments	Amount of (Loss) Gain Recognized in OCI on Derivatives (Effective Portion)		Location of Gain Reclassification from AOCI into Income	Amount of Gain Reclassified from AOCI into Income (Effective Portion)	
	March 31,			March 31,	
	2012	2011		2012	2011
Interest rate caps	$ (419)	$ (1,184)	Interest expense	$ 60	$ 1
Cash flow derivatives	-	5			

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

	Supplemental Defined Pension Benefits		Other Postretirement Benefits	
	2012	2011	**2012**	2011
Service cost	**$ -**	$ -	**$ 57**	$ 55
Interest cost	**-**	24	**104**	114
Amortization of prior service costs	**-**	-	**(59)**	(73)
Amortization of net loss	**-**	16	**-**	-
Amortization of net loss due to curtailment/termination	**-**	533	**-**	-
Net periodic benefit cost	**$ -**	$ 573	**$ 102**	$ 96

The bank's supplemental defined benefit pension plan was terminated effective January 16, 2011. By terminating the plan, no further vesting or benefit occured subsequent to January 16, 2011, and remaining unpaid vested benefits were distributed in a cash lump sum payment in January 2012 to the participating bank employees after a one-year deferral period.

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

NOTE 8 — ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income includes the accumulated balance of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. For the bank, these elements include unrealized gains or losses on the bank's available-for-sale investment portfolio, elements of certain pension and retirement benefit changes, and changes in the value of cash flow derivative instruments.

The following table summarizes the changes in the balance of the components of accumulated other comprehensive income for the three months ended March 31, 2012:

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2012	$ 25,146	$ 29,577	$ 1,251	$ (5,682)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(230)	(230)		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	1,754	1,754		
Reclassification adjustment for OTTI credit losses included in net income	1	1		
Net change in unrealized gains (losses) on securities	1,525	1,525		
Change in retirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(59)		(59)	
Net change in retirement benefit plans	(59)		(59)	
Change in cash flow derivative instruments				
Losses on interest rate caps	(419)			(419)
Reclassification of loss recognized in interest expense	60			60
Net change in cash flow derivative instruments	(359)			(359)
Total other comprehensive income	**1,107**	**1,525**	**(59)**	**(359)**
Balance, March 31, 2012	**$ 26,253**	**$ 31,102**	**$ 1,192**	**$ (6,041)**

The following table summarizes the changes in the balance of the components of accumulated other comprehensive income for the three months ended March 31, 2011:

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2011	$ 21,494	$ 24,586	$ (786)	$ (2,306)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(9,800)	(9,800)		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	227	227		
Reclassification adjustment for OTTI credit losses included in net income	1,895	1,895		
Net change in unrealized gains (losses) on securities	(7,678)	(7,678)		
Change in retirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(73)		(73)	
Amortization of net losses	16		16	
Amortization of net loss due to curtailment/termination	533		533	
Net change in retirement benefit plans	476		476	
Change in cash flow derivative instruments				
Losses on interest rate caps	(1,184)			(1,184)
Gains on cash flow interest rate swaps	5			5
Reclassification of loss recognized in interest expense	1			1
Net change in cash flow derivative instruments	(1,178)			(1,178)
Other comprehensive loss	(8,380)	(7,678)	476	(1,178)
Balance, March 31, 2011	$ 13,114	$ 16,908	$ (310)	$ (3,484)

NOTE 9 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through May 10, 2012, which is the date the financial statements were issued. There are no significant subsequent events requiring disclosure as of May 10, 2012.

NOTE 10 — COMBINED ASSOCIATION FINANCIAL DATA

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

Balance sheet data	**March 31, 2012**	December 31, 2011
Cash	**$ 3,505**	$ 8,052
Investment securities	**86,810**	127,245
Loans	**12,187,149**	12,205,997
Less allowance for loan losses	**94,602**	98,458
Net loans	**12,092,547**	12,107,539
Accrued interest receivable	**112,239**	118,908
Other property owned, net	**56,683**	59,208
Other assets	**315,400**	314,186
Total assets	**$ 12,667,184**	$ 12,735,138
Notes payable	**$ 10,223,259**	$ 10,286,567
Other liabilities	**171,648**	245,109
Total liabilities	**10,394,907**	10,531,676
Capital stock and participation certificates	**81,037**	81,311
Retained earnings	**2,191,682**	2,122,288
Accumulated other comprehensive loss	**(442)**	(137)
Total members' equity	**2,272,277**	2,203,462
Total liabilities and members' equity	**$ 12,667,184**	$ 12,735,138

	Three Months Ended March 31,	
Statement of comprehensive income data	**2012**	2011
Interest income	**$ 155,400**	$ 165,618
Interest expense	**58,112**	70,661
Net interest income	**97,288**	94,957
Provision for loan losses	**559**	10,531
Net interest income after provision for loan losses	**96,729**	84,426
Noninterest income	**16,105**	13,123
Other expense	**38,401**	41,929
Provision for (benefit from) income taxes	**132**	(506)
Net income	**74,301**	56,126
Other comprehensive loss:		
Change in postretirement benefit plans	**(305)**	(281)
Total other comprehensive loss	**(305)**	(281)
Comprehensive Income	**$ 73,996**	$ 55,845