STAYING THE COURSE

2011 ANNUAL REPORT

TEXAS FARM CREDIT DISTRICT

Table of Contents

FARM CREDIT BANK OF TEXAS
4801 Plaza on the Lake Drive
Austin, Texas 78746
512.465.0400
FAX 512.465.0675
farmcreditbank.com
findfarmcredit.com

STAYING THE COURSE —
in challenging times

For 95 years, Farm Credit has maintained a steady presence in rural America, using cooperative principles to provide competitive credit and superior service to farmers, ranchers, agribusinesses and other property owners.

We in the Texas Farm Credit District look back on that history with pride, and it is our experience that guides our decisions when we encounter challenges. Last year, the challenges were many. Demand for rural property remained low amid a series of intense weather events and a sluggish economic recovery.

The efforts we undertook during the recent nationwide financial crisis to minimize risk and enhance our financial stability continued to serve the Texas District well in 2011, and we finished the year with record profitability. Our enhanced credit standards, conservative management practices, and attention to liquidity and capital continue to define our path as we move forward in 2012.

BOARD OF DIRECTORS
FARM CREDIT BANK OF TEXAS

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

OUR LEADERSHIP

It takes an experienced guide to set a clear direction in a challenging business climate. The seven members of the Farm Credit Bank of Texas Board of Directors bring a broad perspective from their years in agriculture, business and finance to the decisions that shape the future for the Texas Farm Credit District.

In 2011, the board approved a multiyear initiative to upgrade business applications, reporting systems and lending systems at the bank and cooperative lending associations. These upgrades are designed to give the district better technological tools to serve its customers, become more efficient, and identify new markets that could benefit from Farm Credit's reliable financing and services.

Through its encouragement of innovation, training and careful decision-making, the board continues its support for products and services that respond to the diverse needs of the district's customers.

95
FARM CREDIT
Serving rural America since 1916

2011 FINANCIAL HIGHLIGHTS

The Texas Farm Credit District reported strong financial results for 2011, earning a record net income of $368.7 million for the year. This was an increase of $93.3 million, or 33.9 percent, over 2010 net income. Net interest income for 2011 totaled $608.1 million, compared with $580.2 million in 2010.

Loan volume continued to be relatively flat, decreasing 0.03 percent to $15.62 billion at December 31, 2011, from $15.63 billion at December 31, 2010. Credit quality remained stable, with 95.4 percent of loan volume considered acceptable or special mention at year-end 2011, compared with 93.2 percent a year earlier.

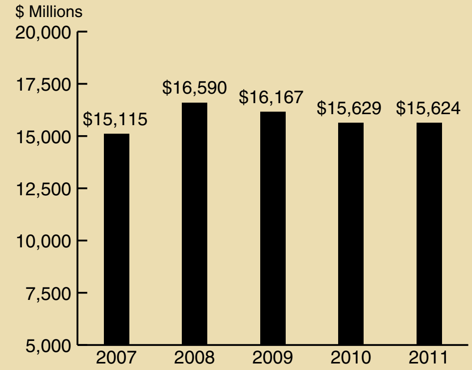
District assets totaled $19.64 billion at December 31, 2011, compared with $19.56 billion at December 31, 2010.

2011 KEY FINANCIAL HIGHLIGHTS

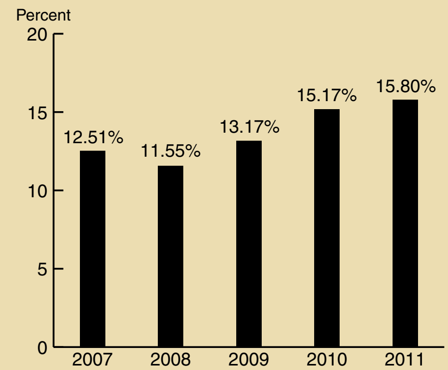
(Dollars in Thousands)

Total Loans	$15,624,013
Total Assets	$19,642,491
Net Income	$368,666
Return on Average Assets	1.88%
Return on Average Members' Equity	11.75%

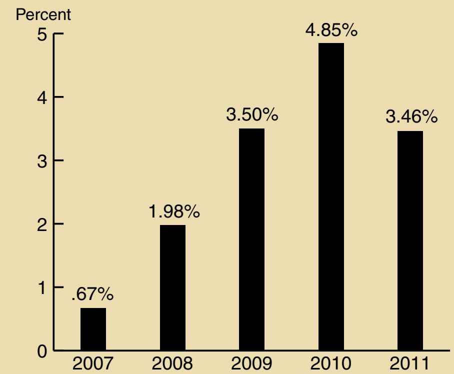
Total Loans Outstanding at Year End



Total Members' Equity to Total Assets at Year End



Nonaccrual Loans and Other Property Owned to Total Loans and Other Property Owned at Year End



2011 MESSAGE TO STOCKHOLDERS

The past year was one of contradictions. Many agricultural producers and rural property owners throughout the Texas Farm Credit District had a profitable year despite a slow recovery in the general economy, high input costs and weather events of historic magnitude. Our borrowers worked diligently to meet their obligations. They were largely able to mitigate losses with crop insurance or even to profit from higher commodity prices that are due in part to growing global demand.

Agriculture has been called a bright spot in the overall economy, and the Texas District's financial performance for 2011 shines. The district posted record net income of $368.7 million, a 33.9 percent increase over 2010. Through our careful management of our balance sheet, we were prepared to minimize consequences that might arise from adverse weather and economic forces. A significant contributor to our net income was the Farm Credit Bank of Texas' ability to call higher-cost debt and replace it with lower-cost debt, made possible by the low interest rate environment. The bank also continued its practice of partnering with other lenders to provide financing for large agribusiness firms, and used its investment portfolio to enhance its liquidity far beyond what is required by regulations and its own internal guidelines.

This course enabled the district to increase earnings at a time when total loan volume remained almost flat, declining 0.03 percent in 2011 from the previous year. Demand for loans is down throughout the Farm Credit System, and the Texas District is no exception. Crop insurance and higher commodity prices allowed some producers to pay down their loans, and general economic conditions continue to dampen demand for rural property.

Though district loan volume has not risen, the quality of the loan portfolio has improved. The district further strengthened its credit quality in 2011, and was able to lower its provision for loan losses by 68.2 percent from 2010. We made particularly great strides in asset quality in the last two quarters of the year, which speaks highly of our associations' hard work to reverse weaknesses that were revealed during the economic downturn. This increase in momentum could signal even better times ahead.

In keeping with our cooperative business model, Farm Credit Bank of Texas shared its success with its owners when it distributed a patronage payment that effectively reduced the associations' cost of funds to the low cost that the bank pays through its access to the capital markets. The bank provided even more value to associations when it stopped billing for information technology and other services in 2011. This will help associations to further recover from the impacts of the economic downturn as well as pass along greater benefits to members. In 2011, the district distributed more than $87 million in cash patronage refunds to association member-borrowers and program participants.

Agriculture remains a vibrant force. As it evolves to meet the needs of consumers at home and abroad, the Texas District is evolving too, so that we can better meet the diverse financing needs of a growing number of customers through innovative technology and efficient service.

With strong growth in net income for the second consecutive year, the Texas District remains well-positioned to satisfy its mission to be a reliable source of competitive funding and superior service for creditworthy borrowers in rural America.

Larry R. Doyle
Chief Executive Officer
Farm Credit Bank of Texas

REPORT OF MANAGEMENT

The Farm Credit Bank of Texas and the Texas Farm Credit District Associations

The accompanying combined financial statements of the Farm Credit Bank of Texas (bank) and its affiliated associations, collectively referred to as the district, are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. The combined financial statements, in the opinion of management, present fairly the financial condition of the district. Other financial information included in the annual report is consistent with that in the combined financial statements.

To meet its responsibility for reliable financial information, management depends on the accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be reasonable in relation to the benefits derived. To monitor compliance, financial operations audits are performed as well as review of internal controls over financial reporting. The combined financial statements are audited by PricewaterhouseCoopers LLP (PwC), independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Farm Credit Bank of Texas and district associations are also examined by the Farm Credit Administration.

In the opinion of management, the combined financial statements are true and correct and fairly state the financial position of the bank and district associations at December 31, 2011, 2010 and 2009. The independent auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of the bank or district associations.

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

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

February 29, 2012

REPORT OF AUDIT COMMITTEE

The Farm Credit Bank of Texas and the Texas Farm Credit District Associations

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

Management is responsible for the bank's internal controls and for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the bank's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the bank's audited financial statements for the year ended December 31, 2011, with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communications With Those Charged With Governance).

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

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

Audit Committee Members

February 29, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The bank's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria. This evaluation relies upon the evaluations made by the individual associations and the related certification they provide to the bank.

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

Larry R. Doyle Chief Executive Officer	Amie Pala Chief Financial Officer

February 29, 2012

Five-Year Summary of Selected Combined Financial Data

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	**2011**	2010	2009	2008	2007
Balance Sheet Data					
Cash, federal funds sold and overnight investments	**$ 453,406**	$ 473,760	$ 521,457	$ 233,580	$ 181,205
Investment securities	**3,287,928**	3,231,562	2,179,312	3,046,397	2,410,999
Loans	**15,624,013**	15,628,890	16,167,170	16,590,071	15,114,537
Less allowance for loan losses	**114,117**	163,145	144,731	51,653	24,495
Net loans	**15,509,896**	15,465,745	16,022,439	16,538,418	15,090,042
Other property owned, net	**87,956**	78,124	53,324	6,495	1,817
Other assets	**303,305**	306,393	340,631	341,422	312,434
Total assets	**$ 19,642,491**	$ 19,555,584	$ 19,117,163	$ 20,166,312	$ 17,996,497
Obligations with maturities of one year or less	**$ 8,537,756**	$ 8,812,176	$ 8,588,063	$ 9,920,558	$ 7,751,462
Obligations with maturities greater than one year	**8,000,607**	7,777,077	8,011,696	7,916,037	7,994,374
Total liabilities	**16,538,363**	16,589,253	16,599,759	17,836,595	15,745,836
Preferred stock	**482,000**	482,000	202,754	202,754	202,754
Capital stock and participation certificates	**60,024**	61,843	63,202	63,859	62,489
Allocated retained earnings	**374,231**	327,435	266,991	211,450	133,423
Unallocated retained earnings	**2,257,527**	2,121,822	2,061,299	1,984,421	1,886,488
Additional paid-in-capital	**22,737**	22,622	—	—	—
Accumulated other comprehensive loss	**(92,391)**	(49,391)	(76,842)	(132,767)	(34,493)
Total members' equity	**3,104,128**	2,966,331	2,517,404	2,329,717	2,250,661
Total liabilities and members' equity	**$ 19,642,491**	$ 19,555,584	$ 19,117,163	$ 20,166,312	$ 17,996,497
Statement of Income Data					
Net interest income	**$ 608,056**	$ 580,170	$ 535,792	$ 470,428	$ 432,381
Provision for loan losses	**(45,048)**	(141,457)	(172,140)	(53,514)	(43,131)
Noninterest expense, net	**(193,167)**	(163,687)	(167,837)	(148,842)	(146,569)
(Provision for) benefit from income taxes	**(1,175)**	291	2,609	(344)	(141)
Net income	**$ 368,666**	$ 275,317	$ 198,424	$ 267,728	$ 242,540
Key Financial Ratios (unaudited)					
Net income to:					
Average assets	**1.88%**	1.41%	1.01%	1.40%	1.44%
Average members' equity	**11.75**	9.87	8.02	11.37	10.86
Net interest income to average earning assets	**3.23**	3.09	2.82	2.50	2.61
Net charge-offs to average loans	**0.60**	0.75	0.48	0.16	0.23
Total members' equity to total assets	**15.80**	15.17	13.17	11.55	12.51
Allowance and reserve for credit losses to total loans	**0.73**	1.04	0.90	0.31	0.16
Regulatory permanent capital ratio (bank only)	**20.85**	22.00	15.98	14.03	13.43
Total surplus ratio (bank only)	**17.36**	17.83	12.47	11.25	11.15
Core surplus ratio (bank only)	**10.48**	10.67	7.11	6.40	6.70
Net collateral ratio (bank only)	**108.27**	107.91	105.83	105.40	105.18
Net Income Distributions (unaudited)					
Net income distributions declared and accrued					
Preferred stock cash dividends	**$ 43,761**	$ 45,601	$ 15,122	$ 15,122	$ 15,122
Patronage distributions					
Cash	**87,032**	82,846	52,303	71,402	76,253
Allocated earnings	**101,375**	59,818	55,648	80,558	57,400

Combined Average Balances and Net Interest Earnings

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS
(unaudited)
December 31,

	2011			2010			2009		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Investment securities and federal funds sold	**$ 3,314,502**	**$ 65,812**	**1.99%**	$ 2,993,627	$ 77,701	2.60%	$ 2,526,664	$ 88,441	3.50%
Loans	**15,520,926**	**762,843**	**4.91**	15,785,538	797,608	5.05	16,460,808	873,032	5.30
Total interest-earning assets	**18,835,428**	**828,655**	**4.40**	18,779,165	875,309	4.66	18,987,472	961,473	5.06
Cash	**465,851**			415,056			304,910		
Accrued interest receivable	**158,379**			176,560			196,441		
Allowance for loan losses	**(151,712)**			(152,810)			(90,285)		
Other noninterest-earning assets	**263,066**			248,680			197,532		
Total average assets	**$ 19,571,012**			$ 19,466,651			$ 19,596,070		
Liabilities and Members' Equity									
Bonds, medium-term notes and subordinated debt, net	**$ 10,654,490**	**$ 186,475**	**1.75%**	$ 11,488,249	$ 262,706	2.29%	$ 11,634,484	$ 376,176	3.23%
Discount notes, net, and other	**5,442,773**	**34,124**	**0.63**	4,830,875	32,433	0.67	5,100,493	49,505	0.97
Total interest-bearing liabilities	**16,097,263**	**220,599**	**1.37**	16,319,124	295,139	1.81	16,734,977	425,681	2.54
Noninterest-bearing liabilities	**335,056**			358,340			387,598		
Total liabilities	**16,432,319**			16,677,464			17,122,575		
Members' equity and retained earnings	**3,138,693**			2,789,187			2,473,495		
Total average liabilities and members' equity	**$ 19,571,012**			$ 19,466,651			$ 19,596,070		
Net interest rate spread		**$ 608,056**	**3.03%**		$ 580,170	2.85%		$ 535,792	2.52%
Net interest margin			**3.23%**			3.09%			2.82%

Management's Discussion and Analysis

(dollars in thousands, except as noted)

The following commentary provides a discussion and analysis of the combined financial position and results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Association (FLCA) and the Agricultural Credit Associations (ACAs) for the years ended December 31, 2011, 2010 and 2009. The FLCA and ACAs collectively are referred to as "associations," and the bank and its affiliated associations are collectively referred to as "the district." The commentary should be read in conjunction with the accompanying combined financial statements, notes to the combined financial statements (notes) and additional sections of this report. The accompanying combined financial statements were prepared under the oversight of the bank's audit committee.

The district, which serves Texas, Alabama, Mississippi, Louisiana and portions of New Mexico, is part of the federally chartered Farm Credit System (System). The bank provides funding to the associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2011, the district comprised the bank, one FLCA and 16 ACAs. The bank also had funding relationships with certain Other Financing Institutions (OFIs).

Forward-Looking Information

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

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

Critical Accounting Policies

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

- Allowance for loan losses — The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired. Each of these individual loans are evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. If the present value of expected future cash flows (or, alternatively, the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by making an addition to the allowance for loan losses with a corresponding charge to the provision for loan losses or by similarly adjusting an existing valuation allowance. In addition to these specific allowances, general allowances for loan losses are recorded to reflect expected credit deterioration and inherent losses in that portion of loans that are not individually evaluated.
- Valuation methodologies — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, certain mortgage-related securities, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the bank's or district's results of operations.
- Pensions — The bank and its related associations participate in defined benefit retirement plans. These plans are noncontributory, and benefits are based on salary and years of service. In addition, the bank and its related associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits.

Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to the Aon Hewitt AA Only Above-Median Yield Curve, actuarial analyses and industry norms. The Hewitt yield curves are determined based on actual corporate bond yields for bonds rated AA as of the measurement date.

OVERVIEW

General

The district's loan portfolio totaled $15.6 billion at December 31, 2011, a 0.03 percent decrease from the prior year. The district's net income for 2011 was $368.7 million, an increase of $93.3 million, or 33.9 percent, from the $275.3 million in net income for 2010. The district's $93.3 million increase in net income for 2011 was driven by a $96.4 million decrease in provisions for loan losses and a $27.9 million increase in net interest income, offset by a $20.1 million decrease in noninterest income and a $9.4 million increase in noninterest expense. The improvement in the district's net interest income and net interest rate spread was due in large part to the bank's debt management, and its ability to exercise call options on debt and replace it with debt with lower interest rates.

Funding

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

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

Agricultural Outlook

Recent rains have improved poor pasturage conditions stemming from the severe drought that began in the spring of 2011 and persisted over much of the district throughout the remaining half of 2011. During much of the year, conditions were very poor for dry-land farmers across portions of Texas, New Mexico, eastern Louisiana, and southeastern Alabama, and a large majority of losses were mitigated by crop insurance. Irrigated farms experienced significant increases in production costs, but most were still profitable due to higher crop prices. These critical factors helped to maintain district portfolio credit quality on production, term and intermediate-term loans. Since 2010, high feed costs and strong cattle prices resulted in a reduction of herd sizes, a trend which was continued and intensified in 2011. However, macroeconomic factors such as high export demand and favorable exchange rate conditions have raised beef prices during 2011, allowing many district producers to sell herds and capture profit rather than face increasing costs of holding cattle. While many of these producers will not restock until pasture conditions and water availability improve, future cattle prices are expected to remain strong due to reduced inventories and expected growth in foreign demand. Although the drought conditions adversely impacted district agriculture during 2011, a significant portion of exposure is supported by additional sources of repayment helping to support the credit quality of the existing borrowers.

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

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

Financial Highlights

- ❖ Net income totaled $368.7 million for the year ended December 31, 2011, compared to $275.3 million for 2010 and $198.4 million for 2009, reflecting an increase of 33.9 percent from 2010 and an increase of 85.8 percent over 2009.
- ❖ Net interest income for the year ended December 31, 2011, was $608.1 million compared to $580.2 million for 2010 and $535.8 million for 2009, reflecting 4.8 and 13.5 percent increases over the years ended December 31, 2010 and 2009, respectively.
- ❖ Return on average assets and return on average members' equity for the year ended December 31, 2011, were 1.88 percent and 11.75 percent, respectively, compared to 1.41 percent and 9.87 percent for 2010 and 1.01 percent and 8.02 percent for 2009, respectively.
- ❖ Patronage distributions declared totaled $188.4 million in 2011, compared to $142.7 million and $107.9 million in 2010 and 2009, respectively.
- ❖ The aggregate principal amount of loans outstanding at December 31, 2011, was $15.62 billion, compared to $15.63 billion at December 31, 2010, reflecting a decrease of 0.03 percent.
- ❖ In August 2011, Moody's Investors Service (Moody's) affirmed the bank's investment-grade of Aa2 issuer rating. Previously, Moody's had affirmed the bank's A1 subordinated debt rating, its A2 cumulative preferred stock rating, and its A3 noncumulative preferred stock rating, citing the bank's strong credit performance, very high support from the System, and very high support from the U.S. government.
- ❖ In September 2011, Fitch Ratings affirmed the bank's long-term and short-term Issuer Default Ratings at "AA-" and "F1+," respectively, citing the bank's ability to meet its mission of providing for the funding and liquidity needs of its agricultural district given a short-term disruption in its access to funding.

RESULTS OF OPERATIONS

Net Income

The district's net income of $368.7 million for the year ended December 31, 2011, reflected an increase of 33.9 percent from net income of $275.3 million for the year ended December 31, 2010, and an increase of 85.8 percent from net income of $198.4 million for 2009. The return on average assets increased to 1.88 percent for the year ended December 31, 2011, from 1.41 percent reported for the year ended December 31, 2010. This increase was due primarily to an increase of $27.9 million in net interest income and a decrease of $96.4 million in the district's provision for loan losses, discussed more fully in the "Loan Portfolio" section of this discussion, offset by a $20.1 million decrease in noninterest income, a $9.4 million increase in noninterest expense and a $1.5 million increase in provision for income taxes.

Changes in Components of Net Income

	2011 vs. 2010	2010 vs. 2009
Net income, prior period	$ 275,317	$ 198,424
Increase (decrease) due to:		
Decrease in interest income	(46,654)	(86,164)
Decrease in interest expense	74,540	130,542
Net interest income	27,886	44,378
Provision for loan losses	96,409	30,683
Noninterest income	(20,065)	21,273
Noninterest expense	(9,415)	(17,123)
Provision for income taxes	(1,466)	(2,318)
Total change in net income	93,349	76,893
Net income	$ 368,666	$ 275,317

Discussion of the changes in components of net income is included in the following narrative.

Interest Income

Total interest income for the year ended December 31, 2011, was $828.7 million, a decrease of $46.7 million, or 5.3 percent, compared to 2010. Total interest income for 2010 was $875.3 million, a decrease of $86.2 million, or 9.0 percent, from 2009. The decrease for 2011 was due to a decrease in yield on earning assets net of a slight increase in average interest-earning assets. The decrease in 2010 was due to a decrease in yield on earning assets and a decrease in average interest-earning assets.

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

	Year Ended December 31,	
	2011 vs. 2010	2010 vs. 2009
Increase (decrease) in average earning assets	$ 56,263	$ (208,307)
Average yield, prior year	4.66%	5.06%
Interest income variance attributed to change in volume	2,622	(10,540)
Average earning assets, current year	18,835,428	18,779,165
Decrease in average yield	(0.26)%	(0.40)%
Interest income variance attributed to change in yield	(49,276)	(75,624)
Net change in interest income	$ (46,654)	$ (86,164)

Interest Expense

Total interest expense for the year ended December 31, 2011, was $220.6 million, a decrease of $74.5 million, or 25.3 percent, from the prior year. Total interest expense for the year ended December 31, 2010, was $295.1 million, a decrease of $130.5 million, or 30.7 percent, from 2009. The decrease for 2011 was due primarily to a decrease in the average rate on debt and a decrease in interest-bearing liabilities. During 2011, the bank was able to reduce its interest expense by calling $8.984 billion in debt and replacing it with debt that had lower interest rates, which resulted in a savings of approximately $25.4 million, net of related concession expenses. The decrease for 2010 was due primarily to a decrease in the average rate on debt and a decrease in interest-bearing liabilities. During 2010, the bank was able to reduce its interest expense by calling $12.829 billion in debt and replacing it with debt that had lower interest rates and shorter maturities that match earning assets, which resulted in an estimated annualized interest expense savings of approximately $65.8 million, net of related concession expenses.

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

	Year Ended December 31,	
	2011 vs. 2010	2010 vs. 2009
Decrease in average interest-bearing liabilities	$ (221,861)	$ (415,853)
Average rate, prior year	1.81%	2.54%
Interest expense variance attributed to change in volume	(4,016)	(10,563)
Average interest-bearing liabilities, current year	16,097,263	16,319,124
Decrease in average rate	(0.44)%	(0.73)%
Interest expense variance attributed to change in rate	(70,524)	(119,979)
Net change in interest expense	$ (74,540)	$ (130,542)

Net Interest Income

Net interest income increased by $27.9 million, or 4.8 percent, from 2010 to 2011 and increased by $44.4 million, or 8.3 percent, from 2009 to 2010. Factors responsible for these changes are illustrated in Figure 1.

Net interest income for 2011 increased from 2010 due to an 18-basis-point increase in the interest rate spread, which is the difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt, and by an increase in average-earning assets.

The increase in average-earning assets was due primarily to an increase in investments, offset by a decrease in loan growth at

Analysis of Operating Margin to Average Earning Assets

	For the Years Ended December 31,		
	2011	2010	2009
Net interest margin	**3.23%**	3.09%	2.82%
Operating expense	**1.15**	1.12	1.06
Operating margin	**2.08%**	1.97%	1.76%

the district's associations. The increase in the interest rate spread was due primarily to the bank's ability to call and replace callable debt with debt with lower interest rates. During 2011, the bank called $8.984 billion in debt, replacing it with debt that had more favorable terms. District associations in the aggregate were able to improve their net interest rate spread.

Net interest income for 2010 increased from 2009 due to a 33-basis-point increase in the interest rate spread, offset by a decrease in earning assets. The increase in the interest rate spread was due primarily to the bank's ability to call $12.829 billion in debt and replace it with debt with more favorable terms.

Provision for Loan Losses

The provision for loan losses for 2011 was $45.0 million, reflecting a decrease of $96.4 million from the $141.5 million provision recorded in 2010. The provision for loan losses at the bank decreased by $12.1 million, while the associations' provisions decreased by $84.3 million. The decrease is due primarily to a reduction in required specific provisions for loan losses on impaired loans. Specific provisions for 2011 decreased from those of 2010, when efforts to identify risks and loss potential were intensified. The specific provisions reflect credit deterioration primarily in those agricultural sectors that continue to be impacted by volatility in commodity prices, such as the livestock, timber and dairy industries, as well as those borrowers impacted by the overall downturn in the general economy, primarily land in transition.

Noninterest Income

Noninterest income of $41.7 million reflected a decrease of $20.1 million, or 32.5 percent, from 2010 to 2011. The decrease was primarily due to a $22.3 million decrease in Farm Credit System Insurance Corporation (FCSIC or Insurance Fund) refund distributions of excess reserves from prior periods recorded during the first quarter of 2010, a $3.4 million decrease in fees for loan-related services, a $529 decrease in gain on sale of investments, a $257 increase in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," and a $1.3 million decrease in all other noninterest items, collectively, offset by a $7.2 million decrease in losses at an association on the sale of loans at fair value to the bank and a $481 increase in patronage income. The decrease in loan-related fee income reflects the decrease in lending volume at the district associations and includes a $2.1 million decrease in prepayment fees from 2010.

Noninterest income for 2010 of $61.7 million reflected an increase of $21.2 million, or 52.6 percent, from 2009 to 2010. The increase was primarily due to a $22.3 million refund in FCSIC distributions of excess reserves from prior periods recorded during the first quarter of 2010, an $11.7 million increase in fees for loan-related services, and a $3.5 million decrease in impairment losses recognized due to the estimated amount of credit loss related to other-than-temporary impairments on investment securities which is more fully discussed in the "Investments" section of this discussion and in Note 3, "Investment Securities," to the accompanying combined financial statements, offset by a $7.1 million decrease in gain on sale of investments, a $7.2 million loss at an association on the sale of loans at fair value to the bank, a $781 decrease in patronage income, and a $1.1 million decrease in all other noninterest items, collectively. During 2009, the bank realized gains of $5.5 million on the sale of six agency mortgage-backed securities that had an amortized cost of $106.0 million. The bank also realized a gain of $2.1 million on the sale of five rural home loan mortgage-backed securities with an amortized cost of $39.4 million, which had comprised the bank's held-to-maturity investment portfolio. These sales were made in order to enhance the bank's liquidity position, which entails the conversion of certain assets into cash. The bank's current liquidity posture is such that it is not likely for the bank to have sales of investment securities in 2012.

Noninterest Expenses

Noninterest expenses for 2011 totaled $234.8 million, increasing $9.4 million, or 4.2 percent, from 2010. The increase was primarily due to an increase of $3.6 million in net losses on other property

Figure 1

Analysis of Net Interest Income

	2011		2010		2009	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	$ 15,520,926	$ 762,843	$ 15,785,538	$ 797,608	$ 16,460,808	$ 873,032
Investments	3,314,502	65,812	2,993,627	77,701	2,526,664	88,441
Total earning assets	18,835,428	828,655	18,779,165	875,309	18,987,472	961,473
Interest-bearing liabilities	16,097,263	220,599	16,319,124	295,139	16,734,977	425,681
Impact of capital	$ 2,738,165		$ 2,460,041		$ 2,252,495	
NET INTEREST INCOME		$ 608,056		$ 580,170		$ 535,792

	2011 Average Yield	2010 Average Yield	2009 Average Yield
Yield on loans	4.91%	5.05%	5.30%
Yield on investments	1.99	2.60	3.50
Yield on earning assets	4.40	4.66	5.06
Cost of interest-bearing liabilities	1.37	1.81	2.54
Interest rate spread	3.03	2.85	2.52
Impact of capital	0.20	0.24	0.30
Net interest income/average earning assets	3.23	3.09	2.82

owned (OPO), an increase of $2.7 million in salaries and employment benefits, an increase of $1.5 million in occupancy and equipment expense, a $1.1 million increase in premiums to the FCSIC, and a $446 increase in other operating expenses. The $3.6 million increase in losses on OPO was primarily due to an increase of $1.9 million at the bank and an increase of $1.7 million at district associations. The district's increase included an increase in the provision for losses on OPO of $2.4 million and a $1.5 million increase in losses on disposal of OPO, offset by a $302 decrease in net expenses on OPO. The provision for loan losses on OPO reflects a decline in fair value or underlying collateral value on OPO. The $2.7 million increase in salaries and employee benefits was due primarily to a $7.4 million increase in compensation and related payroll taxes at the district's associations, a $1.8 million increase in other benefits at the district's associations, a $548 decrease in salaries capitalized in software development at the bank and a $44 increase in all other salaries and benefits expenses, collectively, offset by a $6.1 million decrease in retirement expenses for the district and a $925 decrease in compensation and related payroll taxes at the bank. The $6.1 million decrease in retirement expenses for the district was the result of a $6.8 million decrease in the district defined benefit pension plan (DB plan), net of a $357 increase in the bank's supplemental defined benefit pension plan (which was terminated in 2011), and a $345 increase in all other retirement plans. The decrease in the DB plan included a $2.7 million improvement on expected return on plan assets, a $2.6 million decrease in actuarial losses, an $828 decrease in interest costs and a $664 decrease in service costs. The $1.5 million increase in occupancy and equipment expenses included an $809 increase in cost of space at the bank due to a lease amendment and extension on the bank's headquarters location, a $714 increase in computer expense, including a $506 increase in depreciation at the bank which included the effects of increased depreciation on the bank's loan accounting system placed into service in July 2010, and a $6 increase in all other occupancy and equipment expenses, collectively. The increase in Insurance Fund premiums was due to an increase in the premium rate from 5 basis points in 2010 to 6 basis points in 2011 on outstanding debt, net of a decrease in average debt on which the premiums are based. The decrease in capitalization of salaries and benefits related to internally developed software is due primarily to the completion and implementation of the first phase in the bank's lending systems in July 2010.

Noninterest expenses for 2010 totaled $225.4 million, increasing $17.1 million, or 8.2 percent, from 2009. The increase was primarily due to an increase of $29.9 million in salaries and employment benefits, an increase of $7.3 million in net losses on other property owned, an increase of $1.3 million in occupancy and equipment expense, and a $2.1 million increase in other operating expenses, offset by a $23.5 million decrease in premiums to the FCSIC. The $29.9 million increase in salaries and employee benefits was due primarily to a $22.7 million decrease in salaries and benefits capitalized for nonrefundable fees and costs associated with originating and acquiring loans and an $8.3 million increase in salaries and related payroll taxes at the district's associations, net of a $2.5 million decrease in district pension and retirement expenses, due mainly to improved performance of the district defined benefit pension plan's assets and reduced amortization of its losses from the previous year. Salaries and benefits capitalized as a part of loan origination costs decreased as loan originations decreased at the district's associations during 2010. Salaries increased due to increases in salaries and bonuses, primarily at the district's associations and to the bank's recognition of $2.9 million in employee annual Success Sharing Plan bonuses in December 2010 in addition to the annual award recognized in January 2010 for 2009 performance, net of a $3.9 million decrease in deferred compensation for the bank's chief executive officer (see CEO compensation discussion in the Disclosure and Information Index section). Pension and retirement benefits decreased due primarily to losses recognized in 2009 in the district's defined benefit pension plan as a result of the effect of the economic downturn on the values of plan assets in 2008. The $7.3 million increase in losses on other property owned was primarily due to a $5.8 million increase in provision for losses on property acquired by district associations. The $1.3 million increase in occupancy and equipment expenses included a $714 increase in computer expenses. The $2.1 million increase in other operating expenses was primarily due to a $751 increase in professional and contract services, a $283 increase in directors' expenses, a $236 increase in advertising and member relations expenses, and a $1.7 million increase in all other operating expenses, collectively, offset by a $710 decrease in Funding Corporation assessment fees. The $23.5 million decrease in premiums paid to the FCSIC was primarily due to a premium rate reduction from 20 basis points in 2009 to 5 basis points in 2010. Assessments from the Funding Corporation decreased primarily due to a $687 special assessment in January 2009 to provide additional funding for the Funding Corporation's pension plan.

Operating expense (salaries and employee benefits, occupancy and equipment, Insurance Fund premiums, and other operating expenses) statistics are set forth below for each of the three years ended December 31,

	2011	2010	2009
Excess of net interest income over operating expense	**$ 391,968**	$ 369,909	$ 335,305
Operating expense as a percentage of net interest income	**35.54%**	36.24%	37.42%
Operating expense as a percentage of net interest income and noninterest income	**33.26**	32.76	34.79
Operating expense as a percentage of average loans	**1.39**	1.33	1.22
Operating expense as a percentage of average earning assets	**1.15**	1.12	1.06

The district's operating expense statistics for 2011 and 2010 reflect the district's growth in net interest income, which outpaced increases in operating expenses. Net interest income has increased 4.8 percent and 8.3 percent for the years ended December 31, 2011 and 2010, respectively, while operating expenses increased at the rates of 2.8 percent and 4.9 percent, respectively, for the same periods. Average loans decreased 1.7 percent and 0.4 percent in 2011 and 2010, respectively. Average investments increased 10.7 percent and 18.5 percent in 2011 and 2010, respectively. Average earning assets increased 0.3 percent in 2011 and decreased 1.1 percent in 2010.

CORPORATE RISK PROFILE

Overview

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

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

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

Structural Risk Management

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

In order to mitigate this risk, the System utilizes two integrated contractual agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA score) is calculated that measures the financial condition and performance of each district using various ratios that take into account the district's and bank's capital, asset quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each district must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each district. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

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

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

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

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

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

The criteria for the net collateral ratio and the permanent capital ratio are:

	Net Collateral Ratio	Permanent Capital Ratio
Category I	<104%*	<8.0%
Category II	<103%	<7.0%
Category III	<102%	<5.0%

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

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

During the three years ended December 31, 2011, all banks met the agreed-upon standards for the net collateral and permanent capital ratios required by the MAA. As of December 31, 2011, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended

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

Credit Risk Management

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

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

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including non-farm income. Real estate loans with terms greater than 10 years must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate loans with terms greater than 10 years may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths and weaknesses and risks in a particular relationship.

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

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

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

Loan Portfolio

The loan portfolio consists only of retail loans. Bank loans to its affiliated associations have been eliminated in the combined financial statements. See Note 2, "Summary of Significant Accounting Policies," and Note 4, "Loans and Allowance for Loan Losses," to the accompanying financial statements for further discussions. Gross loan volume of $15.62 billion at December 31, 2011, reflected a decrease of $4.9 million, or 0.03 percent, from the $15.63 billion loan portfolio balance at December 31, 2010. Loans, net of the allowance for loan losses, represented 79.0 percent, 79.1 percent and 83.8 percent of total assets as of December 31, 2011, 2010 and 2009, respectively.

Agricultural real estate mortgage loans totaled $10.17 billion at December 31, 2011, a decrease of $322.2 million, or 3.1 percent, from 2010, and currently comprise approximately 65.1 percent of the district's loan portfolio. Commercial loans for agricultural production, processing and marketing totaled $3.32 billion, an increase of $181.1 million, or 5.8 percent, from 2010, and represented 21.3 percent of the loan portfolio at December 31, 2011. All other loans, including energy loans, communications loans, farm-related business loans, rural home loans and loans to OFIs, increased by $136.2 million. The composition of the district's loan portfolio by category may be found in Note 4, "Loans and Allowance for Loan Losses," to the accompanying combined financial statements. The decrease of loan volume in 2011 was primarily related to a $393.1 million decrease in district associations' loan portfolios, substantially offset by a $388.2 million increase in the bank's participation and other bank-owned loan portfolios. In 2010, association loan volume decreased by $721.8 million, and in 2009 association loan volume decreased by $152.1 million. Loan volume at the district associations decreased primarily due to general economic conditions, which have resulted in a decline of demand for rural real estate, pay-downs afforded by high commodity prices for some district borrowers, and enhanced credit standards.

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

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

The bank and district associations review the credit quality of the loan portfolio as a part of their credit risk practices, using the classifications of the Uniform Classification System which is used by all System institutions. The classifications are defined as follows:

- Acceptable — Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (Special Mention) — 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, but have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss — Assets are considered uncollectible.

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

	2011	2010	2009
Acceptable	**91.2%**	87.9%	89.3%
Special mention	**4.2**	5.3	4.8
Substandard/doubtful/loss	**4.6**	6.8	5.9
Total	**100.0%**	100.0%	100.0%

Loans classified as "doubtful" or "loss" are included in the "substandard" classification in the above table. During 2011, overall credit quality reflected some improvement from prior years. Volatility in the general economy and in agricultural sectors resulted in some migration to more adverse classifications in 2009 and 2010. Loans classified (under the Farm Credit Administration's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 95.4 percent at December 31, 2011, compared to 93.2 percent at December 31, 2010, and 94.1 percent at December 31, 2009.

High-Risk Assets

Nonperforming loan volume is composed of nonaccrual loans, restructured loans, and loans 90 days or more past due and still accruing interest and is referred to as impaired loans. High-risk assets consist of impaired loans and other property owned. Total high-risk assets have decreased by $193.3 million, or 25.0 percent, from $772.6 million at December 31, 2010, to $579.3 million at December 31, 2011. The decrease in high-risk assets during 2011 includes a $227.6 million decrease in nonaccrual loans. The decrease in nonaccrual loans was primarily the result of charge-offs totaling $102.6 million, the restructuring of loans totaling $20.6 million, repayments and the movement of loans to OPO. The decrease in nonaccrual loans included significant decreases in dairy, timber, ethanol, hunting, trapping and game propagation, as well as loans related to land in transition, whose values are driven primarily by development values near urban areas rather than agricultural value. The $20.6 million increase in formally restructured loans is primarily the result of ethanol loans to two borrowers which had been in nonaccrual status and have had improved performance while operating under restructuring agreements.

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

(in millions)	**2011**	2010	2009
Nonaccrual loans	**$ 455.5**	$ 683.1	$ 514.4
Formally restructured loans	**29.6**	9.0	3.0
Loans past due 90 days or more and still accruing interest	**6.3**	2.4	34.4
Other property owned, net	**87.9**	78.1	53.3
Total	**$ 579.3**	$ 772.6	$ 605.1

At December 31, 2011, $206.4 million, or 45.3 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $282.9 million, or 41.4 percent, of nonaccrual loans at December 31, 2010, and $211.8 million, or 41.2 percent, at December 31, 2009.

Figures 2, 3 and 4 provide analyses of the relationships of nonaccrual loans and high-risk assets to total loans and members'

Figure 2

Nonaccrual Loans

as a Percentage of Total Loans at Year End

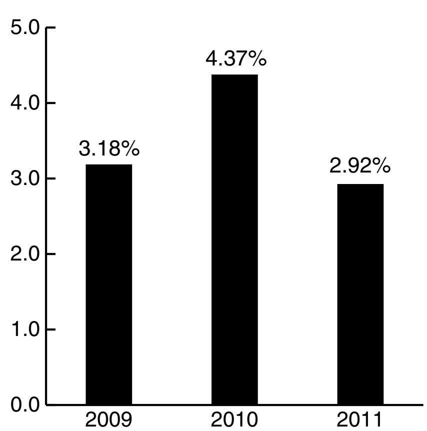


Figure 3

High-Risk Assets

as a Percentage of Total Members' Equity at Year End

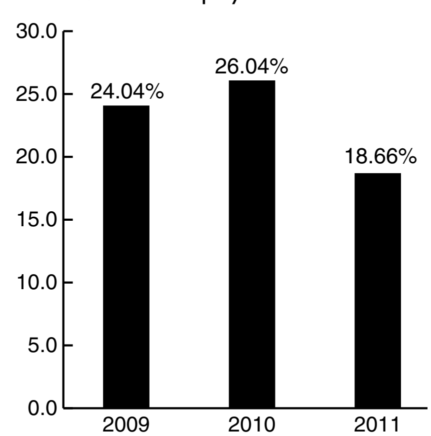


Figure 4

High-Risk Assets

as a Percentage of Total Loans and Other Property Owned at Year End

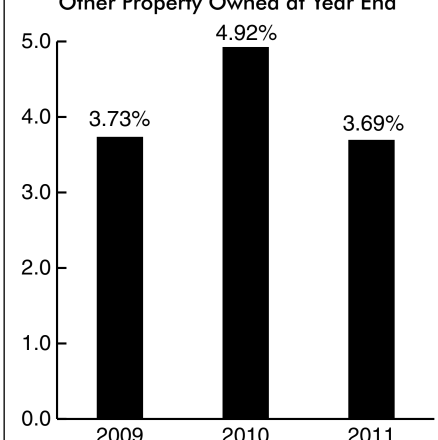


Figure 5

Interest Rate Gap Analysis
as of December 31, 2011

	Interest-Sensitive Period						
	One Month or Less	Over One Through Six Months	Over Six Through Twelve Months	**Total Twelve Months or Less**	Over One Year but Less Than Five Years	Over Five Years and Non-Rate Sensitive	**Total**
Earning Assets							
Total loans	$ 5,493,153	$ 2,266,377	$ 1,785,573	**$ 9,545,103**	$ 4,909,336	$ 1,169,574	**$ 15,624,013**
Total investments	1,362,028	381,304	280,730	**2,024,062**	1,003,626	280,927	**3,308,615**
Total earning assets	6,855,181	2,647,681	2,066,303	**11,569,165**	5,912,962	1,450,501	**18,932,628**
Interest-Bearing Liabilities							
Total interest-bearing funds*	5,862,378	2,743,534	4,318,487	**12,924,399**	2,180,465	1,005,200	**16,110,064**
Excess of earning assets over interest-bearing liabilities	—	—	—	**—**	—	2,822,564	**2,822,564**
Total interest-bearing liabilities	5,862,378	2,743,534	4,318,487	**12,924,399**	2,180,465	3,827,764	**$ 18,932,628**
Interest rate sensitivity gap	$ 992,803	$ (95,853)	$ (2,252,184)	**$ (1,355,234)**	$ 3,732,497	$ (2,377,263)	
Cumulative interest rate sensitivity gap	$ 992,803	$ 896,950	$ (1,355,234)	**$ (1,355,234)**	$ 2,377,263		

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

equity at December 31, 2011, 2010 and 2009. Due to expected improvements related to these higher risk profiles and in the general economic environment, the district anticipates credit quality of the loan portfolio will stabilize in 2012.

Allowance and Provision for Loan Losses

At December 31, 2011, the allowance for loan losses was $114.1 million, or 0.7 percent of total loans outstanding, compared to $163.1 million (1.04 percent) and $144.7 million (0.90 percent) at December 31, 2010 and 2009, respectively. Net charge-offs of $93.6 million, $119.0 million and $78.3 million were recorded in 2011, 2010 and 2009, respectively. Charge-offs during 2011 included significant charge-offs on loans related to land in transition, beef and cattle, ethanol and citrus fruits. The district's provision for loan losses of $45.0 million for 2011 reflected a decrease of $96.4 million, or 68.2 percent, from the provision recorded for 2010, due primarily to provisions related to the loans described in the "Provision for Loan Losses" section of this discussion. The allowance for loan losses for the district represents the aggregate of each entity's individual evaluation of its allowance for loan losses requirements. Although aggregated in the combined financial statements, the allowance for loan losses of each entity is particular to that institution and is not available to absorb losses realized by other institutions. The allowance for loan losses at each period end was considered by management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. Management's evaluations consider factors including loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions and economic conditions.

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

	2011	2010	2009
Allowance for loan losses as a percentage of:			
Average loans	**0.7%**	1.0%	0.9%
Loans at year end			
Total loans	**0.7**	1.0	0.9
Nonaccrual loans	**25.1**	23.9	28.1
Total impaired loans	**23.2**	23.5	26.2
Net charge-offs to average loans	**0.6**	0.8	0.5
Provision expense to average loans	**0.3**	0.9	1.0

Interest Rate Risk Management

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

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

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

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

The rate sensitivity gap analysis in Figure 5 sets forth a static measurement of the district's volume of interest-rate-sensitive assets and liabilities outstanding as of December 31, 2011, which are projected to mature or reprice in each of the future time periods shown. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the district has a negative gap position, indicating that the district has an exposure to increasing interest rates. This occurs when interest income earning assets decrease, due to their maturing or repricing cycle, sooner than maturing or repricing debt.

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

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

At December 31, 2011, the bank had three fair value interest rate swap contracts with a total notional amount of $175.0 million. The interest rate swap contracts had a net fair value of $13. In addition, at December 31, 2011, the bank held interest rate caps with a notional amount of $645.0 million and a fair value of $1.2 million. See Note 17, "Derivative Instruments and Hedging Activity," to the accompanying combined financial statements for further discussion. Unrealized losses on interest rate caps, the difference between the amortized cost and fair value, are recorded as a reduction of accumulated other comprehensive income. To the extent that its derivatives have a negative fair value, the bank has a payable on the instrument and the counterparty is exposed to the credit risk of the bank. To the extent that its derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank has bilateral collateral agreements to reduce potential exposure, diversify counterparties in the swap transactions and monitor the credit ratings of all counterparties with whom it transacts. Figure 6 summarizes the bank's activity in derivative financial instruments for 2011.

Interest rate risk exposure as measured by simulation modeling calculates the district's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors the district's financial exposure to instantaneous and parallel changes in interest rates of 200 basis points up or down over a rolling 12-month period. Per FCA regulations, when the current three-month Treasury bill interest rate is less than 4 percent, the minus 200-basis-point scenario should be replaced with a downward shock equal to one-half of the three-month Treasury bill rate. As of December 31, 2011, projected district net interest income would increase by $50.0 million, or 8.3 percent, if interest rates were to increase by 200 basis points, and would decrease by $1.0 million, or 0.2 percent, if interest rates were to decrease by 1 basis point. In general, the bank's ability to exercise call options on debt benefits the district in the event of decreasing interest rates. In a rising interest rate scenario, the benefit of rate increases on investments, association loans and the bank's participation loans would outpace the increase in the cost of debt.

Figure 6

Activity in Derivative Financial Instruments
(Notional Amounts)

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

Liquidity Risk Management

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

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

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

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

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

Funding Sources

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

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

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

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

The following table provides a summary of the period-end balances of the debt obligations of the district *(dollars in millions)*:

	December 31,		
	2011	2010	2009
Bonds and term notes outstanding	**$ 11,031**	$ 10,708	$ 11,847
Average effective interest rate	**1.44%**	1.74%	2.46%
Average life (years)	**3.1**	2.9	2.8
Subordinated debt outstanding	**$ 50**	$ 50	$ 50
Average effective interest rate	**8.41%**	8.41%	8.41%
Average life (years)	**6.8**	7.8	8.8
Discount notes outstanding	**$ 1,614**	$ 2,072	$ 922
Average effective interest rate	**0.16%**	0.25%	0.29%
Average life (days)	**149**	122	76
Notes payable to other System banks	**$ 3,400**	$ 3,400	$ 3,400
Average effective interest rate	**0.72%**	0.72%	0.78%
Average life (years)	**1.0 or less**	1.0 or less	1.0 or less

The following table provides a summary of the average balances of the debt obligations of the district (dollars in millions):

	For the years ended December 31,		
	2011	2010	2009
Average interest-bearing liabilities outstanding	**$ 16,097**	$ 16,319	$16,735
Average interest rates on interest-bearing liabilities	**1.37%**	1.81%	2.54%

Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds and managing interest rate risk. The bank is authorized to hold an amount not to exceed 35 percent of loans outstanding. FCA regulations also permit an association to hold eligible investments with the approval of its affiliated bank.

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

The following table discloses the district's available-for-sale liquidity portfolio at December 31,

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

The district's increases in federal agency collateralized mortgage obligations during 2011 have been in Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities. Pricing on agency securities remains strong due to the Federal Reserve's mortgage-backed securities purchase program, stabilization in the agency market and increased demand for quality GNMA structures. The decreases in other collateralized mortgage-backed securities are due primarily to repayments on those securities.

The district's other investments, totaling $238.1 million, consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS). The bank held AMBS with a fair value of $110.9 million in an available-for-sale other investments portfolio, and associations held AMBS with an amortized cost of $127.2 million in a held-to-maturity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

The bank's available-for-sale other investments portfolio consisted of Farmer Mac AMBS at December 31:

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

At December 31, 2009, the available-for-sale investment portfolio included guaranteed Small Business Administration pooled securities totaling $35.8 million held by a district association. The district's available-for-sale portfolio is reflected at fair value. In 2009, the bank sold six federal agency mortgage-backed securities that had an amortized cost of $106.0 million for a gain of $5.5 million. The bank also sold its held-to-maturity portfolio, consisting of five rural home loan mortgage-backed securities with an amortized cost of $39.4 million, for a gain of $2.1 million. These sales were part of the bank's efforts to enhance its liquidity involving the conversion of certain assets into cash. In addition to these sales, maturities on investments in commercial paper, master notes and agency debt instruments were used to increase the district's cash position by $444.1 million during 2009.

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

The composition and characteristics of the district's investment securities are described in Note 3, "Investment Securities," to the accompanying combined financial statements.

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

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

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

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

Capital Adequacy

Bank Class A Cumulative Perpetual Preferred Stock (Class A preferred stock) – On November 7, 2003, the bank issued 100,000 shares of $1,000 per share par value Class A preferred stock for net proceeds of $98,644, after expenses of $1,356 associated with the offering. The dividend rate is 7.561 percent, payable semi-annually to December 15, 2013, after which dividends are payable quarterly at a rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 445.75 basis points. On September 26, 2005, the bank issued an additional 100,000 shares of cumulative perpetual preferred stock with the same terms. During 2010, the bank repurchased $18.0 million par value of the Class A preferred stock at a net premium and cost of $529. For regulatory purposes, the preferred stock is treated as equity, and is not mandatorily redeemable. The Class A preferred stock ranks, as to dividends and other distributions (including patronage) upon liquidation, dissolution or winding up, prior to all other classes and series of equity securities of the bank. "Dividend/patronage stopper" clauses in the preferred stock offerings require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and was required before payment of the December 31, 2011, bank investment and direct note patronage to associations and OFIs could be paid.

Bank Class B Noncumulative Subordinated Perpetual Preferred Stock (Class B preferred stock) – On August 26, 2010, the bank issued $300.0 million of Class B noncumulative subordinated perpetual preferred stock, representing three hundred thousand shares at $1,000 per share par value for net proceeds of $296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B preferred stock ranks junior, both as to dividends and upon liquidation to our Class A preferred stock, and senior to all of our outstanding capital stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. "Dividend/patronage stopper" clauses in the preferred stock offerings require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and was required before payment of the December 31, 2011, bank investment and direct note patronage to associations and OFIs could be paid.

Borrower equity purchases required by association capitalization bylaws (see Note 9, "Members' Equity"), combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $3.10 billion capital position of the district at December 31, 2011, reflects an increase of 4.6 percent over the December 31, 2010, capital position of $2.97 billion. This increase is attributable to net income of $368.7 million earned in 2011 and an increase in unrealized net gains on investment securities totaling $5.0 million, offset by patronage paid of $87.0 million; a net decrease in capital stock and allocated earnings of $57.0 million; a $44.6 million amortization related to retirement benefits, dividends accrued and paid on preferred stock totaling $43.8 million; a $3.4 million unrealized loss on cash flow derivatives; and a decrease of $54 in net adjustments related to two mergers of four district associations in 2010.

Accumulated other comprehensive loss totaled $92.4 million at December 31, 2011, an increase of $43.0 million from December 31, 2010, due to a $44.6 million increase in unrealized losses related to pension and other postretirement benefits and a $3.4 million increase in unrealized losses on cash flow hedge instruments, offset by an increase of $5.0 million in unrealized gains on investment securities. The increase in unrealized losses on pension and other postretirement benefits was due primarily to a reduction in the discount rate used to determine the projected benefit obligations for those benefits.

The return on average members' equity for the year ended December 31, 2011, was 11.75 percent, compared to 9.9 percent and 8.0 percent reported for the years ended December 31, 2010 and 2009, respectively.

FCA regulations require System institutions to compute a total surplus ratio, a core surplus ratio and a net collateral ratio (bank only), and maintain at least the minimum standard for each ratio. In those instances where an entity may not be in compliance, the regulations require the entity to submit a corrective plan to the FCA designed to move the institution into compliance. As of December 31, 2011, the bank and all district associations were in compliance with the regulations. Note 9, "Members' Equity," to the accompanying combined financial statements outlines the ranges of capital ratios for the bank and district associations. The bank's permanent capital ratio of 20.9 percent at December 31, 2011, is considered adequate, in accordance with the capital plan adopted by the bank's board of directors. An analysis of the trend in the district's capital ratios is presented in Figures 7, 8 and 9.

Operational Risk Management

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

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

Figure 7

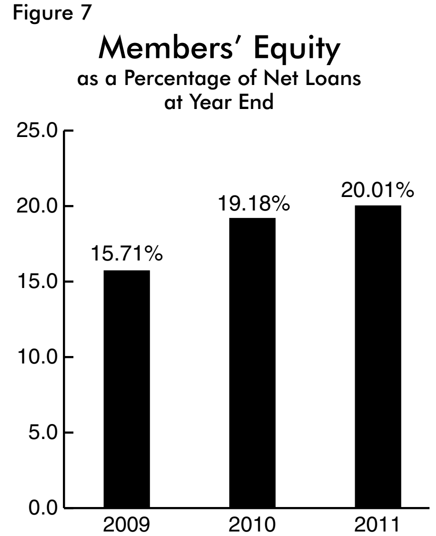


Figure 8

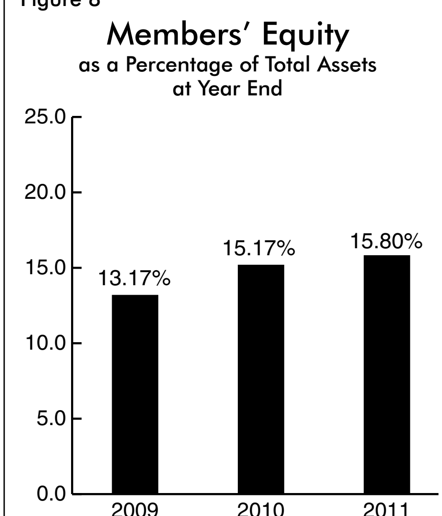
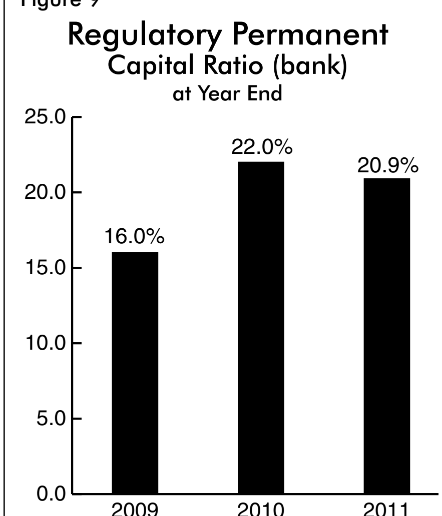


Figure 9



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

Political Risk Management

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

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

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

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

Association Structural Changes

As of December 31, 2011, there were 16 ACAs and one FLCA, totaling 17 associations within the district.

Regulatory Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report of Independent Auditors

pwc

To the Board of Directors and Members of the
Farm Credit Bank of Texas and Texas District Associations:

In our opinion, the accompanying combined balance sheets and the related combined statements of income, of changes in members' equity, and of cash flows, present fairly, in all material respects, the financial position of the Farm Credit Bank of Texas and Texas District Associations (the District) at December 31, 2011, 2010, and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 29, 2012

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

Combined Balance Sheets

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	December 31,		
(dollars in thousands)	**2011**	2010	2009
Assets			
Cash	**$ 432,719**	$ 453,322	$ 500,967
Federal funds sold and overnight investments	**20,687**	20,438	20,490
Investment securities	**3,287,928**	3,231,562	2,179,312
Loans	**15,624,013**	15,628,890	16,167,170
Less allowance for loan losses	**114,117**	163,145	144,731
Net loans	**15,509,896**	15,465,745	16,022,439
Accrued interest receivable	**141,567**	154,023	177,094
Other property owned, net	**87,956**	78,124	53,324
Premises and equipment, net	**61,820**	62,539	55,525
Other assets	**99,918**	89,831	108,012
Total assets	**$ 19,642,491**	$ 19,555,584	$ 19,117,163
Liabilities and members' equity			
Liabilities			
Bonds and notes, net	**$ 16,045,541**	$ 16,179,932	$ 16,169,479
Subordinated debt	**50,000**	50,000	50,000
Accrued interest payable	**37,912**	45,881	70,074
Patronage distributions payable	**83,440**	66,011	42,974
Preferred stock dividends payable	**21,881**	21,881	—
Other liabilities	**299,589**	225,548	267,232
Total liabilities	**16,538,363**	16,589,253	16,599,759
Commitments and contingencies (Note 13)			
Members' equity			
Preferred stock	**482,000**	482,000	202,754
Common stock and participation certificates	**60,024**	61,843	63,202
Allocated retained earnings	**374,231**	327,435	266,991
Unallocated retained earnings	**2,257,527**	2,121,822	2,061,299
Additional paid-in-capital	**22,737**	22,622	—
Accumulated other comprehensive loss	**(92,391)**	(49,391)	(76,842)
Total members' equity	**3,104,128**	2,966,331	2,517,404
Total liabilities and members' equity	**$ 19,642,491**	$ 19,555,584	$ 19,117,163

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

Combined Statements of Income

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

	Year Ended December 31,		
(dollars in thousands)	**2011**	2010	2009
Investment securities and other	**$ 65,812**	$ 77,701	$ 88,441
Loans	**762,843**	797,608	873,032
Total interest income	**828,655**	875,309	961,473
Bonds, notes and subordinated debt	**195,648**	270,945	396,467
Notes payable and other	**24,951**	24,194	29,214
Total interest expense	**220,599**	295,139	425,681
Net interest income	**608,056**	580,170	535,792
Provision for loan losses	**45,048**	141,457	172,140
Net interest income after provision for loan losses	**563,008**	438,713	363,652
Patronage income	**17,326**	16,845	17,626
Fees for loan-related services	**26,145**	29,577	17,885
Gain from sale of investment securities	**—**	529	7,650
Refunds from Farm Credit System Insurance Corporation	**—**	22,268	—
Other (losses) gains, net	**—**	(6,347)	1,462
Other income, net	**277**	684	1,123
Impairment losses on investments			
Total other-than-temporary impairment losses	**(2,906)**	(2,743)	(11,804)
Less: portion of loss recognized in other comprehensive income	**(819)**	(913)	(6,511)
Net impairment loss recognized in earnings	**(2,087)**	(1,830)	(5,293)
Total noninterest income	**41,661**	61,726	40,453
Salaries and employee benefits	**134,402**	131,661	101,700
Occupancy and equipment expense	**16,601**	15,071	13,763
Insurance Fund premiums	**8,830**	7,720	31,265
Losses on other property owned, net	**18,740**	15,152	7,803
Other operating expenses	**56,255**	55,809	53,759
Total noninterest expense	**234,828**	225,413	208,290
Income before income taxes	**369,841**	275,026	195,815
Provision for (benefit from) income taxes	**1,175**	(291)	(2,609)
Net income	**$ 368,666**	$ 275,317	$ 198,424

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

Combined Statements of Changes in Members' Equity

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Preferred Stock	Common Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Retained Earnings Total	Additional Paid-in-Capital	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
Balance at December 31, 2008	$ 202,754	$ 63,859	$ 211,450	$ 1,984,421	$ 2,195,871	$ —	$ (132,767)	$ 2,329,717
Noncredit portion of previous other-than-temporary impairment losses	—	—	—	1,527	1,527	—	(1,527)	—
Balance at January 1, 2009	202,754	63,859	211,450	1,985,948	2,197,398	—	(134,294)	2,329,717
Comprehensive income								
Net income	—	—	—	198,424	198,424	—	—	198,424
Change in pension and postretirement benefit plans	—	—	—	—	—	—	19,028	19,028
Net change in unrealized net gains on investment securities	—	—	—	—	—	—	42,166	42,166
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	—	—	(6,511)	(6,511)
Net change in unrealized gains on cash flow hedge derivatives	—	—	—	—	—	—	2,769	2,769
Total comprehensive income	—	—	—	198,424	198,424	—	57,452	255,876
Capital stock/participation certificates issued	—	7,601	—	—	—	—	—	7,601
Capital stock/participation certificates and allocated retained earnings retired	—	(8,258)	(107)	—	(107)	—	—	(8,365)
Cash dividends on preferred stock	—	—	—	(15,122)	(15,122)	—	—	(15,122)
Patronage distributions								
Cash	—	—	—	(52,303)	(52,303)	—	—	(52,303)
Members' equity	—	—	55,648	(55,648)	—	—	—	—
Balance at December 31, 2009	202,754	63,202	266,991	2,061,299	2,328,290	—	(76,842)	2,517,404
Comprehensive income								
Net income	—	—	—	275,317	275,317	—	—	275,317
Change in pension and postretirement benefit plans	—	—	—	—	—	—	18,085	18,085
Net change in unrealized net gains on investment securities	—	—	—	—	—	—	12,280	12,280
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	—	—	(913)	(913)
Net change in unrealized losses on cash flow hedge derivatives	—	—	—	—	—	—	(2,001)	(2,001)
Total comprehensive income	—	—	—	275,317	275,317	—	27,451	302,768
Capital stock/participation certificates and allocated retained earnings issued	—	4,606	626	—	626	—	—	5,232
Capital stock/participation certificates retired	—	(5,965)	—	—	—	—	—	(5,965)
Preferred stock issued	300,000	—	—	—	—	—	—	300,000
Issuance costs on preferred stock	—	—	—	(3,432)	(3,432)	—	—	(3,432)
Preferred stock repurchased	(20,754)	—	—	—	—	—	—	(20,754)
Net premium and costs on repurchase of preferred stock	—	—	—	(529)	(529)	—	—	(529)
Impact of association merger:								
Equity issued upon association merger	—	3,688	—	—	—	22,622	—	26,310
Equity retired upon association merger	—	(3,688)	—	(22,568)	(22,568)	—	—	(26,256)
Preferred stock dividends accrued	—	—	—	(21,881)	(21,881)	—	—	(21,881)
Cash dividends on preferred stock	—	—	—	(23,720)	(23,720)	—	—	(23,720)
Patronage distributions								
Cash	—	—	—	(82,846)	(82,846)	—	—	(82,846)
Members' equity	—	—	59,818	(59,818)	—	—	—	—
Balance at December 31, 2010	482,000	61,843	327,435	2,121,822	2,449,257	22,622	(49,391)	2,966,331
Comprehensive income								
Net income	—	—	—	368,666	368,666	—	—	368,666
Change in pension and postretirement benefit plans	—	—	—	—	—	—	(44,614)	(44,614)
Net change in unrealized net gains on investment securities	—	—	—	—	—	—	5,679	5,679
Noncredit portion of current other-than-temporary impairment losses	—	—	—	—	—	—	(689)	(689)
Net change in unrealized losses on cash flow hedge derivatives	—	—	—	—	—	—	(3,376)	(3,376)
Total comprehensive income	—	—	—	368,666	368,666	—	(43,000)	325,666
Capital stock/participation certificates and allocated retained earnings issued	—	7,003	—	—	—	—	—	7,003
Capital stock/participation certificates and allocated retained earnings retired	—	(8,822)	(54,579)	(624)	(55,203)	—	—	(64,025)
Equity related to association merger	—	—	—	(169)	(169)	115	—	(54)
Preferred stock dividends accrued	—	—	—	(21,881)	(21,881)	—	—	(21,881)
Cash dividends–preferred stock	—	—	—	(21,880)	(21,880)	—	—	(21,880)
Patronage distributions								
Cash	—	—	—	(87,032)	(87,032)	—	—	(87,032)
Members' equity	—	—	101,375	(101,375)	—	—	—	—
Balance at December 31, 2011	**$ 482,000**	**$ 60,024**	**$ 374,231**	**$ 2,257,527**	**$ 2,631,758**	**$ 22,737**	**$ (92,391)**	**$ 3,104,128**

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

Combined Statements of Cash Flows

FARM CREDIT BANK OF TEXAS AND DISTRICT ASSOCIATIONS

(dollars in thousands)	Year Ended December 31, **2011**	2010	2009
Operating Activities			
Net income	**$ 368,666**	$ 275,317	$ 198,424
Reconciliation of net income to net cash provided by operating activities			
Provision for loan losses	**45,048**	141,457	172,140
Provision for losses on other property owned	**15,521**	13,167	7,349
Depreciation and amortization on premises and equipment	**6,694**	6,275	6,075
Accretion of net discount on loans	**(200)**	(736)	(1,005)
Amortization and accretion on debt instruments	**(4,319)**	(4,821)	(4,045)
Accretion of net premium (discount) on investments	**6,910**	(5,773)	4,062
Gain on sale of investment securities	**—**	(529)	(7,650)
Loss on impairment of available-for-sale investments	**2,087**	1,830	5,293
Allocated equity patronage from System bank	**(12,467)**	(12,487)	(11,780)
Gain on sales of other property owned, net	**(244)**	(1,292)	(686)
Gain on sales of premises and equipment, net	**(3,292)**	(5,696)	(4,501)
Decrease in accrued interest receivable	**12,456**	23,071	25,713
(Increase) decrease in other assets, net	**(203)**	22,598	(8,760)
Decrease in accrued interest payable	**(7,969)**	(24,193)	(33,214)
Decrease in other liabilities, net	**(3,862)**	(20,080)	(1,752)
Net cash provided by operating activities	**424,826**	408,108	345,663
Investing Activities			
Net (increase) decrease in federal funds sold	**(249)**	52	156,208
Investment securities			
Purchases	**(974,765)**	(2,075,085)	(1,419,563)
Proceeds from maturities, calls and prepayments	**914,393**	971,512	2,147,272
Proceeds from sales	**—**	66,635	165,512
Redemption of Farmer Mac preferred stock	**—**	7,000	—
(Increase) decrease in loans	**(182,273)**	384,652	243,832
Expenditures from purchase of loans	**—**	(32,822)	(100,000)
Proceeds from sales of other property owned, net	**68,165**	27,468	18,341
Proceeds from sales of premises and equipment	**3,551**	4,119	3,944
Expenditures for premises and equipment	**(8,380)**	(11,712)	(11,544)
Net cash (used in) provided by investing activities	**(179,558)**	(658,181)	1,204,002
Financing Activities			
Bonds and notes issued	**15,285,508**	19,497,527	42,684,817
Bonds and notes retired	**(15,413,746)**	(19,483,209)	(43,682,950)
Increase (decrease) in advanced conditional payments	**10,926**	(2,967)	(27,208)
Equity (related to) issued upon merger	**(54)**	54	—
Bank Class B preferred stock issued	**—**	300,000	—
Issuance costs on preferred stock	**—**	(3,432)	—
Bank Class A preferred stock repurchased	**—**	(18,000)	—
Association preferred stock retired	**—**	(2,754)	—
Net premium and costs on repurchase of Class A preferred stock	**—**	(529)	—
Capital stock and participation certificates issued	**7,003**	5,232	7,601
Capital stock and participation certificates retired and allocated retained earnings distributed	**(64,025)**	(5,965)	(8,365)
Cash dividends on preferred stock	**(21,880)**	(23,720)	(15,122)
Cash dividends and patronage distributions paid	**(69,603)**	(59,809)	(64,353)
Net cash (used in) provided by financing activities	**(265,871)**	202,428	(1,105,580)
Net (decrease) increase in cash	**(20,603)**	(47,645)	444,085
Cash at beginning of year	**453,322**	500,967	56,882
Cash at end of year	**$ 432,719**	$ 453,322	$ 500,967
Supplemental Schedule of Noncash Investing and Financing Activities			
Financed sales of other property owned	**$ 2,001**	$ 11,835	$ 24,884
Loans transferred to other property owned	**91,273**	75,978	96,717
Net increase in unrealized gains on investment securities	**4,991**	11,367	34,128
Patronage distributions payable	**83,440**	66,011	42,974
Traded but not settled participation loan sales	**—**	—	29,178
Transfer of surplus to additional paid-in-capital related to association merger	**—**	22,568	—
Supplemental Schedule of Noncash Changes in Fair Value Related to Hedging Activities			
(Decrease) increase in bonds and notes	**$ (1,834)**	$ 956	$ (30,548)
Supplemental Information			
Cash paid during the year for:			
Interest	**$ 228,568**	$ 319,332	$ 458,895
Income taxes	**327**	291	345

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

Notes to Combined Financial Statements

Farm Credit Bank of Texas and District Associations

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

Note 1 — Organization and Operations

A. Organization:

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

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

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

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

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

B. Operations:

The Farm Credit Act sets forth the types of authorized lending activities and financial services which can be offered by the bank and the associations and defines the eligible borrowers which they may serve. The associations are authorized to provide, or participate with other lenders to provide, credit, credit commitments and related services to eligible borrowers. Eligible borrowers are defined as (a) bona fide farmers and ranchers and producers or harvesters of aquatic products, (b) persons furnishing to farmers and ranchers services directly related to their on-farm operating needs, (c) owners of rural homes, (d) rural residents and (e) farm-related businesses. The bank also may lend to any national bank, state bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union or any association of agricultural producers (aggregately referred to as OFIs) engaged in the making of loans to farmers and ranchers, and any corporation engaged in the making of loans to producers or harvesters of aquatic products.

The associations also serve as intermediaries in offering credit life and multi-peril crop insurance and financial management services to their borrowers.

FCA regulations require borrower information be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

The FLCA borrows funds from the bank and in turn originates and services long-term real estate mortgage loans made to their members. The OFIs borrow from the bank and, in turn, originate and service short- and intermediate-term loans for their members. The ACAs borrow from the bank and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. ACAs may form a parent-subsidiary structure and may operate their long-term mortgage activities through an FLCA subsidiary and their short- and intermediate-term lending activities through a PCA subsidiary. In the states of Alabama, Louisiana, Mississippi, New Mexico and Texas, the bank may purchase from the FLCA and ACAs long-term real estate mortgage loans and, from ACAs, short- and intermediate-term loans.

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

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) — provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- Farm Credit System Building Association — leases premises and equipment to the FCA, as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company — as a reciprocal insurer, provides insurance services to its member organizations.

In addition, The Farm Credit Council acts as a full-service, federated trade association which represents the System before Congress, the executive branch and others, and provides support services to System institutions on a fee basis.

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

Note 2 — Summary of Significant Accounting Policies

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

The accompanying combined financial statements include the accounts of the bank and associations, and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests. All significant transactions and balances between the bank and associations have been eliminated in combination. The multiemployer structure of the district's defined benefit retirement plan results in the recording of the plan upon combination only.

A. Cash:

Cash, as included in the financial statements, represents cash on hand and on deposit at banks and at the Federal Reserve.

B. Investment Securities:

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

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

The bank and associations may also hold additional investments in accordance with mission-related investment programs, approved by the Farm Credit Administration. These programs allow the bank and associations to make investments that further the System's mission to serve rural America. Mission-related investments are not included in liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) are considered other investments and are also excluded from the limitation and liquidity calculations. Mission-related investments for which the bank or association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. In May 2008, the bank purchased mission-related rural housing mortgage-backed securities which constituted the bank's held-to-maturity investment portfolio.

These securities had an amortized cost basis of $50.5 million and a fair market value of $51.6 million at December 31, 2008. In December 2009, these securities, which had an amortized cost basis of $39.4 million, were sold for a gain of $2.1 million to enhance the bank's liquidity position.

At December 31, 2011, the district held other investments, totaling $238.1 million, which consisted of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). The bank held AMBS with a fair value of $110.9 million in an available-for-sale other investments portfolio, and associations held AMBS with an amortized cost of $127.2 million in a held-to-maturity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

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

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

C. Loans and Allowance for Loan Losses:

Long-term real estate mortgage loans can have maturities ranging from five to 40 years. Substantially all short-term and intermediate-term loans are made for agricultural production or operating purposes and have maturities of 10 years or less.

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

Loan origination fee income and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loans as an adjustment to yield.

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

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

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that full collection of principal and interest is in doubt. In accordance with FCA regulations, all loans 180 days or more past due are considered nonaccrual. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest). Loans are charged off at the time they are determined to be uncollectible.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as interest income. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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

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

The credit risk-rating methodology is a key component of the bank's and associations' allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

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

D. Other Property Owned:

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

E. Premises and Equipment:

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

F. Other Assets and Other Liabilities:

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

The bank 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. The total outstanding gross balances of advance conditional payments, both netted against loans and classified as other liabilities, at December 31, 2011, 2010 and 2009 were $108.2 million, $88.7 million and $109.8 million, respectively.

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

G. Employee Benefit Plans:

Employees of the bank and associations participate in one of two districtwide retirement plans and are eligible to participate in the 401(k) plan of the district. Within the 401(k) plan, a certain percentage of employee contributions is matched by the bank and associations. The 401(k) plan costs are expensed as incurred. Additionally, certain qualified individuals in the bank and associations may participate in a separate, nonqualified supplemental 401(k) plan.

As more fully described in Note 11, "Employee Benefit Plans," these plans are accounted for and reported in accordance with authoritative accounting guidance. The bank and all associations provide certain health care benefits to eligible retired employees and directors. District employees' eligibility for these benefits upon retirement is dependent on conditions set by each district employer.

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

Certain qualified individuals in the bank also participated in a nonqualified supplemental defined benefit pension plan, which was terminated effective January 16, 2011, with no further vesting or benefit accrual after that date. All remaining vested benefits were distributed to the participating bank employees in lump sums after a required one-year deferral period.

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

H. Income Taxes:

The bank, the FLCA and the FLCA subsidiaries of ACA parent companies are exempt from federal and certain other income taxes as provided in the Farm Credit Act. The ACAs and their PCA subsidiaries provide for federal and certain other income taxes.

Certain ACAs operate as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. These ACAs and their PCA subsidiaries can exclude from taxable income amounts distributed as qualified patronage distributions to borrowers in the form of cash, stock or allocated retained earnings. Provisions for income taxes for these ACAs are made only on the earnings not distributed as qualified patronage distributions. Certain ACAs distribute patronage on the basis of taxable income. In this method, deferred income taxes are provided on the taxable income of ACAs on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. Other ACAs distribute patronage on the basis of book income. In this method, deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. For all ACAs, a valuation allowance is provided for the deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduce taxable earnings.

As of December 31, 2011, deferred income taxes have not been provided by the ACAs and their PCA subsidiaries on $34.4 million of pre-1993 patronage distributions from the bank because management's intent is to (1) permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) pass any distributions related to pre-1993 earnings to borrowers through qualified patronage allocations. No deferred taxes have been provided on the bank's post-1994 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances which, if distributions were made, would result in income taxes being paid at the association level.

I. Derivative Instruments and Hedging Activity:

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

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

J. Fair Value Measurements:

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

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

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

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

The fair value disclosures are presented in Note 15, "Fair Value Measurements."

K. Recently Issued or Adopted Accounting Pronouncements:

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

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

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

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

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

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

quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

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

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

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

L. Off-Balance-Sheet Credit Exposures:

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

M. Merger Accounting:

The authoritative guidance on business combinations applies to all transactions in which an entity obtains control of one or more businesses and requires the acquirer to use the acquisition method of accounting and recognize assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date.

For System institutions, because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring association would identify and estimate the acquisition date fair value of the equity interests (net assets) of the acquired association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, are measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. The excess value received, by the acquiring association from the acquired association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

Note 3 — Investment Securities

The district's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of FDIC-guaranteed corporate debt instruments, corporate debt, mortgage-backed investments and asset-backed investments. At December 31, 2011, the district's other investments portfolio consisted of Farmer Mac AMBS purchased during the second quarter of 2010, including AMBS held by district associations in a held-to-maturity portfolio with an amortized cost of $127.2 million and AMBS held by the bank in an available-for-sale portfolio with a fair value of $110.9 million. The bank's AMBS were purchased from district associations as a part of the bank's Capitalized Participation Pool (CPP) program. In accordance with this program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool.

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

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	$ 169,871	$ 128	$ —	$ 169,999	0.36%
Corporate debt	83,306	8	(850)	82,464	1.08
Federal agency collateralized mortgage-backed securities					
GNMA	1,689,535	29,635	(12)	1,719,158	1.80
FNMA and FHLMC	1,011,508	12,626	(586)	1,023,548	1.88
Other collateralized mortgage-backed securities	49,208	—	(8,336)	40,872	6.11
Asset-backed securities	15,080	2	(1,361)	13,721	1.65
Total liquidity investments	$3,018,508	$42,399	$(11,145)	$3,049,762	1.78%
Held-to-maturity investments:					
Agricultural mortgage-backed securities	$ 127,245	$ 953	$ (1,159)	$ 127,039	4.99%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	$ 300,531	$ 1,724	$ (164)	$ 302,091	0.84%
Federal agency collateralized mortgage-backed securities					
GNMA	1,650,736	22,543	(701)	1,672,578	1.88
FNMA and FHLMC	873,286	13,910	(345)	886,851	2.20
Other collateralized mortgage-backed securities	71,192	68	(6,342)	64,918	5.97
Asset-backed securities	11,493	1	(1,489)	10,005	3.13
Total liquidity investments	$ 2,907,238	$38,246	$ (9,041)	$ 2,936,443	1.97%
Held-to-maturity investments:					
Agricultural mortgage-backed securities	$ 154,616	$ 543	$ (1,283)	$ 153,876	5.17%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Corporate debt	$ 131,815	$ 1,918	$ —	$ 133,733	1.56%
Federal agency collateralized mortgage-backed securities					
GNMA	1,031,841	17,007	(5,211)	1,043,637	2.79
FNMA and FHLMC	812,053	15,859	(210)	827,702	3.63
Other collateralized mortgage-backed securities	123,315	12	(13,221)	110,106	6.87
Asset-backed securities	67,069	416	(3,351)	64,134	2.66
Total liquidity investments	$ 2,166,093	$35,212	$(21,993)	$ 2,179,312	2.61%

There were no investments in the held-to-maturity portfolio at December 31, 2009.

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

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

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

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

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

	Due In One Year Or Less	**Due After One Year Through Five Years**	**Due After Five Years Through 10 Years**	**Due After 10 Years**	**Total**
FDIC-guaranteed corporate debt	$169,999	$ —	$ —	$ —	$ 169,999
Corporate debt	—	82,464	—	—	82,464
Federal agency collateralized mortgage-backed securities					
GNMA	—	—	3,638	1,715,520	1,719,158
FNMA and FHLMC	50	17,783	180,754	824,961	1,023,548
Other collateralized mortgage-backed securities	—	—	122	40,750	40,872
Asset-backed securities	—	739	0	12,982	13,721
Total fair value	$170,049	$ 100,986	$ 184,514	$2,594,213	$ 3,049,762
Total amortized cost	$169,920	$ 101,358	$ 181,453	$2,565,777	$ 3,018,508
Weighted average yield	0.36%	1.68%	2.19%	1.85%	1.78%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2011, the CMO portfolio had a weighted average remaining life of approximately two years.

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

	Due After One Year Through Five Years
Fair value of agricultural mortgage-backed securities	$ 110,921
Total amortized cost	112,597
Weighted average yield	4.79%

Investments in the district's held-to-maturity investment portfolio follow:

	Due After One Year Through Five Years	**Due After Five Years Through 10 Years**	**Total**
Fair value	$ 101,161	$ 25,878	$ 127,039
Amortized cost	100,678	26,567	127,245
Weighted average yield	5.15%	4.34%	4.99%

At December 31, 2009, the available-for-sale investment portfolio included guaranteed Small Business Administration pooled securities totaling $35.8 million held by a district association. During the quarter ended March 31, 2010, the district association received $34.2 million in its sale of these pooled securities, realizing a gain of $529. Available-for-sale investments are recorded on the balance sheet at fair value; held-to-maturity investments are recorded at amortized cost.

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

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

Proceeds and related gains and losses on investment securities follow:

	Year Ended December 31,		
	2011	2010	2009
Proceeds on sales	**$ —**	$ 66,635	$ 165,512
Realized gains on sales	**—**	529	7,650
Realized losses due to impairment	**2,087**	1,830	5,293

The net realized gain and loss is included on the combined statements of income as part of total noninterest income.

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

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

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

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

Although net unrealized gain on investment securities has increased by $5.0 million during 2011, the fair value of some investments in the portfolios has been impacted as a result of turmoil in the credit markets. As more fully discussed in Note 2, "Summary of Significant Accounting Policies," the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary, including: (i) whether or not an entity intends to sell the security; (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs; or (iii) whether an entity does not expect to recover the security's entire amortized cost basis (even if it does not intend to sell).

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

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

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

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

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

Note 4 — Loans and Allowance for Loan Losses

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

	2011	2010	2009
Real estate mortgage	**$ 10,165,704**	$ 10,487,949	$ 11,040,592
Production and intermediate term	**1,668,820**	1,792,513	1,965,720
Agribusiness			
Loans to cooperatives	**171,904**	274,621	151,580
Processing and marketing	**1,651,723**	1,346,887	1,251,631
Farm-related business	**235,023**	172,501	229,261
Communication	**279,696**	264,634	253,914
Energy	**902,666**	881,227	869,292
Water and waste disposal	**101,698**	50,261	50,000
Rural home	**198,630**	209,708	212,817
Mission-related	**151,685**	64,096	43,982
International	**229**	245	504
Loans to other financial institutions	**82,901**	75,737	93,878
Lease receivables	**13,334**	8,511	3,999
Total	**$ 15,624,013**	$ 15,628,890	$ 16,167,170

The FCA approved a program that allows the bank and its associations to purchase investments in debt instruments called "Rural America Bonds." This program is intended to help meet the growing financing needs of agriculture and rural America, improve the income and economic well-being of American farmers and ranchers, and enhance the economic vibrancy of rural areas that support agriculture. Loans related to this initiative are included in "mission-related" loans in the previous table.

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 regulations. The following table presents information on loan participations, excluding syndications, at December 31, 2011.

	Other Farm Credit Institutions		Non–Farm Credit Institutions		Total	
Purchased	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 68,923	$ 86,712	$ 117,801	$ 21,827	$ 186,724	$ 108,539
Production and intermediate term	206,077	29,537	70,245	1,205	276,322	30,742
Agribusiness	859,955	192,831	138,485	—	998,440	192,831
Communication	275,622	—	—	—	275,622	—
Energy	906,216	3,549	—	—	906,216	3,549
Water and waste disposal	101,075	—	—	—	101,075	—
International	6,207	—	193	—	6,400	—
Direct note receivable from district associations	—	3,400,000	—	—	—	3,400,000
Mission-related	16,147	—	—	—	16,147	—
Total	**$ 2,440,222**	**$ 3,712,629**	**$ 326,724**	**$ 23,032**	**$ 2,766,946**	**$ 3,735,661**

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

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

	2011		2010		2009	
Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 5,806**	**37%**	$ 5,975	38%	$ 6,198	38%
Crops	**1,958**	**13**	2,027	13	2,292	14
Timber	**1,508**	**10**	1,636	11	1,712	11
Cotton	**695**	**4**	757	5	750	5
Poultry	**528**	**3**	522	3	625	4
Dairy	**461**	**3**	479	3	449	3
Rural home	**199**	**1**	210	1	213	1
Other	**4,469**	**29**	4,023	26	3,928	24
Total	**$ 15,624**	**100%**	$ 15,629	100%	$ 16,167	100%

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

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

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

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due. Restructured loans are loans whose terms have been modified and on which concessions have been granted because of borrower financial difficulties.

	December 31, 2011	2010	2009
Nonaccrual loans			
Current as to principal and interest	**$ 206,413**	$ 282,850	$ 211,756
Past due	**249,081**	400,217	302,611
Total nonaccrual loans	**455,494**	683,067	514,367
Accrual loans			
Restructured	**29,588**	8,983	2,974
90 days or more past due	**6,293**	2,396	34,446
Total impaired accrual loans	**35,881**	11,379	37,420
Total impaired loans	**$ 491,375**	$ 694,446	$ 551,787

There were $20.5 million in commitments to lend additional funds to borrowers whose loans were classified as nonaccrual or restructured at December 31, 2011.

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

	December 31, 2011	2010	2009
Nonaccrual loans			
Real estate mortgage	**$ 318,798**	$ 440,836	$ 259,301
Production and intermediate term	**60,511**	102,027	87,976
Agribusiness	**57,205**	129,220	153,746
Communication	**4,479**	6,129	9,198
Rural residential real estate	**1,828**	2,019	1,829
Energy and water/waste disposal	**9,043**	—	2,317
Lease receivables	**2,881**	2,836	—
Mission-related loans	**749**	—	—
Total nonaccrual loans	**455,494**	683,067	514,367
Accruing restructured loans			
Real estate mortgage	**19,321**	1,491	1,304
Production and intermediate term	**2,439**	2,510	1,670
Agribusiness	**7,796**	4,982	—
Rural residential real estate	**32**	—	—
Total accruing restructured loans	**29,588**	8,983	2,974
Accruing loans 90 days or more past due			
Real estate mortgage	**1,432**	2,198	23,393
Production and intermediate term	**2,177**	93	11,049
Agribusiness	**2,684**	—	—
Rural residential real estate	**—**	105	4
Total accruing loans 90 days or more past due	**6,293**	2,396	34,446
Total nonperforming loans	**491,375**	694,446	551,787
Other property owned, net	**87,956**	78,124	53,324
Total nonperforming assets	**$ 579,331**	$ 772,570	$ 605,111

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

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

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

	2011	2010	2009
Real estate mortgage			
Acceptable	**91.5%**	89.2%	91.7%
OAEM	**4.0**	4.3	3.5
Substandard/Doubtful	**4.5**	6.5	4.8
	100.0%	100.0%	100.0%
Production and intermediate term			
Acceptable	**89.6%**	83.0%	83.1%
OAEM	**5.2**	8.1	8.5
Substandard/Doubtful	**5.2**	8.9	8.4
	100.0%	100.0%	100.0%
Agribusiness			
Acceptable	**87.1%**	76.4%	71.6%
OAEM	**6.6**	12.7	13.8
Substandard/Doubtful	**6.3**	10.9	14.6
	100.0%	100.0%	100.0%
Energy and water/waste disposal			
Acceptable	**94.8%**	99.0%	99.7%
OAEM	**2.2**	—	—
Substandard/Doubtful	**3.0**	1.0	0.3
	100.0%	100.0%	100.0%
Communication			
Acceptable	**98.4%**	97.7%	96.4%
OAEM	**—**	—	—
Substandard/Doubtful	**1.6**	2.3	3.6
	100.0%	100.0%	100.0%
Rural residential real estate			
Acceptable	**95.8%**	95.2%	96.7%
OAEM	**1.9**	2.7	1.4
Substandard/Doubtful	**2.3**	2.1	1.9
	100.0%	100.0%	100.0%
International			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	**78.6%**	63.5%	96.2%
OAEM	**—**	2.6	3.8
Substandard/Doubtful	**21.4**	33.9	—
	100.0%	100.0%	100.0%

Loans to other financing institutions			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**—**	—	—
Substandard/Doubtful	**—**	—	—
	100.0%	100.0%	100.0%

Mission-related			
Acceptable	**95.1%**	89.5%	100.0%
OAEM	**0.4%**	0.6	—
Substandard/Doubtful	**4.5%**	9.9	—
	100.0%	100.0%	100.0%

Total loans			
Acceptable	**91.2%**	87.9%	89.3%
OAEM	**4.2**	5.3	4.8
Substandard/Doubtful	**4.6**	6.8	5.9
	100.0%	100.0%	100.0%

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

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment Greater Than 90 Days Past Due and Accruing
Real estate mortgage	$ 53,518	$ 171,907	$ 225,425	$ 10,040,235	$ 10,265,660	$ 1,432
Production and intermediate term	8,939	27,704	36,643	1,647,985	1,684,628	2,177
Agribusiness	2,900	26,970	29,870	2,037,299	2,067,169	2,684
Energy and water/waste disposal	—	9,044	9,044	1,001,752	1,010,796	—
Communication	—	—	—	280,176	280,176	—
Rural residential real estate	2,415	574	2,989	196,735	199,724	—
International	—	—	—	230	230	—
Lease receivables	—	2,759	2,759	10,707	13,466	—
Loans to OFIs	—	—	—	83,023	83,023	—
Mission-related	3,095	—	3,095	149,710	152,805	—
Total	$ 70,867	$ 238,958	$ 309,825	$ 15,447,852	$ 15,757,677	$ 6,293

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

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

As of December 31, 2011, the total recorded investment of troubled debt restructured loans was $67.9 million, including $38.3 million classified as nonaccrual and $29.6 million classified as accrual, with specific allowance for loan losses of $2.4 million. As of December 31, 2011, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $2.3 million.

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

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$ 26,365	$ 24,886
Production and intermediate term	17,124	16,147
Agribusiness	1,863	1,781
Rural residential real estate	51	39
Total	**$ 45,403**	**$ 42,853**

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

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 12/31/2011
Troubled debt restructurings:	
Real estate mortgage	$ 1,651
Total	**$ 1,651**

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

	Recorded Investment at 12/31/2011	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses					
Real estate mortgage	$ 118,349	$ 150,418	$ 24,586	$ 112,857	$ 710
Production and intermediate term	23,467	34,507	12,407	25,907	87
Processing and marketing	15,675	16,176	7,828	26,296	313
Farm-related business	10,953	11,449	2,655	11,103	109
Energy and water/waste disposal	9,043	9,043	850	8,511	—
Communication	3,770	3,770	2,989	4,119	—
Rural residential real estate	477	492	119	313	4
Lease receivables	2,759	2,759	27	2,800	—
Mission-related	94	664	94	2	2
Total	$ 184,587	$ 229,278	$ 51,555	$ 191,908	$ 1,225
Impaired loans with no related allowance for credit losses					
Real estate mortgage	$ 221,202	$ 237,867	$ —	$ 395,248	$ 10,484
Production and intermediate term	41,660	64,060	—	40,527	1,351
Loans to cooperatives	—	—	—	—	9
Processing and marketing	32,299	59,019	—	32,470	577
Farm-related business	8,759	19,116	—	10,689	159
Energy and water/waste disposal	—	13,753	—	1	4
Communication	709	709	—	1,433	—
Rural residential real estate	1,382	1,515	—	962	15
Lease receivables	122	122	—	47	—
Mission-related	655	3,809	—	2,537	3
Total	$ 306,788	$ 399,970	$ —	$ 483,914	$ 12,602
Total impaired loans					
Real estate mortgage	$ 339,551	$ 388,285	$ 24,586	$ 508,105	$ 11,194
Production and intermediate term	65,127	98,567	12,407	66,434	1,438
Loans to cooperatives	—	—	—	—	9
Processing and marketing	47,974	75,195	7,828	58,766	890
Farm-related business	19,712	30,565	2,655	21,792	268
Energy and water/waste disposal	9,043	22,796	850	8,512	4
Communication	4,479	4,479	2,989	5,552	—
Rural residential real estate	1,859	2,007	119	1,275	19
Lease receivables	2,881	2,881	27	2,847	—
Mission-related	749	4,473	94	2,539	5
Total	$ 491,375	$ 629,248	$ 51,555	$ 675,822	$ 13,827

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

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

	Recorded Investment at 12/31/2010	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses					
Real estate mortgage	$ 170,333	$ 209,522	$ 48,136	$ 151,736	$ 1,597
Production and intermediate term	45,839	57,932	24,336	45,242	492
Processing and marketing	52,836	60,998	12,205	37,319	381
Farm-related business	23,882	24,947	10,081	17,499	172
Energy and water/waste disposal	—	—	—	5	—
Communication	4,596	2,953	3,236	3,501	22
Rural residential real estate	617	659	121	698	9
Lease receivables	21	24	10	501	6
Total	$ 298,124	$ 357,035	$ 98,125	$ 256,501	$ 2,679
Impaired loans with no related allowance for credit losses					
Real estate mortgage	$ 274,192	$ 294,903	$ —	$ 244,233	$ 3,322
Production and intermediate term	58,791	87,771	—	62,293	723
Processing and marketing	34,776	59,385	—	49,471	551
Farm-related business	22,709	37,861	—	22,673	246
Energy and water/waste disposal	—	14,131	—	7	—
Communication	1,533	3,280	—	3,528	25
Rural residential real estate	1,507	1,732	—	1,067	14
Lease receivables	2,814	2,807	—	767	10
Total	$ 396,322	$ 501,870	$ —	$ 384,039	$ 4,891
Total impaired loans					
Real estate mortgage	$ 444,525	$ 504,425	$ 48,136	$ 395,969	$ 4,919
Production and intermediate term	104,630	145,703	24,336	107,535	1,215
Processing and marketing	87,612	120,383	12,205	86,790	932
Farm-related business	46,591	62,808	10,081	40,172	418
Energy and water/waste disposal	—	14,131	—	12	—
Communication	6,129	6,233	3,236	7,029	47
Rural residential real estate	2,124	2,391	121	1,765	23
Lease receivables	2,835	2,831	10	1,268	16
Total	$ 694,446	$ 858,905	$ 98,125	$ 640,540	$ 7,570

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

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

	2011	2010	2009
Interest income which would have been recognized under the original loan terms	**$ 37,194**	$ 45,935	$ 40,496
Less: Interest income recognized	**13,828**	7,570	13,885
Foregone interest income	**$ 23,366**	$ 38,365	$ 26,611

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses											
Balance at December 31, 2010	$ 95,914	$ 31,290	$ 28,656	$ 3,925	$ 2,101	$ 995	$ 1	$ 45	$ —	$ 218	$ 163,145
Charge-offs	(56,826)	(12,769)	(25,498)	—	(3,519)	(264)	—	—	—	(3,709)	(102,585)
Recoveries	1,063	3,238	4,214	—	429	43	—	—	—	—	8,987
Provision for loan losses	22,659	72	15,955	(550)	3,625	(338)	(1)	13	—	3,613	45,048
Other	(296)	(83)	(86)	(1)	(12)	—	—	—	—	—	(478)
Balance at December 31, 2011	$ 62,514	$ 21,748	$ 23,241	$ 3,374	$ 2,624	$ 436	$ —	$ 58	$ —	$ 122	$ 114,117
Ending Balance: individually evaluated for impairment	$ 26,268	$ 12,408	$ 14,243	$ 2,989	$ 850	$ 69	$ —	$ 27	$ —	$ 94	$ 56,948
Ending Balance: collectively evaluated for impairment	$ 35,019	$ 9,303	$ 8,998	$ 385	$ 1,774	$ 367	$ —	$ 31	$ —	$ 28	$ 55,905
Ending Balance: loans acquired with deteriorated credit quality	$ 1,227	$ 37	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,264
Recorded Investments in Loans Outstanding											
Balance at December 31, 2011	$ 10,265,660	$ 1,684,628	$ 2,067,169	$ 280,176	$ 1,010,796	$ 199,724	$ 230	$ 13,466	$ 83,023	$ 152,805	$15,757,677
Ending Balance: loans individually evaluated for impairment	$ 382,732	$ 76,114	$ 94,844	$ 4,411	$ 11,671	$ 2,380	$ —	$ 2,887	$ —	$ 707	$ 575,746
Ending Balance: loans collectively evaluated for impairment	$ 9,871,340	$ 1,600,624	$ 1,972,325	$ 275,765	$ 999,125	$ 197,344	$ 230	$ 10,579	$ 83,023	$ 152,098	$15,162,453
Ending Balance: loans acquired with deteriorated credit quality	$ 11,588	$ 7,890	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 19,478

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses											
Balance at December 31, 2009	$ 97,132	$ 14,759	$ 23,054	$ 6,533	$ 3,134	$ 119	$ —	$ —	$ —	$ —	$ 144,731
Charge-offs	(66,492)	(16,722)	(25,743)	(2,272)	(17,745)	(127)	—	—	—	—	(129,101)
Recoveries	4,188	2,967	1,501	417	1,025	1	—	—	—	—	10,099
Provision for loan losses	65,345	30,286	29,844	(753)	15,687	1,002	1	45	—	—	141,457
Adjustment due to merger	(4,418)	—	—	—	—	—	—	—	—	—	(4,418)
Other	377	—	—	—	—	—	—	—	—	—	377
Balance at December 31, 2010	$ 96,132	$ 31,290	$ 28,656	$ 3,925	$ 2,101	$ 995	$ 1	$ 45	$ —	$ —	$ 163,145
Ending Balance: individually evaluated for impairment	$ 52,058	$ 24,509	$ 23,451	$ 3,236	$ —	$ 137	$ —	$ 10	$ —	$ —	$ 103,401
Ending Balance: collectively evaluated for impairment	$ 42,323	$ 6,666	$ 5,205	$ 689	$ 2,101	$ 858	$ 1	$ 35	$ —	$ —	$ 57,878
Ending Balance: loans acquired with deteriorated credit quality	$ 1,751	$ 115	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,866
Recorded Investments in Loans Outstanding											
Balance at December 31, 2010	$ 10,597,700	$ 1,810,574	$ 1,802,018	$ 265,495	$ 937,912	$ 210,974	$ 245	$ 8,622	$ 75,892	$ 64,501	$ 15,773,933
Ending Balance: loans individually evaluated for impairment	$ 431,343	$ 102,896	$ 134,202	$ 6,129	$ —	$ 2,124	$ —	$ 2,836	$ —	$ —	$ 679,530
Ending Balance: loans collectively evaluated for impairment	$ 10,147,553	$ 1,702,004	$ 1,667,816	$ 259,366	$ 937,912	$ 208,850	$ 245	$ 5,786	$ 75,892	$ 64,501	$ 15,069,925
Ending Balance: loans acquired with deteriorated credit quality	$ 18,804	$ 5,674	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 24,478

Note 5 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31, 2011	2010	2009
Land	**$ 12,630**	$ 12,071	$ 10,938
Buildings and improvements	**43,899**	41,940	39,011
Furniture and equipment	**46,715**	47,506	42,586
	103,244	101,517	92,535
Accumulated depreciation	**(41,424)**	(38,978)	(37,010)
Total	**$ 61,820**	$ 62,539	$ 55,525

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

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

Following is a schedule of the minimum lease payments for the bank and district associations on leases:

	Minimum Lease Payments
2012	$ 5,686
2013	5,132
2014	4,501
2015	5,071
2016	5,673
Total minimum lease payments	$ 26,063

Note 6 — Other Property Owned

Other property owned (OPO), consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. OPO totaled $87,956, $78,124 and $53,324 at December 31, 2011, 2010 and 2009, respectively, after allowances on OPO totaling $6,608, $13,978 and $7,603 for those respective years. The $87,956 balance of OPO at December 31, 2011, consisted of $28,748 held by the bank and $59,208 held by district associations.

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

	December 31,		
	2011	2010	2009
(Loss) gain on sale, net	**$ (244)**	$ 1,292	$ 687
Carrying value adjustments	**(15,521)**	(13,167)	(7,349)
Operating expense, net	**(2,975)**	(3,277)	(1,141)
Net loss on other property owned, net	**$ (18,740)**	$ (15,152)	$ (7,803)

Note 7 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2011	2010	2009
Investment in another System bank	**$ 47,439**	$ 34,979	$ 22,504
Other accounts receivable	**21,626**	21,914	20,807
Unamortized debt issue costs	**11,123**	9,242	10,017
Fair value of derivatives	**1,726**	6,512	2,526
Deferred tax assets, net	**4,915**	5,225	5,013
Receivable on participation loan sales	—	—	29,178
Farmer Mac preferred stock	—	—	7,000
Other, net	**13,089**	11,959	10,967
Total	**$ 99,918**	$ 89,831	$ 108,012

Other liabilities comprised the following at December 31:

	2011	2010	2009
Pension liability	**$ 115,054**	$ 81,415	$ 111,296
Accounts payable	**61,508**	43,872	37,645
Postretirement benefits	**52,717**	49,442	41,607
Advance conditional payments	**30,420**	19,314	22,281
Bank draft payable	**18,481**	24,001	17,218
FCSIC premium payable	**6,807**	6,049	24,386
Deferred tax liabilities	**775**	161	371
Income taxes payable	**302**	392	334
Fair value of derivatives	**486**	5	30
Other, net	**13,039**	897	12,064
Total	**$ 299,589**	$ 222,548	$ 267,232

Note 8 — Bonds and Notes

Systemwide Debt Securities and Notes Payable:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. The bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable as a condition for participation in the issuance of Systemwide debt. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2011, the bank was, and currently remains, in compliance with the conditions and requirements of the MAA. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations and FCA approval. At December 31, 2011, the bank had such specified eligible assets totaling $13.9 billion, and obligations and accrued interest payable totaling $12.7 billion, resulting in excess eligible assets of $1.2 billion.

Each issuance of Systemwide debt securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide debt securities. Systemwide debt securities are not issued under an indenture, and no trustee is provided with respect to these securities. Systemwide debt securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The district's participation in Systemwide debt securities and notes payable to other System bank at December 31, 2011 follows (*dollars in millions*):

	Systemwide						Notes Payable to Other System Bank		Total	
	Bonds		Medium-Term Notes		Discount Notes					
Year of Maturity	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2012	$ 3,030.9	0.68%	$ —	—%	$ 1,614.0	0.16%	$ 3,400.0	0.72%	$ 8,044.9	0.59%
2013	2,030.8	0.89	—	—	—	—	—	—	2,030.8	0.89
2014	1,818.3	1.13	—	—	—	—	—	—	1,818.3	1.13
2015	1,056.3	1.72	—	—	—	—	—	—	1,056.3	1.72
2016	1,113.6	1.89	—	—	—	—	—	—	1,113.6	1.89
Subsequent years	1,981.6	3.06	—	—	—	—	—	—	1,981.6	3.06
Total	$11,031.5	1.44%	$ —	—%	$ 1,614.0	0.16%	$ 3,400.0	0.72%	$16,045.5	1.16%

In the preceding table, the weighted average effective rate reflects the effects of interest rate swaps used to manage the interest rate risk on the bonds and notes issued by the bank. The bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies," and Note 17, "Derivative Instruments and Hedging Activity."

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

The bank's Systemwide debt includes callable debt, consisting of the following at December 31, 2011:

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

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

As described in Note 1, "Organization and Operations," the Insurance Fund is available to ensure the timely payment of principal and interest on bank bonds and Systemwide debt securities (insured debt) of insured System banks to the extent that net assets are available in the Insurance Fund. All other liabilities in the combined financial statements are uninsured.

Subordinated Debt:

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

Other:

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

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

Note 9 — Members' Equity

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

A. Capitalization Requirements:

As a condition of borrowing, in accordance with the Farm Credit Act, each borrower is required to invest in common stock (in the case of mortgage or agricultural loans) or participation certificates (in the case of rural residence or farm-related business loans) of their respective association. Capitalization bylaws of the associations establish minimum and maximum stock purchase requirements for borrowers. The initial investment requirement of the associations ranges from the statutory minimum of $1,000 to 2 percent of the loan amount. The capitalization bylaws also limit the capital contributions that an institution can require from its borrowers to 10 percent of defined borrowings for associations. If necessary, each association's board of directors may modify, within the range defined in their bylaws, the capitalization requirements to meet the association's capital needs.

A borrower obtaining a mortgage or agricultural loan purchases voting common stock which entitles the holder to a single vote, regardless of the number of shares held in the respective association. Within two years after a borrower's loan is repaid in full, any voting common stock held by the borrower will be converted to nonvoting common stock. A borrower obtaining a rural residence or farm-related business loan purchases participation certificates which provide no voting rights to their owner.

Each class of nonvoting stock must approve, as a class, the adoption of future revisions of capitalization bylaws if the class of stock is affected by a change in the preference provided for in the proposed capitalization bylaws.

Capitalization bylaws for each association provide for the amount of voting common stock or participation certificates that are required to be purchased by a borrower as a percentage of the loan obtained. The borrower acquires ownership of the common stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The bank and the associations have a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Regulatory Capitalization Requirements and Restrictions:

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

The bank's permanent capital ratio at December 31, 2011, was 20.85 percent and exceeded FCA standards. All associations currently meet the minimum capital standard established by FCA regulations. All associations are able to retire stock or distribute earnings in accordance with the Farm Credit Act and FCA regulatory restrictions. Management knows of no reasons why the bank and associations would be prohibited from retiring stock.

The following table sets forth the ranges of capital standards for the district at December 31, 2011:

	Permanent Capital Ratio Ranges %	Core Surplus Ratio Ranges %	Total Surplus Ratio Ranges %
Bank	20.85	10.48	17.36
FLCA	18.55	18.10	18.10
ACAs	13.25 – 20.28	12.21 – 19.58	13.05 – 19.58
Regulatory minimum standard	7.00	3.50	7.00

The bank is required by FCA regulations to achieve and maintain net collateral of 103 percent of total liabilities. However, the issuance of subordinated debt resulted in FCA requiring the net collateral to be 104 percent of total liabilities while any subordinated debt is outstanding. Net collateral consists of loans, real or personal property acquired in connection with loans, marketable investments, and cash and cash equivalents. At December 31, 2011, the bank's net collateral ratio was 108.27 percent.

C. Description of Associations' Equities:

The following is a summary of the associations' stock and participation certificates outstanding:

Stock and Participation Certificates	Par Value	Number of Shares at December 31, 2011	2010	2009
Stock				
Common – voting (eligible for dividends, convertible)	$ 5.00	**11,240,062**	11,534,470	11,759,905
Common – nonvoting (eligible for dividends, convertible)	$ 5.00	**46,881**	41,429	55,802
Preferred – nonvoting (eligible for dividends, nonconvertible)	$ 5.00	**—**	—	550,840
Participation certificates – nonvoting (eligible for dividends, convertible)	$ 5.00	**427,840**	439,183	430,705

The preferred stock noted above for prior years was nonvoting stock. It was issued by one association as evidence of borrowers' claims to allocated retained earnings of a specific year. The preferred stock was retired at the sole discretion of the association's board of directors.

In the event of the liquidation or dissolution of an association, any assets of the association remaining after payment or retirement of all liabilities shall be distributed to stockholders in the following order:

First, holders of preferred stock at par value, if any;

Second, ratably to holders of all classes of common stock and participation certificates at par value or face amount;

Third, ratably to the holders of allocated retained earnings on the basis of oldest allocations first;

Fourth, ratably to the holders of nonqualified written notices of allocation on the basis of the oldest allocations first;

Then, the remainder of assets ratably to all holders of common stock and participation certificates, in proportion to the aggregate patronage of each such holder to the total patronage of all holders.

ACA bylaws provide for operation as cooperatives which qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under cooperative operations, earnings of the ACA may be distributed to borrowers. Patronage distributions are generally in the form of allocated retained earnings and cash. At least 20 percent of the total patronage distribution must be paid in cash. Amounts not distributed are retained as unallocated retained earnings.

D. Description of Bank Equities:

According to the bank's bylaws, the minimum and maximum stock investments required of the ACAs and FLCA are 2 percent (or one thousand dollars, whichever is greater) and 5 percent, respectively, of each association's average borrowings from the bank. The investments in the bank are required to be in the form of Class A voting common stock. These intercompany balances and transactions are eliminated in combination.

The bank requires OFIs to make cash purchases of common nonvoting stock in the bank based on the OFIs' average borrowings from the bank. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. At December 31, 2011, the bank had $1.45 million of common stock outstanding to OFIs at a par value of $5.00 per share.

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

Class B Noncumulative Subordinated Perpetual Preferred Stock (Class B preferred stock) – On August 26, 2010, the bank issued $300.0 million of Class B noncumulative subordinated perpetual preferred stock, representing 300,000 shares at $1,000 per share par value for net proceeds of $296.6 million. The net proceeds of the issuance were used to increase the bank's capital and for general corporate purposes. Dividends on the preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10 percent of par value of $1,000 per share. The Class B preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B preferred stock ranks junior, both as to dividends and upon liquidation to our Class A preferred stock, and senior to all of our outstanding capital stock. For regulatory purposes, the Class B preferred stock is included in permanent capital, total surplus and core surplus within certain limitations. Due to regulatory limitations on third-party capital, the preferred stock issuance will require that subordinated debt no longer receive favorable treatment in net collateral ratio calculations. In 2010, Class B preferred stock dividends of $23,750 were declared, of which $8,750 were paid and $15,000 were payable at December 31, 2010, which is an accrual of the amount payable on the next dividend date, June 15, 2011, required by "dividend/patronage stopper" clauses in the preferred stock offerings. In 2011, Class B preferred stock dividends totaling $30.0 million were declared and paid. At December 31, 2011, dividends payable on Class B preferred stock totaled $15,000.

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

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

E. Additional Paid-in-Capital

The $22,737 in additional paid-in-capital represents the excess value received by acquiring associations from acquired associations over the par value of capital stock issued in association mergers. Additional paid-in-capital is considered unallocated surplus for purposes of shareholder distributions. Generally, patronage is paid out of current year earnings and as such, this would not be paid out in the form of patronage. In the case of liquidation, additional paid-in-capital would be treated as unallocated surplus and distributed to shareholders after other obligations of the association had been satisfied.

F. Accumulated Other Comprehensive Loss:

Accumulated other comprehensive loss was comprised of the following components at December 31:

	2011	2010	2009
Unrealized losses on other-than-temporarily impaired investments	$ 6,117	$ 5,428	$ 8,038
Unrealized (gains) on investments available-for-sale, net	(35,694)	(30,014)	(21,256)
Pension and other benefit plans	116,286	71,671	89,756
Unrealized losses on cash flow interest rate caps	5,682	2,306	304
Total	$ 92,391	$ 49,391	$ 76,842

Note 10 — Income Taxes

The information that follows relates only to the district's ACAs, as the bank and the FLCA are exempt from federal and other income taxes.

The provision for (benefit from) income taxes follows for years ended December 31:

	2011	2010	2009
Current			
Federal	$ 250	$ 131	$ 167
State	—	—	44
Total current	250	131	211
Deferred			
Federal	980	(336)	(2,625)
State	(55)	(86)	(195)
Total deferred	925	(422)	(2,820)
Total provision for (benefit from) income taxes	$ 1,175	$ (291)	$ (2,609)

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the statutory federal income tax rate to pretax income as a result of the following differences for years ended December 31:

	2011	2010	2009
Federal tax at statutory rate	$ 80,265	$ 57,128	$ 35,107
State tax, net	(55)	(86)	(150)
Effect of nontaxable entities	(74,348)	(70,912)	(44,869)
Valuation allowance	14,006	10,689	4,400
Patronage distributions	(6,585)	(3,229)	(1,684)
Capital download to associations	573	(273)	(40)
Other, net	(12,681)	6,392	4,627
Total provision for (benefit from) income taxes	$ 1,175	$ (291)	$ (2,609)

Deferred tax assets and liabilities comprised the following elements at December 31:

	2011	2010	2009
Allowance for loan losses	$ 9,622	$ 13,416	$ 11,519
Allowance for acquired property	677	63	19
Postretirement benefits	2,049	1,933	2,073
Net operating loss carryforward	31,676	14,670	6,043
Other	278	525	51
Gross deferred tax assets	44,302	30,607	19,705
Less valuation allowance	(39,388)	(25,382)	(14,692)
Adjusted gross deferred tax assets	4,914	5,225	5,013
FCBT stock redemption	(573)	—	(273)
Other	(202)	(161)	(98)
Gross deferred tax liabilities	(775)	(161)	(371)
Net deferred tax assets	$ 4,139	$ 5,064	$ 4,642

There were no uncertain tax positions and related liabilities for unrecognized tax benefits recorded at December 31, 2011. Any penalties and interest related to income taxes would be accounted for as an adjustment to income tax expense.

Note 11 — Employee Benefit Plans

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

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan in 1998 and beyond, to facilitate reorganization and/or restructuring. Under authoritative accounting guidance, there were no pension plan termination benefits recognized resulting from employees who qualified for an early retirement option under a retention plan at December 31, 2011, 2010 and 2009.

Additionally, certain qualified individuals in the bank participated in a separate, nonqualified defined benefit supplemental pension plan. Effective January 16, 2011, the bank's board of directors approved the termination of the bank's nonqualified defined benefit supplemental pension plan. As a result, no further vesting or benefit accrual occurred under the plan following January 16, 2011, and all remaining unpaid vested benefits were distributed in a cash lump-sum payment to the participating bank employees after a required one-year deferral period.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the nonelective pension feature of the DC plan direct the placement of their employers' contributions made on their behalf into various investment alternatives. Employer contributions to the DC plan were $3.4 million, $3.1 million and $2.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax compensation deferral feature. Employers match 100 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent of eligible compensation. Employer contributions were $3.4 million, $3.3 million and $3.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. Additionally, certain qualified individuals may participate in separate nonqualified supplemental 401(k) plans managed by their employer.

The bank and associations also provide certain health care benefits to eligible retired employees, beneficiaries and directors (retiree medical plan).

The following table reflects the benefit obligation, cost and actuarial assumptions for the district's pension and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	**2011**	2010	2009
Accumulated benefit obligation, end of year	**$ 288,707**	$ 256,263	$ 231,745			
Change in projected benefit obligation						
Benefit obligation, beginning of year	**$ 282,007**	$ 278,678	$ 253,946	**$ 49,442**	$ 41,607	$ 40,291
Service cost	**5,147**	5,967	5,516	**1,377**	1,226	1,239
Interest cost	**15,173**	16,145	15,681	**2,774**	2,478	2,497
Plan participants' contributions	**—**	—	—	**526**	476	419
Plan amendments	**—**	—	—	**—**	—	—
Curtailment loss	**1,108**	—	—	**—**	—	—
Actuarial loss (gain)	**31,414**	(2,375)	13,198	**730**	5,642	(1,001)
Benefits paid	**(12,301)**	(16,408)	(9,663)	**(2,170)**	(1,987)	(1,838)
Projected benefit obligation, end of year	**$ 322,548**	$ 282,007	$ 278,678	**$ 52,679**	$ 49,442	$ 41,607
Change in plan assets						
Plan assets at fair value, beginning of year	**$ 200,592**	$ 167,382	$ 114,163	**$ —**	$ —	$ —
Actual return on plan assets	**(3,740)**	24,472	30,897	**—**	—	—
Company contributions	**22,944**	25,146	31,985	**1,644**	1,511	1,419
Plan participants' contributions	**—**	—	—	**526**	476	419
Benefits paid	**(12,301)**	(16,408)	(9,663)	**(2,170)**	(1,987)	(1,838)
Plan assets at fair value, end of year	**$ 207,495**	$ 200,592	$ 167,382	**$ —**	$ —	$ —
Unfunded status	**$ (115,053)**	$ (81,415)	$ (111,296)	**$ (52,679)**	$ (49,442)	$ (41,607)
Amounts recognized consist of:						
Net liability at end of year	**$ (115,053)**	(81,415)	(111,296)	**$ (52,679)**	(49,442)	(41,607)
Accumulated other comprehensive loss (income)	**117,400**	74,919	100,164	**(1,155)**	(3,278)	(10,408)
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	**$ 117,288**	$ 73,269	$ 98,124	**$ 6,847**	$ 6,405	$ 878
Prior service cost (credit)	**112**	1,650	2,040	**(8,002)**	(9,683)	(11,286)
Total	**$ 117,400**	$ 74,919	$ 100,164	**$ (1,155)**	$ (3,278)	$ (10,408)

The funding policy establishes contribution requirements for the district's DB plan if plan assets are less than the accumulated benefit obligation at year end. The policy calls for contributions equal to the value of the additional benefits expected to be earned by employees during the year plus a payment on the shortfall between the accumulated benefit obligation and the plan assets. The additional payments for any shortfall are intended to increase the funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of directors of the Farm Credit Bank of Texas. In accordance with this policy, contributions of $22,867, $20,000 and $31,985 were made to the plan in January 2011, January 2010 and January 2009, respectively. The supplemental (nonqualified) pension plan is not funded.

The following table discloses the excess of the DB plan's accumulated benefit obligation over its plan assets at December 31:

District DB plan projected benefit obligation	**$ 319,705**	$ 280,102	$ 272,661
District DB plan assets at fair value	**207,495**	200,592	167,382
Accumulated benefit obligation of district DB plan	**285,863**	254,653	227,866
Funding shortfall	**(78,368)**	(54,061)	(60,484)
Supplemental (nonqualified) projected benefit obligation	**$ 2,844**	$ 1,905	$ 6,017
Supplemental (nonqualified) accumulated benefit obligation	**2,844**	1,610	3,879
Supplemental (nonqualified) fair value of plan assets	**—**	—	—

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	**2011**	2010	2009
Net periodic benefit cost						
Service cost	**$ 5,147**	$ 5,967	$ 5,516	**$ 1,377**	$ 1,226	$ 1,239
Interest cost	**15,173**	16,144	15,681	**2,774**	2,478	2,497
Expected return on plan assets	**(16,300)**	(13,638)	(10,598)	**—**	—	—
Amortization of:						
Prior service cost	**36**	390	390	**(1,682)**	(1,732)	(1,732)
Net actuarial loss	**6,996**	9,775	12,120	**288**	125	138
Net periodic benefit cost	**$ 11,052**	$ 18,638	$ 23,109	**$ 2,757**	$ 2,097	$ 2,142
Curtailment expense	**3,049**	—	—	**—**	—	—
Settlement expense	**—**	1,871	—	**—**	—	—
Special termination benefits	**—**	—	—	**—**	—	—
Total benefit cost	**$ 14,101**	$ 20,509	$ 23,109	**$ 2,757**	$ 2,097	$ 2,142
Other changes to plan assets and projected benefit obligations recognized in other comprehensive income						
Net actuarial (gain) loss in the current period	**$ 51,453**	$ (13,209)	(7,101)	**$ 730**	$ 5,642	(986)
Settlement expense	**—**	—	—	**—**	—	—
Prior service costs	**—**	—	—	**—**	—	—
Amortization of prior service costs	**(1,537)**	(390)	(390)	**1,682**	1,732	1,706
Amortization of net actuarial (gain) loss	**(7,435)**	(11,645)	(12,120)	**(288)**	(125)	(136)
Net change	**$ 42,481**	$ (25,244)	(19,611)	**$ 2,124**	$ 7,249	$ 584
AOCI amounts expected to be amortized in 2012						
Prior service cost (credit)	**$ 36**			**$ (1,426)**		
Net actuarial loss (gain)	**13,805**			**340**		
Total	**$ 13,841**			**$ (1,086)**		
Weighted-average assumptions used to determine benefit obligation as of December 31						
Measurement date	**12/31/2011**	12/31/2010	12/31/2009	**12/31/2011**	12/31/2010	12/31/2009
Discount rate	**5.00%**	5.50%	5.95%	**5.10%**	5.70%	6.05%
Expected long-term rate of return	**7.50%**	7.50	7.50	**N/A**	N/A	N/A
Rate of compensation increase	**5.50%**	3% in 2011 up to 3.5% in 2012	6% in 2010 down to 4% in 2012			
Health care cost trend rate assumed for next year (pre/post-65) — medical				**8.5%/6.75%**	7.5%/6.5%	8.0%/7.0%
Health care cost trend rate assumed for next year (pre/post-65) — prescriptions				**8.00%**	10.50%	10.50%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2018**	2017	2017
Weighted-average assumptions used to determine net periodic cost for year ended December 31						
Measurement date	**12/31/2010**	12/31/2009	12/31/2008	**12/31/2010**	12/31/2009	12/31/2008
Discount rate	**5.50%**	5.95%	6.30%	**5.70%**	6.05%	6.30%
Expected return on plan assets	**7.50%**	7.50%	7.50%	**N/A**	N/A	N/A
Rate of compensation increase	**3% in 2011 up to 3.5% in 2012**	6% in 2010 down to 4% in 2012	7% in 2009 down to 4% in 2012			
Health care cost trend rate assumed for next year (pre/post-65) — medical				**7.5%/6.5%**	8.0%/7.0%	8.5%/6.5%
Health care cost trend rate assumed for next year (pre/post-65) — prescriptions				**10.00%**	10.00%	11.00%
Ultimate health care cost trend rate				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate				**2017**	2017	2015

Effect of Change in Assumed Health Care Cost Trend Rates

Effect on total service cost and interest cost components	
One-percentage-point increase	**$ 777**
One-percentage-point decrease	**(617)**
Effect on year-end postretirement benefit obligation	
One-percentage-point increase	**$ 8,768**
One-percentage-point decrease	**(7,096)**

Plan Assets

The trustees of the district DB plan set investment policies and strategies for the plan, including target allocation percentages for each category of plan asset. Generally, the funding objectives of the DB plan are to achieve and maintain plan assets in accordance with the funding policy mentioned above and to provide competitive investment returns and reasonable risk levels when measured against appropriate benchmarks. Plan trustees develop asset allocation policies based on plan objectives, characteristics of pension liabilities, capital market expectations and asset-liability projections. District postretirement health care plans have no plan assets and are funded on a current basis by employer contributions and retiree premium payments.

	Fair Value Measurement at December 31, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category:				
Commingled trust funds:				
Russell Multi-Manager Bond Fund	**$ 84,254**	$ —	$ 84,254	$ —
Russell All International Markets Fund	**41,193**	—	41,193	—
Russell World Equity Fund	**24,617**	—	24,617	—
Russell Commingled Enhanced Fund	**23,348**	—	23,348	—
Russell Small Cap Fund	**10,610**	—	10,610	—
Russell U.S. Value Fund	**8,431**	—	8,431	—
Russell Growth Fund	**8,346**	—	8,346	—
Russell Emerging Markets Fund	**6,696**	—	6,696	—
Total assets	**$ 207,495**	$ —	$ 207,495	$ —

	Pension Benefits	Other Postretirement Benefits
Expected Future Cash Flow Information		
Expected Benefit Payments		
Fiscal 2012	**$ 16,688**	**$ 1,831**
Fiscal 2013	**15,010**	**2,051**
Fiscal 2014	**16,190**	**2,265**
Fiscal 2015	**17,375**	**2,444**
Fiscal 2016	**18,539**	**2,629**
Fiscal 2017 – 2021	**108,336**	**16,047**
Expected Contributions		
Fiscal 2012	**$ 18,625**	**$ 1,831**

Plan Assets	Pension Benefits				Other Postretirement Benefits			
Asset Category	Target	**2011**	2010	2009	Target	**2011**	2010	2009
Equity securities	60%	**60%**	60%	60%	—%	**—%**	—%	—%
Debt securities	40	**40**	40	40	—	**—**	—	—
Cash/other	—	**—**	—	—	100	**100**	100	100
Total	100%	**100%**	100%	100%	100%	**100%**	100%	100%

As disclosed in the preceding table, the expected total contribution for 2012 is $18.6 million.

Notwithstanding current investment market conditions, the expected long-term rate of return assumption is determined independently for each defined benefit pension plan and for each other postretirement benefit plan. Generally, plan trustees use historical return information to establish a best-estimate range for each asset class in which the plans are invested. Plan trustees select the most appropriate rate for each plan from the best-estimate range, taking into consideration the duration of plan benefit liabilities and plan sponsor investment policies.

Note 12 — Related Party Transactions

In the ordinary course of business, the associations have entered into loan transactions with directors, officers and other employees of associations and other organizations with which such persons may be associated. Total loans to such persons at December 31, 2011, 2010 and 2009 amounted to $136.9 million, $158.6 million, and $180.8 million, respectively. In the opinion of management, such loans outstanding to directors, officers and other employees at December 31, 2011, did not involve more than a normal risk of collectibility, were subject to approval requirements contained in FCA regulations, and were made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers. Disclosures on individual associations' officers and directors are found in the associations' individual annual reports.

Note 13 — Commitments and Contingencies

The district has various outstanding commitments and contingent liabilities as discussed elsewhere in these notes.

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2011, were approximately $184.8 billion.

In the normal course of business, district entities incur a certain amount of claims, litigation, and other legal and administrative proceedings, all of which are considered incidental to the normal conduct of business. The bank and district associations believe they have meritorious defenses to the claims currently asserted against it, and, with respect to such legal proceedings, intend to defend themselves vigorously, litigating or settling cases according to management's judgment as to what is in the best interest of the entity and its shareholders.

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

Currently, other actions are pending against the district in which claims for monetary damages are asserted. Upon the basis of current information, management and legal counsel are of the opinion that any resulting losses are not probable, and that the ultimate liability, if any, resulting from a lawsuit and other pending actions will not be material in relation to the financial position, results of operations or cash flows of the district.

Note 14 — Financial Instruments With Off-Balance-Sheet Risk

The bank and associations may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers and to manage their exposure to interest rate risk. In the normal course of business, various commitments are made to customers, including commitments to extend credit and standby letters of credit, which represent credit-related financial instruments with off-balance-sheet risk.

At any time, the bank and associations have outstanding a significant number of commitments to extend credit. The bank and associations also provide standby letters of credit to guarantee the performance of customers to third parties. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Credit-related financial instruments have off-balance-sheet credit risk, because only origination fees (if any) are recognized in the combined balance sheets (as other liabilities) for these instruments until the commitments are fulfilled or expire. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The district's commitments to extend credit totaled $4.284 billion, $3.067 billion and $3.057 billion at December 31, 2011, 2010 and 2009, respectively. At December 31, 2011, the district had $147.3 million in outstanding standby letters of credit, issued primarily in conjunction with participation loans. Outstanding standby letters of credit generally have expiration dates ranging from 2012 to 2016.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. In the event of funding, the credit risk amounts are equal to the contract amounts, assuming that counterparties fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty.

Note 15 — Fair Value Measurements

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

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

	Fair Value Measurement at December 31, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	$ 20,687	$ —	$ 20,687	$ —
Investments available-for-sale	3,160,683	—	2,922,977	237,706
Derivative assets	1,726	—	1,726	—
Assets held in nonqualified benefit trusts	2,691	2,691	—	—
Total assets	$ 3,185,787	$ 2,691	$ 2,945,390	$ 237,706
Liabilities:				
Derivative liabilities	$ 486	$ —	$ 486	$ —
Standby letters of credit	3,093	—	3,093	—
Total liabilities	$ 3,579	$ —	$ 3,579	$ —

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

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

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

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

	Fair Value Measurement at December 31, 2011				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 534,460**	$ —	$ —	$ 534,460	$(102,586)
Other property owned	**94,534**			94,534	(18,740)
Total assets	**$ 628,994**	$ —	$ —	$ 628,994	$(121,326)

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

	Fair Value Measurement at December 31, 2010			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 20,439**	$ —	$ 20,439	$ —
Investments available-for-sale	**3,076,946**	—	2,829,298	247,648
Derivative assets	**6,512**	—	6,512	—
Assets held in nonqualified benefit trusts	**2,247**	2,247	—	—
Total assets	**$ 3,106,144**	$ 2,247	$ 2,856,249	$ 247,648
Liabilities:				
Derivative liabilities	**$ 5**	$ —	$ 5	$ —
Standby letters of credit	**2,843**	—	2,843	—
Total liabilities	**$ 2,848**	$ —	$ 2,848	$ —

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

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

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

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

	Fair Value Measurement at December 31, 2010				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	$ 199,999	$ —	$ —	$ 199,999	$ (129,101)
Other property owned	86,490			86,490	(15,151)
Total assets	$ 286,489	$ —	$ —	$ 286,489	(144,252)

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

	Fair Value Measurement at December 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 20,490**	$ —	$ 20,490	$ —
Investments available-for-sale	**2,179,312**	—	2,179,312	—
Derivative assets	**2,526**	—	2,526	—
Assets held in nonqualified benefit trusts	**1,822**	1,822	—	—
Total assets	**$ 2,204,150**	$ 1,822	$ 2,202,328	$ —
Liabilities:				
Derivative liabilities	**$ 30**	$ —	$ 30	$ —
Standby letters of credit	**4,537**	—	4,537	—
Total liabilities	**$ 4,567**	$ —	$ 4,567	$ —

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

	Commercial Paper	Mortgage-Backed Securities	Total
Available-for-sale investment securities:			
Balance at January 1, 2009	$ 99,992	$ —	$ 99,992
Net losses included in other comprehensive income	—	(376)	(376)
Net losses included in earnings	—	(3,017)	(3,017)
Purchases, issuances and settlements	—	1,000	1,000
Transfers out of Level 3	(99,992)	(36,479)	(136,471)
Transfers into Level 3	—	38,872	38,872
Balance at December 31, 2009	$ —	$ —	$ —
The amount of gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2009		$ 5,293	

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

	Fair Value Measurement at December 31, 2009				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	$ 205,031	$ —	$ —	$ 205,031	$ (78,313)
Other property owned	59,248			59,248	687
Total assets	$ 264,279	$ —	$ —	$ 264,279	$ (77,626)

Valuation Techniques

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

Investment Securities

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

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

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

Assets Held in Nonqualified Benefits Trusts

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

Derivatives

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

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

Standby Letters of Credit

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

Loans

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. At December 31, 2011, impaired loans with a fair value of $534,464 were included in loans.

Other Property Owned

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

In accordance with authoritative accounting guidance, assets acquired in loan foreclosures are recorded at fair value, less estimated costs of sale. At December 31, 2011, foreclosed assets with a fair value of $94,534 are included in other property owned.

Note 16 — Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the district's financial instruments at December 31, 2011, 2010 and 2009.

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

	December 31, 2011		December 31, 2010		December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash and federal funds sold and investment securities	**$ 3,741,334**	**$ 3,741,128**	$ 3,705,322	$ 3,705,322	$ 2,700,769	$ 2,700,769
Loans	**15,624,013**	**15,934,212**	15,628,890	15,454,918	16,167,170	16,204,014
Allowance for loan losses	**(114,117)**	**—**	(163,145)	—	(144,731)	—
Loans, net	**15,509,896**	**15,934,212**	15,465,745	15,454,918	16,022,439	16,204,014
Derivative assets	**1,726**	**1,726**	6,512	6,512	2,526	2,526
Financial liabilities						
Bonds and notes	**16,045,541**	**16,268,118**	16,179,932	16,273,642	16,169,479	16,262,844
Subordinated debt	**50,000**	**56,963**	50,000	52,851	50,000	50,696
Derivative liabilities	**486**	**486**	5	5	30	30

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

A. Cash and Federal Funds Sold:

The carrying value is a reasonable estimate of fair value.

B. Investment Securities:

Valuation methods for available-for-sale investments for liquidity and other purposes are described in Note 15, "Fair Value Measurements." Held-to-maturity investments are valued by the district using a model which incorporates underlying rates and current yield curves.

C. Loans:

Fair value is estimated by discounting the expected future cash flows using the bank's and/or the associations' 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 current loan origination rates as well as on management estimates of credit risk, management has no basis to determine whether the fair values presented would be indicative of the assumptions and adjustments that a purchaser of System loans would seek in an actual sale, which could be less.

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

Fair value of loans in a nonaccrual status which are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

D. Bonds and Notes:

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

E. Subordinated Debt:

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

F. Derivative Assets and Liabilities:

Exchange-traded derivatives are valued using quoted prices. However, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters. See Note 15, "Fair Value Measurements."

Note 17 — Derivative Instruments and Hedging Activity

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

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

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

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

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

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

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed upon thresholds; the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency; and the bank also monitors the credit standing of, and levels of exposure to, individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. At December 31, 2011, the bank had credit exposure to counterparties, net of collateral of $1.7 million, as compared with $6.5 million at December 31, 2010.

The table below presents the credit ratings of counterparties to whom the bank has credit exposure at December 31, 2011:

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

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the district's overall interest rate risk-management strategies. The bank enters into interest rate swaps classified as fair value hedges primarily to convert a portion of its non-prepayable fixed-rate long-term debt to floating-rate debt.

Fair Value Hedges:

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedge item (principally, debt securities) attributable to the hedged risk are recognized in current earnings. The bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. Accordingly, no gain or loss is recognized in earnings.

Cash Flow Hedges:

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

Derivatives not Designated as Hedges:

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

Fair Value of Derivative Instruments:

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

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

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

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

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

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

December 31, 2011 *(dollars in millions)*	Maturities of 2011 Derivative Products and Other Financial Instruments 2012	2013	2014	2015	2016	Subsequent Years	Total	Fair Value
Total debt obligations:								
Fixed rate	$ 2,925	$ 1,756	$ 1,818	$ 1,056	$ 1,114	$ 1,982	$ 10,651	$ 10,868
Weighted average interest rate	0.67%	0.99%	1.13%	1.72%	1.89%	3.06%	1.48%	
Variable rate	$ 5,120	$ 275	$ —	$ —	$ —	$ —	$ 5,395	$ 5,401
Weighted average interest rate	0.55%	0.26%	—	—	—	—	0.54%	
Total debt obligations	$ 8,045	$ 2,031	$ 1,818	$ 1,056	$ 1,114	$ 1,982	$ 16,046	$ 16,269
Weighted average interest rate	0.59%	0.89%	1.13%	1.72%	1.89%	3.06%	1.16%	
Derivative instruments:								
Receive fixed swaps								
Notional value	$ 75	$ 100	$ —	$ —	$ —	$ —	$ 175	$ —
Weighted average receive rate	2.23%	0.28%	—	—	—	—	1.17%	
Weighted average pay rate	0.28%	< 0.01%	—	—	—	—	0.12%	
Pay fixed swaps								
Notional value	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	
Interest rate caps								
Notional value	$ —	$ —	$ 130	$ 325	$ 140	$ 50	$ 645	$ 1
Weighted average receive rate	—	—	—	—	—	—	—	
Weighted average pay rate	—	—	—	—	—	—	—	

Note 18 — Selected Quarterly Financial Information (Unaudited)

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

	2011				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 153,927**	**$ 151,021**	**$ 148,266**	**$ 154,842**	**$ 608,056**
Provision for loan losses	**20,983**	**4,290**	**12,837**	**6,938**	**45,048**
Noninterest expense, net	**42,299**	**46,864**	**39,524**	**65,655**	**194,342**
Net income	**$ 90,645**	**$ 99,867**	**$ 95,905**	**$ 82,249**	**$ 368,666**

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 138,246	$ 142,137	$ 144,350	$ 155,437	$ 580,170
Provision for loan losses	22,883	25,585	60,781	32,208	141,457
Noninterest expense, net	27,283	41,788	34,298	60,027	163,396
Net income	$ 88,080	$ 74,764	$ 49,271	$ 63,202	$ 275,317

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 124,987	$ 128,882	$ 136,141	$ 145,782	$ 535,792
Provision for loan losses	31,560	43,496	61,809	35,275	172,140
Noninterest expense, net	43,551	39,433	34,198	48,046	165,228
Net income	$ 49,876	$ 45,953	$ 40,134	$ 62,461	$ 198,424

Note 19 — 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. The multiemployer structure of the district's defined benefit plan results in the recording of this plan only upon combination.

	Year Ended December 31,		
Balance Sheet Data	**2011**	2010	2009
Cash and federal funds sold	**$ 445,354**	$ 457,304	$ 490,915
Investment securities	**3,160,683**	3,076,946	2,143,485
Loans			
To associations	**6,972,663**	7,530,019	8,304,420
To others	**3,314,714**	2,934,015	2,728,694
Less allowance for loan losses	**15,659**	28,678	31,602
Net loans	**10,271,718**	10,435,356	11,001,512
Accrued interest receivable	**41,314**	45,298	48,709
Other property owned, net	**28,748**	2,838	639
Other assets	**101,417**	90,461	91,242
Total assets	**$ 14,049,234**	$14,108,203	$ 13,776,502
Bonds and notes	**$ 12,645,541**	$ 12,779,932	$ 12,769,479
Subordinated debt	**50,000**	50,000	50,000
Other liabilities	**143,337**	127,413	135,731
Total liabilities	**12,838,878**	12,957,345	12,955,210
Preferred stock	**482,000**	482,000	200,000
Capital stock	**216,839**	228,399	237,361
Allocated retained earnings	**14,438**	11,144	8,029
Unallocated retained earnings	**471,933**	407,821	365,031
Accumulated other comprehensive income	**25,146**	21,494	10,871
Total members' equity	**1,210,356**	1,150,858	821,292
Total liabilities and members' equity	**$ 14,049,234**	$ 14,108,203	$13,776,502

	Year Ended December 31,		
Income Statement	**2011**	2010	2009
Interest income	**$ 422,479**	$ 483,257	$ 565,384
Interest expense	**195,650**	270,737	396,172
Net interest income	**226,829**	212,520	169,212
Provision for credit losses	**16,465**	28,523	33,648
Net interest income after provision for credit losses	**210,364**	183,997	135,564
Noninterest income	**28,685**	44,746	38,312
Other expense	**64,853**	60,293	67,268
Net income	**$ 174,196**	$ 168,450	$ 106,608

Note 20 — Association Mergers

Effective July 1, 2010, AgCredit of South Texas, ACA headquartered in Weslaco, Texas, was acquired by Texas AgFinance, FCS headquartered in Robstown, Texas. The continuing association uses the Texas AgFinance, FCS name and is headquartered in Robstown, Texas. Effective December 1, 2010, Louisiana Ag Credit, ACA headquartered in Arcadia, Louisiana, was acquired by Southern AgCredit, ACA headquartered in Ridgeland, Mississippi. The continuing association uses the Southern AgCredit, ACA name and is headquartered in Ridgeland, Mississippi. The primary reason to merge was based on a determination that the combined organization should be financially and operationally stronger than either association on a stand-alone basis.

According to authoritative accounting guidance, the acquisition method of accounting is required for mergers of cooperatives occurring after January 1, 2009. As the accounting acquirers, Texas AgFinance and Southern AgCredit accounted for the transaction by using their historical information and accounting policies and recording the identifiable assets and liabilities of AgCredit of South Texas and Louisiana Ag Credit as of the acquisition date of July 1, 2010, and December 1, 2010, at their respective fair values. The associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of any other equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of AgCredit of South Texas that were converted into shares of Texas AgFinance and the shares of Louisiana Ag Credit that were converted into shares of Southern AgCredit had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Management believes that because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Texas AgFinance and Southern AgCredit identified and estimated the acquisition date fair value of the equity interest of AgCredit of South Texas and Louisiana Ag Credit instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from AgCredit of South Texas and Louisiana Ag Credit, were measured based on various estimates using assumptions that Texas AgFinance management and Southern AgCredit management believe are reasonable utilizing information available at the merger date. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, Texas AgFinance management and Southern AgCredit management determined goodwill was immaterial and therefore recorded no goodwill. The excess value received by Texas AgFinance from AgCredit of South Texas and the excess value received by Southern AgCredit from Louisiana Ag Credit over par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in-capital.

The following table summarizes the fair values of the identifiable assets acquired and liabilities Texas AgFinance assumed from AgCredit of South Texas and Southern AgCredit assumed from Louisiana Ag Credit upon acquisition:

	Fair Value	Contractual Amount	Contractual Amounts not Expected to be Collected
Loans	$ 172,293	$ 177,797	$ 2,726
Total assets	181,357	—	—
Notes payable	153,011	153,065	—
Total liabilities	156,905	—	—
Net assets acquired	24,452	—	—

As AgCredit of South Texas (the acquired entity) and Louisiana Ag Credit (the acquired entity) were affiliated associations of the district prior to the business combination with Texas AgFinance and Southern AgCredit, AgCredit of South Texas's and Louisiana Ag Credit's financial position and results of operations are included in the combined district financial statements for 2010 through the merger date, as well as for the year ending December 31, 2009. AgCredit of South Texas's and Louisiana Ag Credit's results of operations for the pre-merger periods were as follows:

	2010	2009
Net interest income	$ 3,635	$ 6,141
Provision for loan losses	979	2,750
Noninterest income	823	1,635
Noninterest expense	3,251	5,930
(Benefit from) provision for income taxes	(216)	(52)
Net income (loss)	$ 444	$ (852)

Note 21 — Subsequent Events

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

Disclosure Information and Index

Disclosures Required by Farm Credit Administration Regulations

Description of Business

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

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

Board of Directors and Senior Officers

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

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

Directors

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

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

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

Joe R. Crawford, 74, began his first term on the board of directors in 1998, and his current term expires December 31, 2012. Previously, he was a member of the FLBA of North Alabama Board of Directors. He also served on the Tenth District FLBA Legislative Advisory Committee. Crawford is a member of the bank's audit and compensation committees. He is a director on the board and an audit committee member of the Federal Farm Credit Banks Funding Corporation, and his term will expire March 14, 2012. He is also a member and past president of the Alabama Cattlemen's Association and a member of the National Cattlemen's Beef Association, the Alabama Farm Bureau and the Alabama Farmers Federation, all of which are agriculture trade organizations.

Crawford, who lives near Baileyton, Alabama, has owned and operated a cattle business since 1968.

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

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

William F. Staats, 74, joined the board of directors in 1997 as an outside director, and his current term expires December 31, 2014. Staats is Louisiana Bankers Association Chair Emeritus of Banking and Professor Emeritus, Department of Finance, at Louisiana State University, where he held the Hermann Moyse Jr. Distinguished Professorship. Previously, he was vice president and corporate secretary of the Federal Reserve Bank of Philadelphia. Staats also serves on the boards of the Money Management International Financial Education Foundation and Money Management International, both of which are credit counseling agencies. He also serves on the boards of SevenOaks Capital Associates, LLC, a diversified financial services company providing working capital to trucking firms, and Lakeside Bank, a community bank in Lake Charles, Louisiana. He is vice chairman of the Farm Credit System audit committee, is chairman of the bank's audit committee, serves on the bank's compensation committee, and is the bank's designated financial expert. He is also a member of the Texas Lutheran University Board of Regents.

Committees

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

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

Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. An annual compensation amount is considered as a retainer for all services performed by the director in an official capacity during the year except for extraordinary services for which additional compensation may be paid. The annual retainer fee is to be paid in equal monthly installments. Compensation for 2011 was paid at the rate of $52,800 per year, payable at $4,400 per month. In addition to days served at board meetings, directors may serve additional days on other official assignments and under exceptional circumstances where extraordinary time and effort are involved, the board may approve additional compensation, not to exceed 30 percent of the annual maximum allowable by FCA regulations. Additional compensation was approved by the board during 2011 to Ms. Flores for participation as faculty in a panel discussion at a Farm Credit Council Director Leadership Conference held in December 2011. The additional compensation of $3,000 was paid in January 2012 and is not reflected in the table below. No director received non-cash compensation exceeding $5,000 in 2011. Total cash compensation paid to all directors as a group during 2011 was $369,600. Information for each director for the year ended December 31, 2011, is provided below:

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

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

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

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

Senior Officers of the Bank

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

Compensation Discussion and Analysis — Senior Officers

Overview

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

- Competent senior officers can be attracted, developed and retained for the delivery of performance that will result in the attainment of the bank's strategic business plan;
- Operational activities that produce bank efficiencies and produce financial results that maximize the principles of a cooperative organization will be rewarded;
- Consistent application of compensation programs will link compensation to bank performance and levels of accountability for the achievement of the bank's strategies and programs, without encouraging excessive risk; and,
- Market-based base salaries, benefits and bonus compensation will position the bank to be a competitive employer in the financial services marketplace.

With data derived from an independent third-party compensation consultant, the compensation committee considers market salary data of competition in the financial services sector to ensure that base salaries and bonus plan structures are in line with market-comparable positions with similarly situated financial institutions. This study provides the basis for actions by the compensation committee to approve the compensation level and bonus plan structure of the bank's chief executive officer (CEO) annually.

Additionally, the compensation committee reviews the compensation policies and plans for the other senior officers of the bank and other employees, and approves the overall compensation program for the senior officers. The bank's compensation program encompasses four primary elements: (1) base salary, (2) discretionary bonus compensation, (3) bank-paid retirement benefits and (4) secondary benefits such as an executive physical program, annual leave, bank-paid life insurance, subsidized health insurance and bank-provided vehicles.

Chief Executive Officer (CEO) Compensation Table and Policy

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

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

Summary Compensation Table for the CEO

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

(a) Gross salary for year presented.

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

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

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

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

Pension Benefits Table for the CEO

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

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

Pension Benefits Table Narrative Disclosure for the CEO

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

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

Compensation of Other Senior Officers of the Bank

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

Summary Compensation Table

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

(a) Gross salary, including retention plan compensation for certain senior officers.

(b) Bonuses paid within the first 30 days of the subsequent calendar year.

(c) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance. For 2011, Deferred/Perquisites also includes payments of $1,478,241 to certain senior officers from the discontinuation of the Supplemental Pension Plan effective January 16, 2011, with payment to the respective individuals on January 31, 2012, and educational assistance paid on behalf of a senior officer. For 2010, Deferred/Perquisites also includes payments of $5,078,396 to certain senior officers that withdrew from the Supplemental Pension Plan in 2010.

(d) Other for 2010 reflects an amount paid to one senior officer for their remaining annual leave hours at retirement. No such amounts were paid or earned in 2011 or 2009.

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

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

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

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

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

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

Description of Property

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility located at 4801 Plaza on the Lake Drive, Austin, Texas. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space. The district associations own 15 headquarter locations and lease two. There are 130 owned and 64 leased association branch locations. The bank's and associations' investment in property is further detailed in Note 5, "Premises and Equipment," to the accompanying combined financial statements.

Legal Proceedings

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

There are no legal proceedings pending against the bank and associations, the outcome of which, in the opinion of legal counsel and management, would materially affect the financial position of the bank and associations. Note 13, "Commitments and Contingencies," to the accompanying financial statements outlines the bank's position with regard to possible contingencies at December 31, 2011.

Description of Capital Structure

The bank and associations are authorized to issue and retire certain classes of capital stock and retained earnings in the management of their capital structures. Details of the capital structures are described in Note 9, "Members' Equity," to the accompanying combined financial statements, and in the "Management's Discussion and Analysis" of the district included in this annual report to stockholders.

Description of Liabilities

The bank's debt outstanding is described in Note 8, "Bonds and Notes," to the accompanying financial statements. The bank's contingent liabilities are described in Note 13, "Commitments and Contingencies," to the accompanying financial statements.

Selected Financial Data

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

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

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

Transactions With Senior Officers and Directors

The policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 12, "Related Party Transactions," to the accompanying financial statements.

Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was $244,215, $305,160 and $364,620 for 2011, 2010 and 2009, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Allowance for Loan Losses," and Note 9, "Members' Equity."

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

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

Relationship With Public Accountants

The district's auditors are PricewaterhouseCoopers LLP. There were no changes in independent public accountants since the prior annual report to stockholders, and there were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

During 2011, district entities paid their independent public accountants $1.7 million for audit services and $116 thousand for tax services. During 2011, district entities incurred fees of $182 thousand for non-audit services provided by the independent public accountants. The non-audit services for the bank and combined district included tax return preparation, Phase II lending system package selection and service provider due diligence, and third-party assurance readiness assessment. Non-audit services provided during 2011 but still ongoing into 2012 include IT-related governance procedures.

Financial Statements

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

The Farm Credit Bank of Texas and its affiliated associations' (district) annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720 or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports can be requested by e-mailing fcb@farmcreditbank.com. The district's quarterly reports are available approximately 40 days after the end of each fiscal quarter. The district's annual report will be posted on the bank's website (at www.farmcreditbank.com), within 75 calendar days of the end of the district fiscal year. This posting coincides with an electronic version of the report being provided to its regulator, the Farm Credit Administration. Within 90 calendar days of the end of the district fiscal year, a copy of the district's annual report will be provided to its stockholders.

Borrower Information Regulations

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

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

Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products (YBS)

In line with our mission, we have policies and programs for making credit available to young, beginning and small farmers and ranchers.

The definitions for YBS, as prescribed by FCA regulations, are provided below.

Young Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer or Rancher – A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

For the purposes of YBS, the term "loan" means an extension of, or a commitment to extend, credit authorized under the Farm Credit Act, whether it results from direct negotiations between a lender and a borrower or is purchased from, or discounted for, another lender, including participation interests. A farmer/rancher may be included in multiple categories as they are included in each category in which the definition is met.

The bank and associations' efforts to respond to the credit and related needs of YBS borrowers are evidenced by the following table:

(dollars in thousands)	At December 31, 2011 Number of Loans	Volume
Total loans and commitments	67,211	$ 19,616,496
Loans and commitments to young farmers and ranchers	12,062	$ 1,794,248
Percent of loans and commitments to young farmers and ranchers	17.9%	9.1%
Loans and commitments to beginning farmers and ranchers	34,044	$ 6,812,568
Percent of loans and commitments to beginning farmers and ranchers	50.7%	34.7%

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

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

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

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

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

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