2013 FIRST QUARTER REPORT
TEXAS FARM CREDIT DISTRICT

MARCH 31, 2013

FIRST QUARTER 2013

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of the Farm Credit Bank of Texas (bank), its affiliated Federal Land Credit Association (FLCA) and affiliated Agricultural Credit Associations (ACAs) for the three months ended March 31, 2013. The FLCA and ACAs are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2012 Annual Report to stockholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

Notice of approval of bylaws change: At a special stockholders' meeting held on February 28, 2013, the bank's Class A common stockholders approved amendments to the bank's capitalization bylaws that increased the amount of preferred stock the bank is authorized to issue and have outstanding at any one time from $500 million to $1 billion and that provide greater flexibility in determining the par value of such stock. At the same time, the Class A common stockholders also approved an Omnibus Approval of Preferred Stock Revolver that allows the bank to issue up to $1 billion of preferred stock outstanding at any time for a period of 10 years.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2013, was $115,813, an increase of $19,836, or 20.7 percent, over the same period of 2012. The increase in net income for the three months ended March 31, 2013, consisted of a $14,754 decrease in provision for loan losses, a $6,440 increase in net interest income, and a $5,122 increase in noninterest income, offset by a $5,806 increase in noninterest expense and a $674 increase in provision for income taxes.

Net Interest Income

Net interest income for the three months ended March 31, 2013, was $157,960, an increase of $6,440, or 4.3 percent, over the same period of 2012. The increase was primarily the result of a $1.26 billion increase in combined district average earning assets, offset by a 1-basis-point decrease in the net interest rate spread to 2.99 percent for the three months ended March 31, 2013. The increase in average earning assets was due to increases in the bank's participation loan and investment portfolios and in the associations' loan portfolio. The decrease in the net interest rate spread included a 27-basis-point decline in the effective rate on earning assets, net of a 26-basis-point decrease in the effective cost of debt. The effective rates on earning assets have decreased due to borrowers' repricings on retail loans due to the lower interest-rate environment and a compression in credit spreads on participation loans and investment assets. The district's associations had an increase in interest rate spreads and an increase in average loan volume, due mainly to improved general economic conditions. Interest expense for the first three months of 2013 included a $3,443 decrease in concession expenses recognized on callable debt related to a $2.01 billion decrease in debt called in the first three months of 2013, compared to the same period in 2012. The bank called $1.32 billion in debt in the three months ended March 31, 2013. The district 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 expected to diminish over time.

Provision for Loan Losses

The district's provision for loan losses and provision for losses on standby letters of credit and unfunded commitments for the three months ended March 31, 2013, were $385, a decrease of $14,754, or 97.5 percent, from the $15,139 provision for the first three months of 2012. The provisions recorded for the three months ended March 31, 2013, included provisions related to a meat-packing plant, ethanol, land in transition, and a geothermal power plant, as well as other borrowers impacted by the overall downturn in the general economy.

Noninterest Income

Noninterest income for the three months ended March 31, 2013, was $19,238, an increase of $5,122, or 36.3 percent, from the same period of 2012. The increase was primarily due to a $4,237 increase in fees for loan-related services, a $577 increase in fair value on loans purchased in the secondary market, a $449 increase in all other noninterest items, collectively, and a $1 increase in patronage, offset by a $142 increase in credit losses recognized on OTTI investments. The increase in fees for loan-related services included a $6.0 million prepayment fee the bank received on a participation loan. The bank has elected a fair value option for financial presentation purposes on certain loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial instruments. The $142 increase in credit losses recognized on other-than-temporarily impaired investments reflects the difference between the credit loss of $1 and the credit loss of $143 recognized during the three months ended March 31, 2012 and 2013, respectively. In March 2013, one of the OTTI investments with a book value of $5,145 was sold, realizing a loss of $143.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2013, was $60,194, an increase of $5,806, or 10.7 percent, over the same period of 2012. The increase is primarily attributable to a $2,620 increase in salaries and benefits, a $2,001 increase in premiums to the Farm Credit Insurance Corporation, a $750 increase in occupancy and equipment expenses, and a $633 increase in other operating expenses, offset by a $198 decrease in net losses on OPO. The increase in salaries and benefits included a $2,298 increase in compensation and related payroll taxes (primarily at the district's associations). Premiums to the Insurance Fund increased as a result of the rate increase from 5 basis points in 2012 to 10 basis points in 2013 and an increase in debt required to fund earning assets. The decrease in losses on OPO included a $1,212 decrease in provision for losses on OPO at the bank, and a $461 decrease in net expenses on OPO, offset by a $1,048 decrease in gains on sales of OPO and a $427 increase in provision for losses on OPO at the district associations.

Key results of operations comparisons:

	Annualized for the Three Months Ended 3/31/2013	Annualized for the Three Months Ended 3/31/2012
Return on average assets	**2.22%**	1.95%
Return on average members' equity	**14.08%**	12.21%
Net interest income as a percentage of average earning assets	**3.14%**	3.19%
Charge-offs, net of recoveries, to average loans	**0.24%**	0.42%
Operating expenses as a percentage of net interest income and noninterest income	**33.68%**	32.40%
Operating expenses as a percentage of average earning assets	**1.19%**	1.13%

Other Comprehensive Income (Loss)

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 loss in the shareholders' equity section. For the district, these elements include unrealized gains or losses on the bank's available-for-sale investment portfolio, amortization of certain pension and retirement benefit elements, and changes in the value of cash flow derivative instruments.

The table below summarizes changes in elements included in other comprehensive (loss) income for the three months ended March 31:

	Quarter Ended March 31, **2013**	2012
Change in unrealized gains on available-for-sale securities		
Net change in unrealized gains on investment securities	**$ (7,338)**	$ (230)
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	**1,030**	1,754
Reclassification adjustment for OTTI credit losses included in net income	**143**	1
Net change in unrealized gains (losses) on securities	**(6,165)**	1,525
Change in retirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(641)**	(348)
Amortization of net losses	**4,300**	3,445
Net change in retirement benefit plans	**3,659**	3,097
Change in cash flow derivative instruments		
Gains (losses) on interest rate caps	**54**	(419)
Reclassification of loss recognized in interest expense	**273**	60
Net change in cash flow derivative instruments	**327**	(359)
Other comprehensive (loss) income	**$ (2,179)**	$ 4,263

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2013, was $17,090,078, an increase of $223,346, or 1.3 percent, from $16,866,732 at December 31, 2012, and an increase of $1,090,127, or 6.8 percent, from $15,999,951 at March 31, 2012. The increase in the loan portfolio during the first three months of 2013 was due primarily to growth in the bank's participation loan portfolio.

Loans classified under the Farm Credit Administration (FCA)'s Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 96.9 percent at March 31, 2013, 96.8 percent at December 31, 2012, and 96.0 percent at March 31, 2012. Nonaccrual loans for the district were 1.57 percent of total loans at March 31, 2013, compared to 1.72 percent at December 31, 2012, and 2.67 percent at March 31, 2012.

Total district high-risk asset volume decreased by $35.8 million, or 8.1 percent, to $406.7 million at March 31, 2013, from $442.5 million at December 31, 2012.

Comparative balances of high-risk assets follow (in millions):

		Increase (Decrease)		
	March 31, 2013	$	%	December 31, 2012
Nonaccrual loans	**$ 268.8**	$ (20.6)	(7.1) %	$ 289.4
Formally restructured loans	**47.5**	(6.2)	(11.5)	53.7
Loans 90 days past due and still accruing interest	**2.2**	1.0	83.3	1.2
Total impaired loans	**318.5**	(25.8)	(7.5)	344.3
Other property owned, net	**88.2**	(10.0)	(10.2)	98.2
Total high-risk assets	**$ 406.7**	$ (35.8)	(8.1) %	$ 442.5

The $20.6 million decrease in nonaccrual loans from December 31, 2012, to March 31, 2013, is primarily the result of $37.6 million in repayments, $9.9 million in net charge-offs, $4.1 million in transfers to other property owned, and $888 in transfers to accrual status, offset by $31.3 million in transfers to nonaccrual and $2.6 million in advances on nonaccrual loans. The district had significant decreases in nonaccrual loans in the timber, meat-packing, and land in transition sectors, partially offset by significant increases in the beef and livestock and ethanol sectors. At March 31, 2013, $120.0 million, or 44.6 percent, of the district'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, 2013, the district had $7.3 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to $8.2 million at December 31, 2012. The decrease in formally restructured loans included a $5.1 million decrease in agribusiness loans and a $1.0 million decrease in real estate mortgage loans. Of the total decrease in restructured loans, $3.8 million occurred at district associations and $2.4 million occurred at the bank. Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 1.86 percent of total loans at March 31, 2013, and 2.04 percent of total loans at December 31, 2012.

The $99,025 allowance for loan losses at March 31, 2013, constituted 0.58 percent of total loans and was a decrease of $7,817, or 7.3 percent, from the allowance for loan losses at December 31, 2012. The decrease was primarily due to charge-offs, net of recoveries, of $9.9 million and $385 in provisions for loan losses recorded during the three months ended March 31, 2013. Additional information about the allowance for loan losses is included in Note 3, "Loans and Reserves for Credit Losses." The allowance for loan losses as a percentage of impaired loans was 31.1 percent as of March 31, 2013, as compared to 31.0 percent as of December 31, 2012. The nature of the security (primarily first lien real estate) supporting many of the impaired loans is considered in the determination of necessary allowances for loan losses. The district also had reserves for losses on letters of credit and unfunded commitments totaling $4.3 million at March 31, 2013, which included a specific reserve for one letter of credit and a general reserve for credit losses on letters of credit and unfunded commitments, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

Liquidity and Funding Sources

Cash and available-for-sale investment securities totaled $3,779,403, or 17.8 percent, of total assets at March 31, 2013, compared to $3,952,533, or 18.7 percent, at December 31, 2012, a decrease of $173,130, or 4.4 percent. At March 31, 2013, the district's cash balance was $317,427, a decrease of $195,415 from the balance at December 31, 2012. Cash held at the Federal Reserve Bank at March 31, 2013, totaled $312,446, compared to $462,282 at December 31, 2012. The bank maintains levels of cash and other highly liquid assets to meet loan demand, maturing debt and other liquidity needs. At March 31, 2013, the bank had 238 days of liquidity to cover maturing debt obligations, as compared to 231 days at December 31, 2012. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $35,739, or 0.2 percent, from December 31, 2012, to March 31, 2013.

Investments

The district's investments included an available-for-sale portfolio with a fair value of $3.38 billion held by the bank and a held-to-maturity portfolio recorded at an amortized cost of $66.3 million at March 31, 2013, held at the district associations. The available-for-sale investments included a liquidity portfolio and a portfolio of other investments. The bank's available-for-sale liquidity portfolio consisted primarily of guaranteed federal agency collateralized mortgage-backed securities, corporate debt, agency-guaranteed debt, other collateralized mortgage-backed securities and asset-backed securities. The available-for-sale portfolio of other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) that had a fair value of $111.8 million and were held by the bank. The district's held-to-maturity portfolio consisted of Farmer Mac AMBS held by district associations which had an amortized cost of $66.3 million and a fair value of $66.0 million.

The Farmer Mac AMBS are backed by loans originated by the associations and previously held by the associations under Farmer Mac's long-term standby commitment to purchase agreements. Farmer Mac is a government-sponsored enterprise (GSE) 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 following table summarizes the bank's available-for-sale liquidity portfolio holdings:

	March 31, 2013		December 31, 2012	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 84,938**	**$ 84,627**	$ 65,811	$ 65,766
Corporate debt	**253,489**	**253,918**	208,360	208,622
Federal agency collateralized mortgage-backed securities:				
GNMA	**1,591,774**	**1,610,328**	1,593,563	1,615,008
FNMA and FHLMC	**1,269,544**	**1,281,629**	1,281,140	1,297,535
Other collateralized mortgage-backed securities	**21,727**	**21,285**	28,082	26,938
Asset-backed securities	**11,655**	**11,512**	17,852	17,131
Total available-for-sale investments	**$ 3,233,127**	**$ 3,263,299**	$ 3,194,808	$ 3,231,000

The bank's available-for-sale other investment portfolio consisted of Farmer Mac AMBS securities as follows:

	March 31, 2013		December 31, 2012	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 113,989**	**$ 111,755**	$ 117,567	$ 115,479

Federal agency collateralized mortgage-backed securities comprised 88.6 percent of the bank's liquidity portfolio. Pricing on agency securities remains strong due to stabilization in the agency market; however, spreads have tightened due to increased demand for quality agency structures. The increase in corporate debt was due to purchases $45.0 million in par value during 2013. The decrease in asset-backed securities (ABS) was due to pay-downs and maturities. The decrease in the bank's available-for-sale other investments portfolio of agricultural mortgage-backed securities (AMBS) included repayments on available-for-sale AMBS through the quarter ended March 31, 2013.

At March 31, 2013, the bank had two mortgage-backed securities (MBS) and two ABS that were considered other-than-temporarily impaired (OTTI). In the quarter ended March 31, 2013, the bank recognized other-than-temporary impairment credit losses on one of its four other-than-temporarily impaired investments which was sold in March 2013. The sale of the investment, with a fair value of $5,003, resulted in in a realized loss of $143. The non-credit-related unrealized losses on the bank's other-than-temporarily impaired investments, totaling $374, 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."

FCA 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 and other obligations fully insured or guaranteed by the U.S., its agencies, instrumentalities and corporations are considered eligible investments under the FCA'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. To date, the FCA has not required disposition of any of these securities. While these investments do not meet the FCA's standards for liquidity, they are included in the net collateral calculation, albeit at their lower market value rather than the normal book value for qualifying investments.

At March 31, 2013, the bank held 11 investments that were ineligible for liquidity purposes by FCA regulations, due to credit ratings that were below AAA rating by all NRSROs. Those ineligible securities had an amortized cost basis of $25,393 and a fair value of $24,742 at March 31, 2013.

The following table sets forth investments available-for-sale within the bank's liquidity portfolio at fair value by credit rating:

	Eligible				Ineligible						
March 31, 2013	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated	AA/Aa	A/A	BBB/Baa	B/B	CCC/Caa	CC/Ca	Total
Agency guaranteed debt	$ -	$ -	$ -	$ 84,627	$ -	$ -	$ -	$ -	$ -	$ -	$ 84,627
Corporate debt	-	96,559	25,018	132,341	-		-	-	-	-	253,918
Federal agency collateralized mortgage-backed securities*											
GNMA	-	-	-	1,610,328	-	-	-	-	-	-	1,610,328
FNMA and FHLMC	-	-	-	1,281,629	-	-	-	-	-	-	1,281,629
Other collateralized mortgage-backed securities	-	-	-	-	3,090	-	5,642	8,695	1,324	2,534	21,285
Asset-backed securities	8,054	-	-	-	-	1,266	-	-	2,192	-	11,512
Total	$ 8,054	$ 96,559	$ 25,018	$ 3,108,925	$ 3,090	$ 1,266	$ 5,642	$ 8,695	$ 3,516	$ 2,534	$ 3,263,299

	Eligible				Ineligible						
December 31, 2012	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated	AA/Aa	A/A	BBB/Baa	B/B	CCC/Caa	CC/Ca	Total
Agency guaranteed debt	$ -	$ -	$ -	$ 65,766	$ -	$ -	$ -	$ -	$ -	$ -	$ 65,766
Corporate debt	-	101,448	25,018	82,156	-		-	-	-	-	208,622
Federal agency collateralized mortgage-backed securities*											
GNMA	-	-	-	1,615,008	-	-	-	-	-	-	1,615,008
FNMA and FHLMC	-	-	-	1,297,535	-	-	-	-	-	-	1,297,535
Other collateralized mortgage-backed securities	-	-	-	-	3,371	320	5,749	8,817	6,199	2,482	26,938
Asset-backed securities	8,291	-	5,743	1,384	-	-	-	-	1,713	-	17,131
Total	$ 8,291	$101,448	$ 30,761	$ 3,061,849	$ 3,371	$ 320	$ 5,749	$ 8,817	$ 7,912	$ 2,482	$ 3,231,000

*Due to credit rating actions in 2011 which downgraded the credit rating of 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, these investments were reported as eligible split-rated investments.

Capital Resources

At March 31, 2013, 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, 2013, the bank and all district associations exceeded all regulatory capital requirements. Total members' equity increased $105,183, or 3.2 percent, from December 31, 2012, to the March 31, 2013, total of $3,391,264. This increase is the result of net income of $115,813 for the three months ended March 31, 2013, net of patronage accrual of $8,448, a $2,179 increase in other comprehensive loss, and net stock retirements at district associations of $3.

Key financial condition comparisons:

	March 31, 2013	December 31, 2012
Members' equity to assets	**16.00%**	15.55%
Total liabilities to members' equity	**5.25:1**	5.43:1
Allowance for loan losses to total loans	**0.58%**	0.63%

OTHER

CONDITIONS IN THE TEXAS DISTRICT

The first quarter of 2013 has produced improved weather conditions across the district. States within the eastern portion of the district (Louisiana, Mississippi and Alabama) continue to benefit from consistent moisture even to the point of bringing all counties in far eastern Alabama back out of extreme drought conditions. While dry portions of Texas and New Mexico have improved from much needed rain over the past month, far south Texas, west Texas and much of New Mexico continues to experience drought ranging from severe to exceptional.

As planting season approaches, the cooler and wetter weather pattern will help early field preparation for dryland corn and soybean farmers across a large portion of the eastern district states and Texas. Irrigated farmers in the east are preparing fields with the benefit of good crop conditions, while producers in areas of Texas and New Mexico most affected by drought could be facing higher production costs and below average yields. Looking forward into the early summer, the focus will be on grain prices as analysts predict a downward movement in corn due to an abundance of supply and improving weather predictions.

While the cattle industry is still in a slowing phase of contraction due to severe drought and pasture conditions, export demand and high cattle prices are still driving producer profits. As feedlots struggle with reduced cattle numbers, the anticipated downward trend in corn prices should help feeders return to profitability. This trend will also positively impact dairymen as milk prices are rebounding on limited production. As corn prices stabilize or decrease, the general rise in meat protein prices across all the livestock segments, including poultry growers, integrators and hog producers, could set the stage for profitability as long as demand for protein in these sectors remains strong.

If severe drought conditions return across Texas and the Midwest, corn prices will likely increase and margins for livestock producers, dairymen and feedlots will tighten. Conversely, if a positive weather pattern emerges as predicted, district protein profitability will improve on lower feed prices and higher protein prices, and grain farmers should remain profitable due to domestic and foreign demand. As farmers prepare for the upcoming year, risk management of operations will continue to provide the best protection from rising production costs and commodity price volatility. While weather conditions and macro-economic forces largely impact portfolio performance, the district continues to be supported by high levels of borrower non-agricultural income, strong credit quality and well balanced portfolio diversification.

RATING AGENCY ACTIONS

Moody's Investors Service Rating Actions

On April 8, 2013, Moody's Investors Service affirmed the bank's investment grade of Aa2 issuer rating, 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. While the issuer outlook remained "negative" due to linkage with the U.S. government's "negative" outlook on its AAA long-term debt rating, the bank's subordinated debt and preferred stock ratings retained a "stable" outlook based on the bank's cited strong credit performance and the benefits associated with its lending to district associations and their strong capital levels.

REGULATORY MATTERS

As of March 31, 2013, FCA had enforcement actions in place against three associations in the district, which have not had, and are not expected to have, a significant impact on the bank or district results.

The undersigned certify that we have reviewed the March 31, 2013, quarterly report of the Farm Credit Bank of Texas and district associations, 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, 2013

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 chief financial officer 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. This evaluation relies upon the evaluations made by the individual associations and the related certifications they provide to the bank.

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, 2013

Combined Balance Sheets

(dollars in thousands)	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash	**$ 317,427**	$ 512,842
Federal funds sold	**20,671**	24,137
Investment securities	**3,441,305**	3,415,554
Loans (includes $60,367 and $65,074 at fair value held under fair value option)	**17,090,078**	16,866,732
Less allowance for loan losses	**99,025**	106,842
Net loans	**16,991,053**	16,759,890
Accrued interest receivable	**142,070**	131,429
Other property owned, net	**88,189**	98,211
Premises and equipment, net	**74,338**	71,709
Other assets	**115,358**	111,870
Total assets	**$ 21,190,411**	$ 21,125,642
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 17,346,599**	$ 17,310,860
Subordinated debt	**50,000**	50,000
Accrued interest payable	**37,865**	34,369
Patronage distributions payable	**21,455**	101,182
Preferred stock dividends payable	**21,881**	21,881
Other liabilities	**321,347**	321,269
Total liabilities	**17,799,147**	17,839,561
Commitments and contingent liabilities (Note 4)		
Members' equity		
Preferred stock	**482,000**	482,000
Capital stock and participation certificates	**59,856**	59,859
Allocated retained earnings	**420,247**	419,721
Unallocated retained earnings	**2,519,410**	2,412,571
Additional paid-in-capital	**22,737**	22,737
Accumulated other comprehensive loss	**(112,986)**	(110,807)
Total members' equity	**3,391,264**	3,286,081
Total liabilities and members' equity	**$ 21,190,411**	$ 21,125,642

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2013	2012
Interest Income		
Investment securities	**$ 14,200**	$ 16,391
Loans	**187,217**	186,958
Total interest income	**201,417**	203,349
Interest Expense		
Bonds, notes and subordinated debt	**37,238**	45,238
Notes payable and other	**6,219**	6,591
Total interest expense	**43,457**	51,829
Net interest income	**157,960**	151,520
Provision for loan losses	**385**	15,139
Net interest income after provision for loan losses	**157,575**	136,381
Noninterest Income		
Patronage income	**5,270**	5,269
Loan-related fees	**12,086**	7,849
Gain on loans held under fair value option	**577**	-
Miscellaneous income, net	**1,448**	999
Impairment losses on investments		
Net other-than-temporary impairment losses	**(143)**	(22)
Less: portion of loss recognized in other comprehensive income	**-**	(21)
Net impairment loss recognized in earnings	**(143)**	(1)
Total noninterest income	**19,238**	14,116
Noninterest Expense		
Salaries and employee benefits	**35,009**	32,389
Occupancy and equipment	**5,037**	4,287
Insurance Fund premiums	**3,833**	1,832
Losses on other property owned, net	**522**	720
Other operating expenses	**15,793**	15,160
Total noninterest expense	**60,194**	54,388
Income before provision for income taxes	**116,619**	96,109
Provision for income taxes	**806**	132
Net Income	**115,813**	95,977
Other comprehensive (loss) income		
Change in postretirement benefit plans	**3,659**	3,097
Change in unrealized gain on investments	**(6,165)**	1,525
Change in cash flow derivative instruments	**327**	(359)
Total other comprehensive (loss) income	**(2,179)**	4,263
Comprehensive Income	**$ 113,634**	$ 100,240

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2011	$ 482,000	$ 60,024	$ 374,231	$ 2,257,527	$ 22,737	$ (92,391)	$ 3,104,128
Net income	-	-	-	95,977	-	-	95,977
Other comprehensive income	-	-	-	-	-	4,263	4,263
Capital stock/participation certificates issued	-	1,959	-	-	-	-	1,959
Capital stock/participation certificates and allocated retained earnings retired	-	(2,233)	(5)	-	-	-	(2,238)
Patronage distributions							
Cash	-	-	-	(4,850)	-	-	(4,850)
Members' equity	-	-	501	(501)	-	-	-
Balance at March 31, 2012	$ 482,000	$ 59,750	$ 374,727	$ 2,348,153	$ 22,737	$ (88,128)	$ 3,199,239
Balance at December 31, 2012	$ 482,000	$ 59,859	$ 419,721	$ 2,412,571	$ 22,737	$ (110,807)	$ 3,286,081
Net income	-	-	-	115,813	-	-	115,813
Other comprehensive loss	-	-	-	-	-	(2,179)	(2,179)
Capital stock/participation certificates issued	-	2,159	-	-	-	-	2,159
Capital stock/participation certificates and allocated retained earnings retired	-	(2,162)	-	-	-	-	(2,162)
Patronage distributions							
Cash	-	-	-	(8,448)	-	-	(8,448)
Members' equity	-	-	526	(526)	-	-	-
Balance at March 31, 2013	**$ 482,000**	**$ 59,856**	**$ 420,247**	**$ 2,519,410**	**$ 22,737**	**$ (112,986)**	**$ 3,391,264**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	Three Months Ended March 31, 2013	2012
Operating activities		
Net income	**$ 115,813**	$ 95,977
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**385**	15,139
Provision for losses on other property owned	**1,387**	2,171
Depreciation and amortization on premises and equipment	**2,108**	1,770
Accretion of net discount on loans	**1,582**	1,054
Amortization and accretion on debt instruments	**(832)**	(1,010)
Amortization of net (discount) premium on investment securities	**(1,208)**	186
Increase in fair value on loans under fair value option	**(577)**	-
Gains from sales of other property owned, net	**(1,042)**	(2,089)
Losses on impairment of investments available-for-sale	**143**	1
Gains from sales of premises and equipment	**(392)**	(831)
Allocated equity patronage from System bank	**(12,406)**	(12,445)
(Increase) decrease in accrued interest receivable	**(10,641)**	2,061
Decrease in other assets	**9,179**	8,864
Increase in accrued interest payable	**3,496**	1,904
Decrease in other liabilities	**(3,590)**	(39,700)
Net cash provided by operating activities	**103,405**	73,052
Investing activities		
Net decrease (increase) in federal funds sold	**3,466**	(16,027)
Investment securities		
Purchases	**(291,790)**	(348,097)
Proceeds from maturities, calls and prepayments	**254,553**	323,203
Proceeds from sales	**6,528**	-
Increase in loans, net	**(238,046)**	(405,497)
Proceeds from sales of other property owned, net	**11,382**	10,011
Proceeds from sales of premises and equipment	**546**	865
Expenditures for premises and equipment	**(4,891)**	(4,325)
Net cash used in investing activities	**(258,252)**	(439,867)
Financing activities		
Bonds and notes issued	**2,817,261**	4,901,218
Bonds and notes retired	**(2,780,624)**	(4,628,365)
Increase in advanced conditional payments	**10,973**	3,524
Capital stock and participation certificates issued	**2,159**	1,959
Capital stock and participation certificates retired	**(2,162)**	(2,238)
Cash patronage distributions paid	**(88,175)**	(78,439)
Net cash (used in) provided by financing activities	**(40,568)**	197,659
Net decrease in cash	**(195,415)**	(169,156)
Cash at beginning of year	**512,842**	432,719
Cash at end of quarter	**317,427**	263,563
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 2,430**	$ 2,911
Loan assets transferred to other property owned	**4,135**	14,793
Net (decrease) increase in unrealized losses on investment securities	**(6,165)**	1,525
Cash dividends or patronage distributions payable	**21,455**	9,851
Supplemental schedule of noncash changes in fair value related to hedging activities		
(Decrease) increase in bonds and notes	**$ (66)**	$ 364
Supplemental information		
Cash paid for:		
Interest	**$ 39,961**	$ 49,925
Income taxes	**140**	23

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements (financial statements) include the accounts of the Farm Credit Bank of Texas (bank) and the accounts of its affiliated Agricultural Credit Associations (ACAs) and Federal Land Credit Association (FLCA) in the Farm Credit System (System). The ACAs and FLCA are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. The financial statements also reflect the investments in and allocated earnings of the service organizations in which the bank has a partial ownership interest. All significant transactions and balances between the bank and the associations have been eliminated in combination.

The significant accounting policies followed and the financial condition and results of operations of the combined bank and associations as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to stockholders (Annual Report). These unaudited first quarter 2013 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 did not impact financial condition or results of operations but resulted in additional disclosures.

In February 2013, the FASB issued guidance, “Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income.” The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the 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 district, 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.

NOTE 2 — INVESTMENTS

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 corporate debt, agency-guaranteed debt, mortgage-backed securities and asset-backed securities. The majority of the liquidity portfolio'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 other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased during the second quarter of 2010 and first quarter of 2012. A summary of the amortized cost and fair value of investment securities available for sale, at March 31, 2013, and December 31, 2012, is as follows.

Investments in the bank's available-for-sale liquidity portfolio at March 31, 2013:

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 84,938	$ 21	$ (332)	$ 84,627	1.43 %
Corporate debt	253,489	528	(99)	253,918	0.88
Federal agency collateralized mortgage-backed securities					
GNMA	1,591,774	19,537	(983)	1,610,328	1.55
FNMA and FHLMC	1,269,544	12,905	(820)	1,281,629	1.38
Other collateralized mortgage-backed securities	21,727	4	(446)	21,285	2.92
Asset-backed securities	11,655	65	(208)	11,512	1.47
Total available-for-sale investments	**$ 3,233,127**	**$ 33,060**	**$ (2,888)**	**$ 3,263,299**	**1.44** %

Investments in the bank's available-for-sale other investments portfolio at March 31, 2013:

	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 113,989	$ -	$ (2,234)	$ 111,755	4.35 %

Investments in the bank's available-for-sale liquidity portfolio at December 31, 2012:

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 65,811	$ 126	$ (171)	$ 65,766	1.53 %
Corporate debt	208,360	486	(224)	208,622	0.99
Federal agency collateralized mortgage-backed securities					
GNMA	1,593,563	22,143	(698)	1,615,008	1.60
FNMA and FHLMC	1,281,140	16,395	-	1,297,535	1.45
Other collateralized mortgage-backed securities	28,082	-	(1,144)	26,938	4.98
Asset-backed securities	17,852	59	(780)	17,131	1.13
Total available-for-sale investments	**$ 3,194,808**	**$ 39,209**	**$ (3,017)**	**$ 3,231,000**	**1.52** %

Investments in the bank's available-for-sale other investments portfolio at December 31, 2012:

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 117,567	$ -	$ (2,088)	$ 115,479	4.36 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at March 31, 2013:

Investments in the bank's 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
Agency-guaranteed debt	$ -	$ -	$ -	$ 84,627	$ 84,627
Corporate debt	97,229	156,689	-	-	253,918
Federal agency collateralized mortgage-backed securities					
GNMA	-	-	33,791	1,576,537	1,610,328
FNMA and FHLMC	1,434	1,720	94,115	1,184,360	1,281,629
Other collateralized mortgage-backed securities	-	-	49	21,236	21,285
Asset-backed securities	-	-	-	11,512	11,512
Total fair value	**$ 98,663**	**$ 158,409**	**$ 127,955**	**$ 2,878,272**	**$ 3,263,299**
Total amortized cost	**$ 98,433**	**$ 158,145**	**$ 124,268**	**$ 2,852,281**	**$ 3,233,127**
Weighted average yield	**0.68%**	**1.06%**	**2.53%**	**1.44%**	**1.44%**

Investments in the bank's available-for-sale other investments portfolio:

		Due after one year through five years
Fair value of agricultural mortgage-backed securities	$	111,755
Total amortized cost	**$**	**113,989**
Weighted average yield		**4.35%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows the bank's 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, 2013. 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
Agency-guaranteed debt	$ 59,892	$ (332)	$ -	$ -	$ 59,892	$ (332)
Corporate debt	55,100	(99)	-	-	55,100	(99)
Federal agency collateralized mortgage-backed securities						
GNMA	200,123	(983)	-	-	200,123	(983)
FNMA and FHLMC	110,888	(820)	-	-	110,888	(820)
Other collateralized mortgage-backed securities	-	-	15,643	(446)	15,643	(446)
Asset-backed securities	-	-	3,457	(208)	3,457	(208)
Total	**$ 426,003**	**$ (2,234)**	**$ 19,100**	**$ (654)**	**$ 445,103**	**$ (2,888)**

The district 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).

In the quarter ended March 31, 2013, the bank recognized other-than-temporary impairment credit losses on one of its four other-than-temporarily impaired investments which was sold in March 2013. The sale of the investment, with a fair value of $5,003, resulted in in a realized loss of $143. The non-credit-related net increase in fair value on the bank's other-than-temporarily impaired investments for the three months ended March 31, 2013, totaling $1,173, is included as a credit to other comprehensive income. At March 31, 2013, the bank had two 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 2013. 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. 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 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 are the assumptions used at:

	March 31, 2013	
Assumptions Used	Mortgage-backed Securities	Asset-backed Securities
Default by range	0.9% - 3.8%	3.9% - 7.2%
Prepayments rate by range	5.3% - 20.3%	2.5% - 6.0%
Loss severity by range	12.9% - 53.3%	52.6% - 64.1%

	December 31, 2012	
Assumptions Used	Mortgage-backed Securities	Asset-backed Securities
Default by range	0.8% - 7.1%	3.9% - 7.5%
Prepayments rate by range	5.0% - 20.7%	2.6% - 6.3%
Loss severity by range	12.5% - 56.1%	51.5% - 62.9%

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

	For the Three Months Ended March 31,	
	2013	2012
Credit loss component, beginning of period	**$ 5,084**	$ 9,921
Additions:		
Subsequent credit impairment	**-**	1
Reductions:		
For securities sold	**(3,484)**	-
Credit loss component end of period	**$ 1,600**	$ 9,922

Held-to-Maturity Investments

The district's held-to-maturity investments consisted of Farmer Mac guaranteed agricultural mortgage-backed securities and are held by district associations. A summary of the amortized cost and fair value of held-to-maturity investment securities at March 31, 2013, is as follows:

	March 31, 2013				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	$ 66,251	$ 209	$ (478)	$ 65,982	4.55 %

During 2010, the Farmer Mac guaranteed AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitment to purchase agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The associations continue to service the loans included in these transactions. These investments in guaranteed securities are included in Investments in this report's Combined Balance Sheet.

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of the district's held-to-maturity investments at March 31, 2013:

	Due after one year through five years	Due after five years through 10 years	Total
Fair value of agricultural mortgage-backed securities	$ 44,650	$ 21,332	$ 65,982
Total amortized cost	**$ 44,528**	**$ 21,723**	**$ 66,251**
Weighted average yield	**4.79%**	**4.04%**	**4.55%**

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans follows:

	March 31, 2013	December 31, 2012
Real estate mortgage	**$ 10,340,819**	$ 10,261,127
Production and intermediate term	**1,821,079**	1,831,402
Loans to cooperatives	**289,630**	172,652
Processing and marketing	**2,160,408**	2,183,437
Farm-related business	**225,679**	215,141
Communication	**297,652**	320,590
Energy (utilities)	**1,352,853**	1,296,812
Water and waste disposal	**119,791**	105,043
Rural residential real estate	**204,425**	203,171
Agricultural export finance	**5,731**	13,648
Lease receivables	**4,320**	4,573
Loans to other financing institutions	**68,884**	67,106
Mission-related	**198,807**	192,030
	$ 17,090,078	$ 16,866,732

The bank and associations purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations. The following table presents information regarding the balances of participations purchased and sold, excluding syndications, at March 31, 2013.

	Other Farm Credit Institutions (Outside of the Texas District)		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 85,263	$ 168,601	$ 63,719	$ 23,134	$ 148,982	$ 191,735
Production and intermediate term	305,879	334,326	60,041	16,581	365,920	350,907
Agribusiness	1,253,380	10,267	126,677	12,527	1,380,057	22,794
Communication	294,065	-	-	-	294,065	-
Energy	1,357,655	3,442	-	-	1,357,655	3,442
Water and waste disposal	118,766	-	-	-	118,766	-
Agricultural export finance	5,538	-	-	-	5,538	-
Lease receivables	3,798	-	109	-	3,907	-
Mission-related	8,115	-	4,488	-	12,603	-
Direct note receivable from district associations	-	3,400,000	-	-	-	3,400,000
Total	**$ 3,432,459**	**$ 3,916,636**	**$ 255,034**	**$ 52,242**	**$ 3,687,493**	**$ 3,968,878**

The bank and associations are authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. ACPs which are held by the district but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as other liabilities in the combined balance sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. At March 31, 2013, ACPs netted against borrowers’ related loan balances totaled $124,323 and ACPs included in other liabilities totaled $40,531, compared to $105,600 and $29,462, respectively, at December 31, 2012.

During 2012, the district elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $60,367 at March 31, 2013. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis.

The following is a summary of the transactions on loans for which the fair value option has been elected for the three months ended March 31, 2013:

Balance at January 1, 2013	**$ 65,074**
New transactions elected for fair value option	**-**
Maturities, repayments and calls by issuers	**(4,750)**
Net gains (losses) on financial instruments under fair value option	**577**
Change in premium	**(534)**
Balance at March 31, 2013	**$ 60,367**

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

	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	**$ 163,263**	$ 176,969
Production and intermediate term	**26,425**	20,276
Agribusiness	**69,996**	84,431
Communication	**5,807**	6,042
Rural residential real estate	**1,536**	1,639
Energy and water/waste disposal	**1,725**	-
Lease receivables	**58**	63
Total nonaccrual loans	**268,810**	289,420
Accruing restructured loans:		
Real estate mortgage	**33,045**	34,072
Production and intermediate term	**14,269**	14,414
Agribusiness	**119**	5,193
Rural residential real estate	**25**	34
Total accruing restructured loans	**47,458**	53,713
Accruing loans 90 days or more past due:		
Real estate mortgage	**1,930**	439
Production and intermediate term	**3**	86
Agribusiness	**235**	-
Rural residential real estate	**46**	126
Mission-related	**-**	508
Total accruing loans 90 days or more past due	**2,214**	1,159
Total nonperforming loans	**318,482**	344,292
Other property owned, net	**88,189**	98,211
Total nonperforming assets	**$ 406,671**	$ 442,503

One credit quality indicator utilized by the bank and associations is the FCA 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, 2013		December 31, 2012	
Real estate mortgage:				
Acceptable	**94.0**	**%**	93.7	%
OAEM	**3.1**		3.3	
Substandard/Doubtful	**2.9**		3.0	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**92.5**	**%**	92.9	%
OAEM	**3.6**		3.6	
Substandard/Doubtful	**3.9**		3.5	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**93.8**	**%**	92.6	%
OAEM	**2.6**		3.1	
Substandard/Doubtful	**3.6**		4.3	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**97.2**	**%**	97.2	%
OAEM	**-**		-	
Substandard/Doubtful	**2.8**		2.8	
	100.0	**%**	100.0	%
Communication:				
Acceptable	**98.1**	**%**	98.1	%
OAEM	**-**		-	
Substandard/Doubtful	**1.9**		1.9	
	100.0	**%**	100.0	%
Rural residential real estate:				
Acceptable	**95.6**	**%**	95.7	%
OAEM	**2.0**		1.8	
Substandard/Doubtful	**2.4**		2.5	
	100.0	**%**	100.0	%
Agricultural export finance:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Lease receivables:				
Acceptable	**98.4**	**%**	98.7	%
OAEM	**0.3**		-	
Substandard/Doubtful	**1.3**		1.3	
	100.0	**%**	100.0	%
Loans to other financing institutions:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Mission-related:				
Acceptable	**96.8**	**%**	96.7	%
OAEM	**-**		-	
Substandard/Doubtful	**3.2**		3.3	
	100.0	**%**	100.0	%
Total loans:				
Acceptable	**94.2**	**%**	93.9	%
OAEM	**2.7**		2.9	
Substandard/Doubtful	**3.1**		3.2	
	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, 2013

	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	$ 40,829	$ 92,670	$ 133,499	$ 10,300,386	$ 10,433,885	$ 1,930
Production and intermediate term	8,845	10,413	19,258	1,818,785	1,838,043	3
Agribusiness	214	40,502	40,716	2,650,247	2,690,963	235
Communication	-	-	-	297,997	297,997	-
Energy and water/waste disposal	-	-	-	1,479,753	1,479,753	-
Rural residential real estate	2,900	270	3,170	202,242	205,412	46
Agricultural export finance	-	-	-	5,748	5,748	-
Lease receivables	-	-	-	4,393	4,393	-
Loans to other financing institutions	-	-	-	68,999	68,999	-
Mission-related	7,184	-	7,184	193,292	200,476	-
Total	**$ 59,972**	**$ 143,855**	**$ 203,827**	**$17,021,842**	**$17,225,669**	**$ 2,214**

December 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	$ 53,789	$ 77,918	$ 131,707	$ 10,220,785	$ 10,352,492	$ 439
Production and intermediate term	6,173	14,123	20,296	1,827,259	1,847,555	86
Agribusiness	10,297	45,737	56,034	2,524,671	2,580,705	-
Communication	-	-	-	320,927	320,927	-
Energy and water/waste disposal	-	-	-	1,406,516	1,406,516	-
Rural residential real estate	1,929	251	2,180	202,001	204,181	126
Agricultural export finance	-	-	-	13,676	13,676	-
Lease receivables	-	-	-	4,689	4,689	-
Loans to other financing institutions	-	-	-	67,196	67,196	-
Mission-related	1,020	508	1,528	192,231	193,759	508
Total	$ 73,208	$ 138,537	$ 211,745	$ 16,779,951	$ 16,991,696	$ 1,159

Additional impaired loan information is as follows:

	At March 31, 2013			At December 31, 2012		
Impaired loans with a related allowance for loan losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Real estate mortgage	**$ 55,892**	**$ 67,882**	**$ 14,589**	$ 53,674	$ 66,770	$ 13,062
Production and intermediate term	**11,157**	**15,133**	**2,462**	10,482	16,657	3,963
Processing and marketing	**49,031**	**59,305**	**18,764**	58,367	59,241	27,055
Farm-related business	**8,573**	**8,688**	**3,060**	8,646	8,755	3,064
Communication	**5,144**	**5,144**	**2,766**	5,369	5,369	2,824
Energy and water/waste disposal	**1,725**	**1,725**	**1,725**	-	-	-
Rural residential real estate	**371**	**371**	**89**	562	567	93
Total	**$ 131,893**	**$ 158,248**	**$ 43,455**	$ 137,100	$ 157,359	$ 50,061
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 142,346**	**$ 148,252**	**$ -**	$ 157,806	$ 161,842	$ -
Production and intermediate term	**29,540**	**45,929**	**-**	24,294	42,037	-
Processing and marketing	**12,419**	**40,472**	**-**	22,276	51,148	-
Farm-related business	**327**	**1,086**	**-**	335	4,546	-
Communication	**663**	**663**	**-**	673	673	-
Energy and water/waste disposal	**-**	**22,796**	**-**	-	22,796	-
Rural residential real estate	**1,236**	**1,359**	**-**	1,237	1,360	-
Lease receivables	**58**	**58**	**-**	63	63	-
Mission-related	**-**	**3,797**	**-**	508	4,296	-
Total	**$ 186,589**	**$ 264,412**	**$ -**	$ 207,192	$ 288,761	$ -
Total impaired loans:						
Real estate mortgage	**$ 198,238**	**$ 216,134**	**$ 14,589**	$ 211,480	$ 228,612	$ 13,062
Production and intermediate term	**40,697**	**61,062**	**2,462**	34,776	58,694	3,963
Processing and marketing	**61,450**	**99,777**	**18,764**	80,643	110,389	27,055
Farm-related business	**8,900**	**9,774**	**3,060**	8,981	13,301	3,064
Communication	**5,807**	**5,807**	**2,766**	6,042	6,042	2,824
Energy and water/waste disposal	**1,725**	**24,521**	**1,725**	-	22,796	-
Rural residential real estate	**1,607**	**1,730**	**89**	1,799	1,927	93
Lease receivables	**58**	**58**	**-**	63	63	-
Mission-related	**-**	**3,797**	**-**	508	4,296	-
Total	**$ 318,482**	**$ 422,660**	**$ 43,455**	$ 344,292	$ 446,120	$ 50,061

	For the Three Months Ended			
	March 31, 2013		March 31, 2012	
Impaired loans with a related allowance for loan losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Real estate mortgage	**$ 55,380**	**$ 125**	$ 99,302	$ 23
Production and intermediate term	**5,697**	**226**	24,429	12
Processing and marketing	**50,722**	**80**	21,653	538
Farm-related business	**8,581**	**-**	13,755	21
Communication	**5,338**	**-**	3,760	-
Energy and water/waste disposal	**1,284**	**-**	8,940	-
Rural residential real estate	**368**	**-**	301	1
Lease receivables	**-**	**-**	2,759	-
Mission-related	**-**	**-**	86	-
Total	**$ 127,370**	**$ 431**	$ 174,985	$ 595
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 153,987**	**$ 2,097**	$ 224,128	$ 1,070
Production and intermediate term	**25,884**	**1,050**	37,590	237
Processing and marketing	**14,085**	**11**	30,654	169
Farm-related business	**329**	**51**	5,893	5
Communication	**670**	**-**	708	-
Rural residential real estate	**1,218**	**5**	1,575	7
Lease receivables	**61**	**-**	77	-
Mission-related	**-**	**-**	2,099	24
Total	**$ 196,234**	**$ 3,214**	$ 302,724	$ 1,512
Total impaired loans:				
Real estate mortgage	**$ 209,367**	**$ 2,222**	$ 323,430	$ 1,093
Production and intermediate term	**31,581**	**1,276**	62,019	249
Processing and marketing	**64,807**	**91**	52,307	707
Farm-related business	**8,910**	**51**	19,648	26
Communication	**6,008**	**-**	4,468	-
Energy and water/waste disposal	**1,284**	**-**	8,940	-
Rural residential real estate	**1,586**	**5**	1,876	8
Lease receivables	**61**	**-**	2,836	-
Mission-related	**-**	**-**	2,185	24
Total	**$ 323,604**	**$ 3,645**	$ 477,709	$ 2,107

At March 31, 2013, impaired loans of $131.9 million had a related specific allowance of $43.5 million, while the remaining $186.6 million of impaired loans had no related specific allowance as a result of adequate collateralization. District charge-offs in the first three months of 2013 were predominantly made against loans to borrowers in the meat-packing sector.

The average recorded investment in impaired loans for the three months ended March 31, 2013, was $323.6 million. The district recognized interest income of $3.6 million on impaired loans during the three months ended March 31, 2013.

The district's impaired loans included loans with evidence of credit deterioration which the bank acquired in March 2010. The loans are recorded at the present value of expected future cash flows. These loans had a balance of $4,330 and $4,376 at March 31, 2013, and December 31, 2012, respectively. The allowance for loan losses related to these loans was $990 and $1,057 at March 31, 2013, and December 31, 2012, 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	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Loan Losses:											
Balance at December 31, 2012	$ 42,868	$ 20,939	$ 36,753	$ 2,602	$ 3,213	$ 398	$ 3	$ 30	$ -	$ 36	$ 106,842
Charge-offs	(1,021)	(224)	(9,526)	-	-	(14)	-	-	-	-	(10,785)
Recoveries	528	213	141	-	-	14	-	-	-	-	896
Provision for credit losses	(4,474)	(1,194)	5,943	(150)	216	12	(1)	-	-	33	385
Other *	(8)	(45)	12	-	1,728	-	-	-	-	-	1,687
Balance at March 31, 2013	$ 37,893	$ 19,689	$ 33,323	$ 2,452	$ 5,157	$ 410	$ 2	$ 30	$ -	$ 69	$ 99,025
Individually evaluated for impairment	14,151	2,271	22,896	2,223	1,725	116	-	-	-	-	43,382
Collectively evaluated for impairment	22,944	17,226	10,427	229	3,432	294	2	30	-	69	54,653
Loans acquired with deteriorated credit quality	798	192	-	-	-	-	-	-	-	-	990
Balance at March 31, 2013	$ 37,893	$ 19,689	$ 33,323	$ 2,452	$ 5,157	$ 410	$ 2	$ 30	$ -	$ 69	$ 99,025
Balance at December 31, 2011	$ 62,514	$ 21,748	$ 23,241	$ 3,374	$ 2,624	$ 436	$ -	$ 58	$ -	$ 122	$ 114,117
Charge-offs	(12,095)	(3,530)	(437)	-	(3,125)	(116)	-	-	-	(3)	(19,306)
Recoveries	1,897	639	186	-	-	-	-	-	-	-	2,722
Provision for credit losses	107	2,943	4,631	204	7,216	39	-	(2)	-	1	15,139
Other *	(14)	(19)	(6)	1	(1)	-	-	-	-	-	(39)
Balance at March 31, 2012	$ 52,409	$ 21,781	$ 27,615	$ 3,579	$ 6,714	$ 359	$ -	$ 56	$ -	$ 120	$ 112,633
Individually evaluated for impairment	17,913	12,003	19,546	2,993	3,929	51	-	27	-	81	56,543
Collectively evaluated for impairment	33,002	9,375	8,069	586	2,785	308	-	29	-	39	54,193
Loans acquired with deteriorated credit quality	1,494	403	-	-	-	-	-	-	-	-	1,897
Balance at March 31, 2012	$ 52,409	$ 21,781	$ 27,615	$ 3,579	$ 6,714	$ 359	$ -	$ 56	$ -	$ 120	$ 112,633
Recorded Investments in Loans Outstanding:											
Ending balance at March 31, 2013	$ 10,433,885	$ 1,838,043	$ 2,690,963	$ 297,997	$ 1,479,753	$ 205,412	$ 5,748	$ 4,393	$ 68,999	$ 200,476	$ 17,225,669
Individually evaluated for impairment	$ 207,735	$ 38,966	$ 75,603	$ 5,807	$ 2,122	$ 2,512	$ -	$ 58	$ -	$ -	$ 332,803
Collectively evaluated for impairment	$ 10,223,245	$ 1,797,652	$ 2,615,360	$ 292,190	$ 1,477,631	$ 202,900	$ 5,748	$ 4,335	$ 68,999	$ 200,476	$ 16,888,536
Loans acquired with deteriorated credit quality	$ 2,905	$ 1,425	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,330
Ending balance at March 31, 2012	$ 10,185,872	$ 1,660,839	$ 2,465,886	$ 295,710	$ 1,089,030	$ 198,881	$ 225	$ 11,441	$ 75,679	$ 148,146	$ 16,131,709
Individually evaluated for impairment	$ 295,274	$ 55,914	$ 91,959	$ 4,110	$ 6,288	$ 1,778	$ -	$ 2,869	$ -	$ 523	$ 458,715
Collectively evaluated for impairment	$ 9,879,748	$ 1,598,851	$ 2,373,927	$ 291,600	$ 1,082,742	$ 197,103	$ 225	$ 8,572	$ 75,679	$ 147,623	$ 15,656,070
Loans acquired with deteriorated credit quality	$ 10,850	$ 6,074	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,924

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

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

As of March 31, 2013, the total recorded investment of troubled debt restructured loans was $84,281, including $36,823 classified as nonaccrual and $47,458 classified as accrual, with specific allowance for loan losses of $5,429. As of March 31, 2013, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $80.

The following table summarizes TDR loan balances by loan type:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Real estate mortgage	$ 59,308	$ 57,642	$ 26,263	$ 23,570
Production and intermediate term	17,767	18,430	3,498	4,016
Agribusiness	7,181	10,160	7,062	4,967
Rural residential real estate	25	34	-	-
Total	$ 84,281	$ 86,266	$ 36,823	$ 32,553

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three months ended March 31, 2013. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter-end after the restructuring.

For the three months ended March 31, 2013:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 729	$ 676
Production and intermediate term	59	60
Total	$ 788	$ 736

The predominant form of concession granted for troubled debt restructuring includes extension of the term and delayed payments. Other types of modifications included interest rate reduction.

A payment default is defined as a payment that is 30 days past due after the date the loan was restructured. The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment at March 31, 2013
Troubled debt restructurings that subsequently defaulted:	
Real estate mortgage	$ 100
Total	$ 100

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, 2013, were approximately $199.0 billion.

In the normal course of business, the district has various outstanding commitments and contingent liabilities, including the possibility of actions against the district in which claims for monetary damages may be asserted. Management and legal counsel are not aware of any other pending lawsuits or actions. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions will not be material in relation to the financial position, results of operations or cash flows of the district.

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 2012 Annual Report for a more complete description.

Assets and liabilities recorded at fair value on a recurring basis at March 31, 2013, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at March 31, 2013			
	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	**$ 20,671**	$ -	$ 20,671	$ -
Investments available for sale:				
Corporate debt	**253,919**	-	193,980	59,939
Agency-guaranteed debt	**84,627**	-	64,652	19,975
Mortgage-backed securities	**2,913,242**	-	2,852,005	61,237
Asset-backed securities	**11,511**	-	8,054	3,457
Mission-related and other available-for-sale investments	**111,755**	-	-	111,755
Loans valued under the fair value option	**60,367**	-	60,367	-
Derivative assets	**744**	-	744	-
Assets held in nonqualified benefit trusts	**4,499**	4,499	-	-
Total assets	**$ 3,461,335**	$ 4,499	$ 3,200,473	$ 256,363
Liabilities:				
Standby letters of credit	**$ 2,224**	$ -	$ 2,224	$ -
Total liabilities	**$ 2,224**	$ -	$ 2,224	$ -

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, 2013, to March 31, 2013:

	Corporate Debt	Agency-Guaranteed Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Loans Under Fair Value Option	Total
Available-for-sale investment securities:							
Balance at January 1, 2013	$ 59,958	$ 15,117	$ 26,938	$ 115,479	$ 3,096	$ 4,764	$ 225,352
Net gains (losses) included in other comprehensive income	(19)	(25)	726	(146)	573	-	1,109
Net gains (losses) included in earnings	-	-	(143)	-	-	-	(143)
Purchases, issuances and settlements	-	20,000	33,716	(3,578)	(212)	(4,764)	45,162
Transfers out of Level 3	-	(15,117)	-	-	-	-	(15,117)
Balance at March 31, 2013	$ 59,939	$ 19,975	$ 61,237	$ 111,755	$ 3,457	$ -	$ 256,363
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, 2013	$ -	$ -	$ -	$ -	$ -	$ -	$ -

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended March 31, 2013. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. At March 31, 2013, Level 3 investments included one agency MBS and one corporate debt instrument due to the fact that their valuations were based on Level 3 criteria (broker quotes), certain non-agency MBS and non-agency ABS backed by home equity. In the first three months of 2013, an agency-guaranteed debt instrument which had previously been included in Level 3 was valued using independent third-party valuation services using Level 2 criteria and was, accordingly, transferred from Level 3 to Level 2.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2013, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at March 31, 2013				
	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	**$ 245,302**	$ -	$ -	$ 245,302	**$ (10,785)**
Other property owned	**97,988**	-	-	97,988	**(523)**
Total assets	**$ 343,290**	$ -	$ -	$ 343,290	**$ (11,308)**

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

	Fair Value Measurements at December 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	**$ 24,137**	$ -	$ 24,137	$ -
Investments available for sale:				
Corporate debt	**208,622**	-	148,664	59,958
Agency-guaranteed debt	**65,766**	-	50,649	15,117
Mortgage-backed securities	**2,939,481**	-	2,912,543	26,938
Asset-backed securities	**17,131**	-	14,035	3,096
Mission-related and other available-for-sale investments	**115,479**	-	-	115,479
Loans valued under the fair value option	**65,074**	-	60,310	4,764
Derivative assets	**756**	-	756	-
Assets held in nonqualified benefit trusts	**3,577**	3,577	-	-
Total assets	**$ 3,440,023**	$ 3,577	$ 3,211,094	$ 225,352
Liabilities:				
Standby letters of credit	**$ 2,018**	$ -	$ 2,018	$ -
Total liabilities	**$ 2,018**	$ -	$ 2,018	$ -

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 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 December 31, 2012, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement at December 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	$ 241,252	$ -	$ -	$ 241,252	$ (43,121)
Other property owned	109,124	-	-	109,124	(13,850)
Total assets	$ 350,376	$ -	$ -	$ 350,376	$ (56,971)

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized as follows:

	March 31, 2013					December 31, 2012	
		Fair Value Measurements Using					
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Total Carrying Amount	Total Fair Value
Assets:							
Cash	**$ 317,427**	$ 317,427	$ -	$ -	$ 317,427	$ 512,842	$ 512,842
Mission-related and other held-to-maturity investments	**66,251**	-	-	65,982	65,982	69,075	68,752
Net loans	**16,685,384**	-	-	16,838,461	16,838,461	16,453,564	16,686,810
Total assets	**$ 17,069,062**	$ 317,427	$ -	$ 16,904,443	$ 17,221,870	$ 17,035,481	$ 17,268,404
Liabilities:							
Systemwide debt securities and other notes	**$ 17,346,599**	$ -	$ -	$ 17,545,567	$ 17,545,567	$ 17,310,860	$ 17,528,575
Subordinated debt	**50,000**	-	-	56,676	56,676	50,000	56,945
	$ 17,396,599	$ -	$ -	$ 17,602,243	$ 17,602,243	$ 17,360,860	$ 17,585,520

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 and its affiliated associations’ 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. This would include certain mortgage-backed and asset-backed securities. To estimate the fair value of investments, the bank obtains prices from third-party pricing services. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified as Level 3 primarily consist of certain non-agency mortgage-backed and asset-backed securities valued using independent third-party valuation services. Also included in the district’s Level 3 assets are its investment in 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 basic interest rate swaps and cash flow derivatives. The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable 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 district's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the district's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

For loans which are valued at fair value under the fair value pricing option, if quoted prices are not available in an active market, the fair value is estimated using pricing models, quoted prices for similar instruments received from pricing services or discounted cash flows. To estimate the fair value of these instruments, the bank obtains prices from third-party pricing services. Generally, these loans would be classified as Level 2. Loans held under the fair value option by a district association whose values are not obtained from third-party pricing services are classified as Level 3.

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.

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.

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices may not be available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information About Recurring and Nonrecurring Level 3 Fair Value Measurement

	Valuation Technique(s)	Unobservable Input
Mortgage-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Asset-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Mission-related investments	Discounted cash flow	Prepayment rates

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold	Carrying value	Par/principal
Investment securities available for sale	Quoted prices Discounted cash flow	Price for similar security Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	Quoted prices Discounted cash flow	Price for similar asset Constant prepayment rate Appropriate interest rate yield curve
Interest rate swaps	Discounted cash flow	Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Appropriate interest rate yield curve Annualized volatility

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balances
Loans	Discounted cash flow	Prepayment forecasts Appropriate interest rate yield curve
Systemwide debt securities and subordinated debt	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

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

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

	Receive-Fixed Swaps	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2013	$ 100	$ -	$ 695	$ 795
Maturities/Amortizations	(50)	-	-	(50)
Balance at March 31, 2013	**$ 50**	**$ -**	**$ 695**	**$ 745**

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, 2013, and December 31, 2012, the bank's exposure to counterparties, net of collateral, was $744 and $756, respectively. At March 31, 2013, and December 31, 2012, the bank had posted no securities as collateral, nor has any counterparty been required to post 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, 2013, or December 31, 2012.

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 3/31/2013	Fair Value 12/31/2012	Balance Sheet Location	Fair Value 3/31/2013	Fair Value 12/31/2012
Receive fixed	Other assets	$ 25	$ 91	Other liabilities	$ -	$ -
Interest rate caps	Other assets	719	665	Other liabilities	-	-

Derivatives designated as hedging instruments	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) March 31, 2013	2012	Location of Gain Reclassification from AOCI into Income	Amount of Gain Reclassified from AOCI into Income (Effective Portion) March 31, 2013	2012
Interest rate caps	$ 54	$ (419)	Interest expense	$ 273	$ 60
Cash flow derivatives	-	-			

NOTE 7 — EMPLOYEE BENEFIT PLANS

Employees of the bank and district associations participate in either the defined benefit retirement plan or a defined contribution plan (DC Plan) and are eligible to participate in the district's 401(k) plan. Employer contributions to the DC Plan and 401(k) plan are expensed as incurred. The multiemployer structure of the district's defined benefit pension plan results in the recording of this plan only upon combination. In addition, the bank had a supplemental defined benefit pension plan, which was discontinued effective January 16, 2011, and for which final distributions were made in January 2012.

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

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2013	2012	**2013**	2012
Service cost	**$ 1,465**	$ 1,361	**$ 396**	$ 346
Interest cost	**3,768**	3,911	**671**	661
Expected return on plan assets	**(4,683)**	(4,056)	**-**	-
Amortization of prior service costs	**9**	9	**(650)**	(357)
Amortization of net loss	**4,109**	3,451	**191**	(6)
Net periodic benefit cost	**$ 4,668**	$ 4,676	**$ 608**	$ 644

As of March 31, 2013, contributions of $16.5 million have been made to the defined benefit pension plan. The district presently anticipates no additional contributions to fund its pension plan in 2013.

NOTE 8 — INCOME TAXES

The bank and its affiliated associations did not have any uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

NOTE 9 — 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 district, 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 loss for the three months ended March 31, 2013:

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2013	$ (110,807)	$ 34,104	$ (138,696)	$ (6,215)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(7,338)	(7,338)		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	1,030	1,030		
Reclassification adjustment for OTTI credit losses included in net income	143	143		
Net change in unrealized gains (losses) on securities	(6,165)	(6,165)		
Change in retirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(641)		(641)	
Amortization of net losses	4,300		4,300	
Net change in retirement benefit plans	3,659		3,659	
Change in cash flow derivative instruments				
Gains on interest rate caps	54			54
Reclassification of amount recognized in interest expense	273			273
Net change in cash flow derivative instruments	327			327
Total other comprehensive loss	**(2,179)**	**(6,165)**	**3,659**	**327**
Balance, March 31, 2013	**$ (112,986)**	**$ 27,939**	**$ (135,037)**	**$ (5,888)**

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

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2012	$ (92,391)	$ 29,577	$ (116,286)	$ (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	(348)		(348)	
Amortization of net losses	3,445		3,445	
Net change in retirement benefit plans	3,097		3,097	
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	4,263	1,525	3,097	(359)
Balance, March 31, 2012	$ (88,128)	$ 31,102	$ (113,189)	$ (6,041)

NOTE 10 — SUBSEQUENT EVENTS

The district has evaluated subsequent events through May 10, 2013, which is the date the financial statements were issued. There are no significant subsequent events requiring disclosure as of May 10, 2013.

NOTE 11 — BANK-ONLY FINANCIAL DATA

Condensed financial information for the bank follows. All significant transactions and balances between the bank and associations are eliminated in combination.

Balance sheet data	**March 31, 2013**	December 31, 2012
Cash	**$ 315,747**	$ 502,242
Federal funds sold and overnight investments	**20,671**	24,137
Investment securities	**3,375,054**	3,346,479
Loans	**11,521,433**	11,338,830
Less allowance for loan losses	**15,405**	17,258
Net loans	**11,506,028**	11,321,572
Accrued interest receivable	**44,215**	35,635
Other property owned, net	**23,987**	30,739
Premises and equipment, net	**21,160**	19,349
Other assets	**98,865**	95,516
Total assets	**$ 15,405,727**	$ 15,375,669
Bonds and notes	**$ 13,946,599**	$ 13,910,860
Subordinated debt	**50,000**	50,000
Accrued interest payable	**35,801**	32,328
Preferred stock dividends payable	**21,881**	21,881
Other liabilities	**30,654**	86,757
Total liabilities	**14,084,935**	14,101,826
Preferred stock	**482,000**	482,000
Capital stock	**212,588**	212,588
Retained earnings	**604,253**	551,422
Accumulated other comprehensive income	**21,951**	27,833
Total shareholders' equity	**1,320,792**	1,273,843
Total liabilities and shareholders' equity	**$ 15,405,727**	$ 15,375,669

	Three Months Ended March 31,	
Statement of income data	**2013**	2012
Interest income	**$ 92,936**	$ 100,493
Interest expense	**37,238**	45,242
Net interest income	**55,698**	55,251
Provision for credit losses	**895**	14,580
Net interest income after provision for loan losses	**54,803**	40,671
Noninterest income	**15,752**	9,347
Noninterest expense	**16,783**	15,793
Net income	**53,772**	34,225
Other comprehensive (loss) income:		
Change in postretirement benefit plans	**(44)**	(59)
Change in fair value of investments	**(6,165)**	1,525
Change in cash flow derivative instruments	**327**	(359)
Total other comprehensive (loss) income	**(5,882)**	1,107
Comprehensive Income	**$ 47,890**	$ 35,332