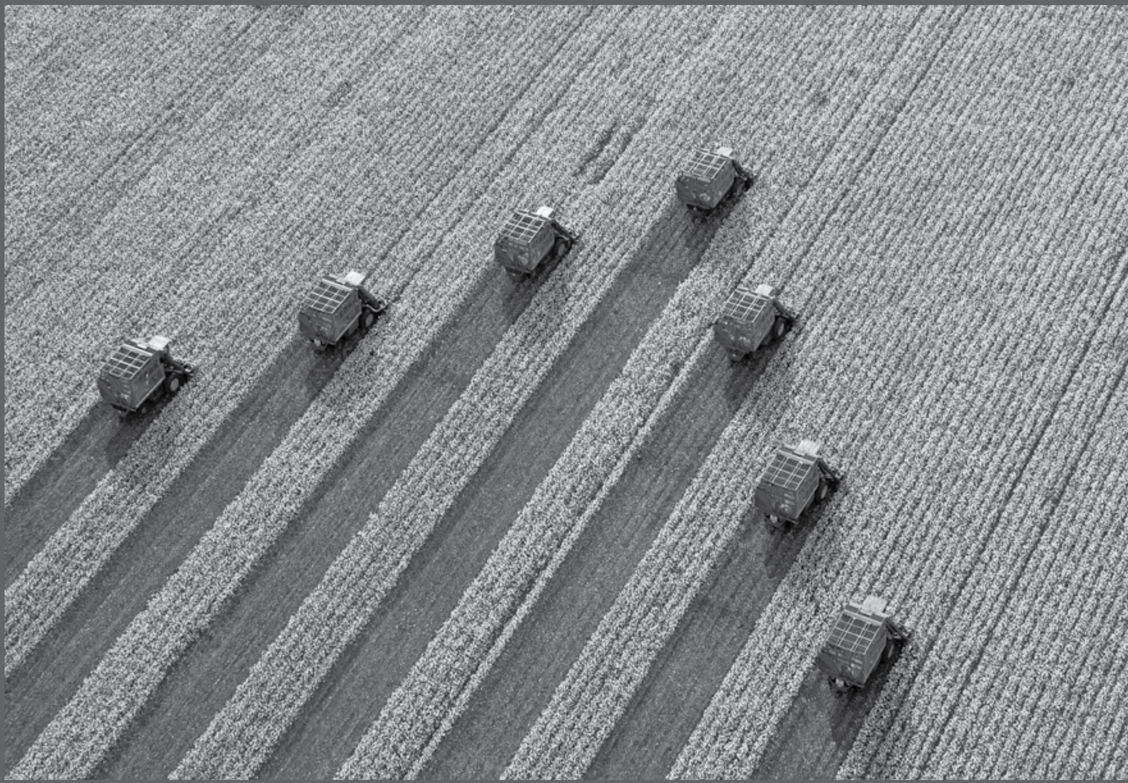
STAYING THE COURSE



2012 SECOND QUARTER REPORT

TEXAS FARM CREDIT DISTRICT

JUNE 30, 2012

SECOND QUARTER 2012

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

(dollars in thousands, except as noted)

The following discussion reviews the combined financial condition and results of operations of the Farm Credit Bank of Texas (bank), its affiliated Federal Land Credit Association (FLCA) and affiliated Agricultural Credit Associations (ACAs) for the three and six months ended June 30, 2012. The FLCA and ACAs are collectively referred to as associations, and the bank and its affiliated associations are collectively referred to as the district. These comments should be read in conjunction with the accompanying combined financial statements and footnotes, along with the 2011 Annual Report to stockholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended June 30, 2012, was $126,603, an increase of $26,736, or 26.8 percent, over the same period of 2011. The $26,736 increase in net income for the second quarter of 2012 consisted of a $25,046 increase in noninterest income, a $2,732 increase in net interest income, a $459 decrease in noninterest expense, and a $84 decrease in provision for income taxes, offset by a $1,585 increase in provision for loan losses.

Net income for the six months ended June 30, 2012, was $222,580, an increase of $32,068, or 16.8 percent, over the same period of 2011. The increase in net income for the six months ended June 30, 2012, consisted of a $29,999 increase in noninterest income, a $4,259 decrease in provision for loan losses, and a $325 increase in net interest income, offset by a $1,961 increase in noninterest expense and a $554 increase in provision for income taxes.

Net Interest Income

Net interest income for the three months ended June 30, 2012, was $153,753, an increase of $2,732 over the same period of 2011. The increase in net interest income was due to the effects of an $840.0 million increase in average earning assets, offset by a decrease in the net interest rate spread of 4 basis points to 2.97 percent. The increase in earning assets was due to increases in the bank's participation loan and investment portfolios, offset by the decrease in association average loan volume. The decrease in the interest rate spread was due mainly to a 30-basis-point decrease in the effective rate on earning assets, offset by a 26-basis-point decrease in the effective rate of debt, made possible by the bank's ability to call higher-cost debt and replace it with lower-cost debt in the last year. The decrease in the interest rate spread is largely the result of borrowers' repricings and market-based compression of interest rate spreads. Interest rate spreads increased at the district's associations, offset by the effects of a decrease in association average loan volume.

Net interest income for the six months ended June 30, 2012, was $305,273, an increase of $325, or 0.1 percent, over the same period of 2011. The increase was primarily the result of a $516.8 million increase in combined district average earning assets, offset by an 8-basis-point decrease in the net interest rate spread to 2.98 percent for the six months ended June 30, 2012. The increase in average earning assets was due to increases in the bank's participation loan and investment portfolios, offset by the decrease in average association loan volume. The decrease in the net interest rate spread included a 26-basis-point decrease in the effective rate on earning assets, net of an 18-basis-point decrease in the effective cost of debt. The effective rates on earning assets have decreased due to borrowers' repricings on earning assets in a lower-interest-rate environment. Also, there has been compression in interest rate spreads due to current conditions in the financial markets. Average 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. Interest expense for the first six months of 2012 included a $4,476 increase in concession expenses recognized on callable debt related to a $1.7 billion increase in debt called in the first six months of 2012, compared to the same period in 2011. The district will benefit prospectively from calling debt and replacing it with lower cost debt; however, the benefit is due to the current low interest rate environment and is not expected to continue indefinitely.

Provision for Loan Losses

The district's provision for credit losses for the quarter ended June 30, 2012, totaled $5,875, an increase of $1,585 from the $4,290 provision for the second quarter of 2011. Provision for loan losses and provision for losses on standby letters of credit and unfunded commitments for the six months ended June 30, 2012, was $21,014, a decrease of $4,259, or 16.9 percent, from the $25,273 provision for the first six months of 2011. The district's provision for loan losses consisted primarily of specific allowances on particular loans and exposures. The provisions recorded for the six months ended June 30, 2012, included significant provisions related to meat packing plants, ethanol, land in transition and livestock, as well as other borrowers impacted by the overall downturn in the general economy.

Noninterest Income

Noninterest income for the quarter ended June 30, 2012, was $35,583, an increase of $25,046, or 237.7 percent, from the same period of 2011. The increase for the second quarter of 2012 over the same period of 2011 was due mainly to $22,862 in refunds from the Farm Credit System Insurance Corporation (FCSIC) related to reserves in excess of their required secure base amount, a $1,553 increase in fair value on loans purchased in the secondary market, a $237 increase in loan-related fee income, a $192 decrease in credit losses recognized on other-than-temporarily impaired investments and a $376 increase in other noninterest items, collectively, offset by a $174 decrease in patronage income. The bank has elected to use a fair value option on certain loans purchased in the secondary market. Changes in the fair values of those loans are included in earnings. As discussed in the "Investments" section of this Management's Discussion and Analysis, the bank performs other-than-temporary impairment assessments on investment securities based on evaluations of both current and future market and credit conditions at each quarter end.

Noninterest income for the six months ended June 30, 2012, was $49,699, an increase of $29,999, or 152.3 percent, from the same period of 2011. The increase was primarily due to $22,862 in refunds from the FCSIC related to reserves in excess of their required secure base amount, a $2,919 increase in fees for loan-related services, a $2,086 decrease in credit losses recognized on other-than-temporarily impaired investments, a $1,553 increase in fair value on loans purchased in the secondary market, a $70 increase in patronage and a $509 increase in all other noninterest items, collectively. The $2,086 decrease in credit losses recognized on other-than-temporarily impaired investments reflects the difference between the credit losses of $2,087 and $1 recognized during the six months ended June 30, 2011 and 2012, respectively. Projected credit losses for other-than-temporarily impaired investments remained relatively consistent with prior periods' projections, resulting in a small amount of additional credit impairment at June 30, 2012.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2012, was $56,631, a decrease of $459, or 0.8 percent, over the same period of 2011. The decrease is primarily attributable to a $3,969 decrease in net losses on other property owned (OPO) and a $340 decrease in premiums to the Insurance Fund, offset by a $2,410 increase in salaries and benefits, a $1,134 increase in other operating expenses and a $306 increase in occupancy and equipment. The decrease in net losses on OPO included a $4,214 decrease in provisions for losses on OPO at the district's associations and a $426 decrease in net expenses on OPO, offset by a $357 increase in provision for losses on OPO at the bank and a $312 decrease in gains on sales of OPO. Premiums to the Insurance Fund decreased due primarily to the effects of a premium rate decrease from the 6-basis-point rate in 2011 to a rate of 5 basis points for 2012. The increase in salaries and benefits included a $1,358 increase in pension and retirement expenses, a $1,193 increase in compensation and related payroll taxes and a $161 increase in all other benefits, collectively, offset by a $302 increase in capitalization of salaries and benefits related to internal development of software at the bank. The increase in pension and retirement expenses included a $1,953 increase in the district's defined benefit plan, net of an $825 decrease in expenses related to the bank's supplemental defined benefit pension plan, which was terminated in 2011. The increase in other operating expenses included a $326 increase in professional and contract services, a $207 increase in advertising and member relations, a $180 increase in training expense, a $167 increase in travel expense, a $148 increase in directors' expense, and a $106 increase in all other operating expenses, collectively.

Noninterest expense for the six months ended June 30, 2012, was $111,019, an increase of $1,961, or 1.8 percent, over the same period of 2011. The increase is primarily attributable to a $4,528 increase in salaries and benefits, a $2,492 increase in other operating expenses and a $374 increase in occupancy and equipment expenses, offset by a $4,695 decrease in net losses on OPO and a $738 decrease in premiums to the Insurance Fund. The increase in salaries and benefits included a $2,915 increase in pension and retirement expenses, a $2,130 increase in compensation and related payroll taxes (primarily at the district's associations), and a $29 net increase in other benefits, offset by a $546 increase in capitalization of salaries and benefits related to internal development of software at the bank. The increase in pension and retirement expense included a $3,906 increase in the district's defined benefit pension plan, net of a $1,651 decrease in the bank's supplemental defined benefit pension plan, which was terminated in 2011. The increase in other operating expenses included a $1,020 increase in advertising and member relations, a $391 increase in assessments from the Funding Corporation, a $388 increase in training expenses, a $312 increase in travel expense, a $255 increase in directors' expense and a $126 net increase in all other operating expenses, collectively. The decrease in losses on OPO included a $4,746 decrease in provision for losses on OPO at the district's associations and a $1,821 increase in gains on sales of OPO at the district associations, offset by a $1,939 increase in provision for losses on OPO at the bank, offset by a $204 decrease in net expenses on OPO. Premiums to the Insurance Fund decreased due primarily to the effects of a premium rate decrease from the 6-basis-point rate in 2011 to a rate of 5 basis points for 2012.

Key results of operations comparisons:

	Annualized for the Six Months Ended 6/30/2012	Annualized for the Six Months Ended 6/30/2011
Return on average assets	**2.23%**	1.97%
Return on average members' equity	**13.94%**	12.53%
Net interest income as a percentage of average earning assets	**3.17%**	3.26%
Charge-offs, net of recoveries, to average loans	**0.35%**	0.44%
Operating expenses as a percentage of net interest income and noninterest income	**29.85%**	30.59%
Operating expenses as a percentage of average earning assets	**1.10%**	1.06%

Other Comprehensive Income (Loss)

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

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

The table below summarizes changes in elements included in other comprehensive income for the six months ended June 30:

	Six Months Ended June 30,	
	2012	2011
Change in unrealized gains on available-for-sale securities		
(Decrease) increase in unrealized gains on investment securities	**$ (3,366)**	$ 3,646
Decrease (increase) in noncredit portion of other-than-temporary impairment (OTTI) losses	**1,665**	(725)
Reclassification adjustment for OTTI credit losses included in net income	**1**	2,087
Net change in unrealized gains (losses) on securities	**(1,700)**	5,008
Change in retirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(879)**	(846)
Amortization of net losses	**7,073**	3,640
Amortization of net loss due to curtailment/termination	**-**	1,066
Net change in retirement benefit plans	**6,194**	3,860
Change in cash flow derivative instruments		
Unrealized losses on interest rate caps	**(892)**	(2,491)
Gains on cash flow interest rate swaps	**-**	5
Reclassification of loss recognized in interest expense	**169**	7
Net change in cash flow derivative instruments	**(723)**	(2,479)
Other comprehensive income gain	**$ 3,771**	$ 6,389

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at June 30, 2012, was $16,394,161, an increase of $770,148, or 4.9 percent, from $15,624,013 at December 31, 2011, and an increase of $844,241, or 5.4 percent, from $15,549,920 at June 30, 2011. The increase in the loan portfolio during the first six months of 2012 was due to growth in the bank's participation loan portfolio, and an increase in loans at district associations.

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 96.4 percent at June 30, 2012, 95.4 percent at December 31, 2011, and 93.8 percent at June 30, 2011. Nonaccrual loans for the district were 2.32 percent of total loans at June 30, 2012, compared to 2.92 percent at December 31, 2011, and 4.33 percent at June 30, 2011.

Total district high-risk asset volume decreased by $66.2 million, or 11.4 percent, to $513.1 million at June 30, 2012, from $579.3 million at December 31, 2011.

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

		Increase (Decrease)		
	June 30, 2012	$	%	December 31, 2011
Nonaccrual loans	**$ 379.6**	$ (75.9)	(16.7) %	$ 455.5
Formally restructured loans	**30.8**	1.2	4.1	29.6
Loans 90 days past due and still accruing interest	**5.4**	(0.9)	(14.3)	6.3
Total impaired loans	**415.8**	(75.6)	(15.4)	491.4
Other property owned, net	**97.3**	9.4	10.7	87.9
Total high-risk assets	**$ 513.1**	$ (66.2)	(11.4) %	$ 579.3

The $75.9 million decrease in nonaccrual loans from December 31, 2011, to June 30, 2012, is primarily the result of $31.0 million in charge-offs, repayments and transfers to other property owned. The district had significant decreases in the land in transition, ethanol and livestock sectors. At June 30, 2012, $197.3 million, or 52.0 percent, of the district's nonaccrual loans were considered current as to principal and interest. Continued satisfactory payment performance on these loans may indicate potential for a return to accrual status. At June 30, 2012, the district had $66.5 million in nonaccrual loans on which interest income is recognized upon cash receipts, compared to $72.1 million at December 31, 2011. Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans past due 90 days or more and still accruing interest, constituted 2.54 percent of total loans at June 30, 2012, and 3.14 percent of total loans at December 31, 2011.

The $105,070 allowance for loan losses at June 30, 2012, constituted 0.64 percent of total loans and was a decrease of $9,047, or 7.9 percent, from the allowance for loan losses at December 31, 2011. The decrease was primarily due to charge-offs, net of recoveries, of $27.8 million, which was greater than the $21.0 million in provisions for loan losses. Additional information about the allowance for loan losses is included in Note 3, "Loans and Reserves for Credit Losses." The allowance for loan losses as a percentage of impaired loans was 25.3 percent as of June 30, 2012, as compared to 23.2 percent as of December 31, 2011. The nature of the security (primarily first lien real estate) supporting many of the impaired loans is considered in the determination of necessary allowances for loan losses. The district also had reserves for losses on letters of credit and unfunded commitments totaling $3.2 million at June 30, 2012, which included a specific reserve for one letter of credit and a general reserve for credit losses on letters of credit and unfunded commitments, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

Liquidity and Funding Sources

Cash and available-for-sale investment securities totaled $3,996,656, or 19.3 percent, of total assets at June 30, 2012, compared to $3,741,334, or 19.0 percent, at December 31, 2011, an increase of $255,322, or 6.8 percent. At June 30, 2012, the district's cash balance was $541,633, an increase of $108,914 from the balance at December 31, 2011. Cash held at the Federal Reserve Bank at June 30, 2012, totaled $526,329, compared to $391,832 at December 31, 2011. The bank maintains levels of cash and other highly liquid assets to meet loan demand, debt servicing and other liquidity needs. At June 30, 2012, the bank had 242 days of liquidity to cover cash flows required for maturing debt obligations. Interest-bearing liabilities, consisting of bonds, notes and subordinated debt, increased by $913,839, or 5.7 percent, from December 31, 2011, to June 30, 2012.

Investments

The district's investments included an available-for-sale portfolio with a fair value of $3.4 billion and a held-to-maturity portfolio recorded at an amortized cost of $82.7 million at June 30, 2012. The available-for-sale investments included a liquidity portfolio and a portfolio of other investments. The district's available-for-sale liquidity portfolio consisted primarily of federal agency collateralized mortgage-backed securities, corporate debt, other collateralized mortgage-backed securities and asset-backed securities. The available-for-sale portfolio of other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) that had a fair value of $127.1 million. The district's held-to-maturity portfolio consisted of Farmer Mac AMBS held by district associations which had an amortized cost of $82.7 million and a fair value of $81.9 million.

The Farmer Mac AMBS are backed by loans originated by the associations and previously held by the associations under Farmer Mac's long-term standby commitments to purchase agreements. Farmer Mac is a government-sponsored enterprise (GSE) and is examined and regulated by FCA. It provides secondary market arrangements for agricultural and rural home mortgage loans that meet certain underwriting standards. Farmer Mac is authorized to provide loan guarantees and to be a direct pooler of agricultural mortgage loans. Farmer Mac is owned by both System and non-System investors, and its board of directors has both System and non-System representation. Farmer Mac is not liable for any debt or obligation of any System institution, and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac.

The following table summarizes the district's available-for-sale liquidity portfolio holdings:

	June 30, 2012		December 31, 2011	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
FDIC-guaranteed corporate debt	**$ -**	**$ -**	$ 169,871	$ 169,999
Corporate debt	**93,301**	**93,323**	83,306	82,464
Federal agency collateralized mortgage-backed securities:				
GNMA	**1,630,487**	**1,656,152**	1,689,535	1,719,158
FNMA and FHLMC	**1,384,171**	**1,395,115**	1,011,508	1,023,548
Other collateralized mortgage-backed securities	**44,480**	**39,092**	49,208	40,872
Asset-backed securities	**41,218**	**40,168**	15,080	13,721
Total available-for-sale investments	**$ 3,193,657**	**$ 3,223,850**	$ 3,018,508	$ 3,049,762

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

	June 30, 2012		December 31, 2011	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 129,490**	**$ 127,173**	$ 112,597	$ 110,921

Federal agency collateralized mortgage-backed securities comprised 94.6 percent of the district's liquidity portfolio. Pricing on agency securities remains strong due to stabilization in the agency market and increased demand for quality agency structures. The increase in asset-backed securities (ABS) was due to purchases of three equipment-related ABS totaling $37,000 in 2012, net of paydowns and maturities. The increase in the district's available-for-sale other investments portfolio of agricultural mortgage-backed securities (AMBS) included the bank's purchase of an AMBS from a district association in January 2012, net of repayments on available-for-sale AMBS during the quarter ended June 30, 2012. The bank's AMBS are included in its available-for-sale other investments portfolio; association AMBS investments are included in their held-to-maturity investments portfolios.

At June 30, 2012, the bank had five mortgage-backed securities (MBS) and two ABS that were considered other-than-temporarily impaired (OTTI). During the six months ended June 30, 2012, there was a credit loss on one OTTI investment which totaled $1. The non-credit-related unrealized losses on the bank's other-than-temporarily impaired investments, totaling $4.5 million, is included in accumulated other comprehensive income. The bank performs other-than-temporary impairment assessments on investment securities based on evaluations of both current and future market and credit conditions at each quarter end. The process for evaluation of impairment of investments is more fully discussed in Note 2, "Investments."

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

At June 30, 2012, the bank held 11 investments that were ineligible for liquidity purposes by FCA regulations, due to credit ratings that were below AAA rating by all NRSROs. Those ineligible securities had an amortized cost basis of $43,366 and a fair value of $37,556 at June 30, 2012.

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

	Eligible				Ineligible				
June 30, 2012	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated	AA/Aa	BB/Ba	CCC/Caa	CC/Ca	Total
FDIC-guaranteed corporate debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate debt	-	21,420	-	71,903	-	-	-	-	93,323
Federal agency collateralized mortgage-backed securities*									
GNMA	-	-	-	1,656,152	-	-	-	-	1,656,152
FNMA and FHLMC	-	-	-	1,395,115	-	-	-	-	1,395,115
Other collateralized mortgage-backed securities	-	-	-	3,148	6,202	8,886	18,442	2,414	39,092
Asset-backed securities	9,033	-	27,924	1,599	-	-	1,612	-	40,168
Total	$ 9,033	$ 21,420	$ 27,924	$ 3,127,917	$ 6,202	$ 8,886	$ 20,054	$ 2,414	$ 3,223,850

	Eligible				Ineligible				
December 31, 2011	AAA/Aaa	AA/Aa	F1/P1/A1	Split Rated	AA/Aa	BB/Ba	CCC/Caa	CC/Ca	Total
FDIC-guaranteed corporate debt*	$ 30,045	$ -	$ -	$ 139,954	$ -	$ -	$ -	$ -	$ 169,999
Corporate debt	-	67,531	-	14,933	-	-	-	-	82,464
Federal agency collateralized mortgage-backed securities*									
GNMA	-	-	-	1,719,158	-	-	-	-	1,719,158
FNMA and FHLMC	-	-	-	1,023,548	-	-	-	-	1,023,548
Other collateralized mortgage-backed securities	-	-	-	3,066	6,273	8,684	20,207	2,642	40,872
Asset-backed securities	10,271	-	-	1,835	-	-	1,615	-	13,721
Total	$ 40,316	$ 67,531	$ -	$ 2,902,494	$ 6,273	$ 8,684	$ 21,822	$ 2,642	$ 3,049,762

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

Capital Resources

At June 30, 2012, the bank had $482.0 million in preferred stock outstanding, consisting of $182.0 million in Class A cumulative perpetual preferred stock and $300.0 million of Class B noncumulative subordinated perpetual preferred stock.

As of June 30, 2012, the bank and all district associations exceeded all regulatory capital requirements. Total members' equity increased $198,060, or 6.4 percent, from December 31, 2011, to the June 30, 2012, total of $3,302,188. This increase is the result of net income of $222,580 for the six months ended June 30, 2012, and a $3,771 increase in other comprehensive income, offset by dividends on preferred stock totaling $21,881, net stock retirements at district associations of $199, and patronage accruals of $6,211.

Key financial condition comparisons:

	June 30, 2012	December 31, 2011
Members' equity to assets	**15.95%**	15.80%
Total liabilities to members' equity	**5.27:1**	5.33:1
Allowance for loan losses to total loans	**0.64%**	0.73%

OTHER

CONDITIONS IN THE TEXAS DISTRICT

During the second quarter of 2012 improvements in weather patterns have brought cooler temperatures and moisture across most of the western and southern United States encompassing most of the district. Some areas of abnormally dry to exceptional drought continue to impact regions of west and northwestern Texas, New Mexico, and southeastern Alabama, stressing some farming and livestock operations. However, total district pasture and growing conditions particularly in the eastern states and portions of central and eastern Texas have improved significantly versus 2011.

In the areas of the district still impacted by extreme drought, conditions remain fair to poor for both irrigated and dry-land farmers. While fuel prices have decreased in recent months, input costs associated with water, pesticide, and fertilizer could impact some farming operations where drought is still an issue, while the cost of feed will increase production costs of livestock operators. The requirement of crop insurance will continue to play a key role for both dry-land and irrigated farmers, especially for cotton farmers where multi-peril crop insurance provides favorable weather risk mitigation. Most livestock producers in areas of existing drought who have gone through herd liquidation during 2011 will continue to supplement feed with hay. Throughout the district higher commodity prices will help the margins of farming operations; however, corn prices could reach historic levels due to the current drought in the Midwest, and higher feed costs will adversely impact livestock producers and cattle-feeders across the entire district.

As we move forward into the latter half of 2012, favorable weather conditions and strong agricultural commodity prices for crops and livestock will advance the profitability of district portfolios. Risk mitigation tools such as USDA Farm Service Agency guarantees and multi-peril crop insurance continue to provide stability to district portfolios, while high levels of portfolio diversification and borrower non-farm income continue to enhance the credit quality of the existing borrowers.

RATING AGENCY ACTIONS

Moody's Investors Service Rating Actions

On August 2, 2011, Moody's Investors Service affirmed the bank's investment-grade of Aa2 issuer rating. Previously, Moody's had affirmed the bank's A1 subordinated debt rating, A2 cumulative preferred stock rating and A3 noncumulative preferred stock rating, citing the bank's strong credit performance, very high support from the System and very high support from the U.S. government.

Fitch Ratings Actions

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

REGULATORY MATTERS

As of June 30, 2012, FCA had enforcement actions in place against four associations in the district, which have not had, and are not expected to have, a significant impact on the district. Subsequent to June 30, 2012, the FCA terminated the enforcement action against one of the associations.

The undersigned certify that we have reviewed the June 30, 2012, quarterly report of the Farm Credit Bank of Texas and district associations, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

James F. Dodson
Chairman of the Board

Amie Pala
Chief Financial Officer

August 9, 2012

Controls and Procedures

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

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

Larry R. Doyle
Chief Executive Officer

Amie Pala
Chief Financial Officer

August 9, 2012

Combined Balance Sheets

(dollars in thousands)	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash	**$ 541,633**	$ 432,719
Federal funds sold	**21,264**	20,687
Investment securities	**3,433,759**	3,287,928
Loans (includes $61,811 and $0 at fair value held under fair value option)	**16,394,161**	15,624,013
Less allowance for loan losses	**105,070**	114,117
Net loans	**16,289,091**	15,509,896
Accrued interest receivable	**145,934**	141,567
Other property owned, net	**97,325**	87,956
Premises and equipment, net	**66,160**	61,820
Other assets	**105,685**	99,918
Total assets	**$ 20,700,851**	$ 19,642,491
Liabilities and members' equity		
Liabilities		
Bonds and notes, net	**$ 16,959,380**	$ 16,045,541
Subordinated debt	**50,000**	50,000
Accrued interest payable	**36,433**	37,912
Patronage distributions payable	**2,875**	83,440
Preferred stock dividends payable	**21,881**	21,881
Other liabilities	**328,094**	299,589
Total liabilities	**17,398,663**	16,538,363
Commitments and contingent liabilities (Note 2)		
Members' equity		
Preferred stock	**482,000**	482,000
Capital stock and participation certificates	**59,901**	60,024
Allocated retained earnings	**375,247**	374,231
Unallocated retained earnings	**2,450,923**	2,257,527
Additional paid-in-capital	**22,737**	22,737
Accumulated other comprehensive loss	**(88,620)**	(92,391)
Total members' equity	**3,302,188**	3,104,128
Total liabilities and members' equity	**$ 20,700,851**	$ 19,642,491

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended June 30, 2012	Quarter Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest Income				
Investment securities	**$ 14,359**	$ 16,481	**$ 30,750**	$ 33,900
Loans	**187,441**	191,520	**374,399**	383,583
Total interest income	**201,800**	208,001	**405,149**	417,483
Interest Expense				
Bonds, notes and subordinated debt	**41,684**	50,834	**86,922**	99,972
Notes payable and other	**6,363**	6,146	**12,954**	12,563
Total interest expense	**48,047**	56,980	**99,876**	112,535
Net interest income	**153,753**	151,021	**305,273**	304,948
Provision for loan losses	**5,875**	4,290	**21,014**	25,273
Net interest income after provision for loan losses	**147,878**	146,731	**284,259**	279,675
Noninterest Income				
Patronage income	**4,183**	4,357	**9,169**	9,099
Loan-related fees	**6,285**	6,048	**14,134**	11,215
Refunds from Farm Credit System Insurance Corporation	**22,862**	-	**22,862**	-
Gain on loans held under fair value option	**1,560**	-	**1,560**	-
Miscellaneous income, net	**693**	324	**1,975**	1,473
Impairment losses on investments				
Total other-than-temporary impairment gains (losses)	**21**	(645)	**(1)**	(1,110)
Less: portion of gain (loss) recognized in other comprehensive income	**21**	(453)	**-**	977
Net impairment loss recognized in earnings	**-**	(192)	**(1)**	(2,087)
Total noninterest income	**35,583**	10,537	**49,699**	19,700
Noninterest Expense				
Salaries and employee benefits	**31,226**	28,816	**63,615**	59,087
Occupancy and equipment	**4,265**	3,959	**8,552**	8,178
Insurance Fund premiums	**1,912**	2,252	**3,744**	4,482
Losses on other property owned, net	**4,327**	8,296	**5,047**	9,742
Other operating expenses	**14,901**	13,767	**30,061**	27,569
Total noninterest expense	**56,631**	57,090	**111,019**	109,058
Income before provision for income taxes	**126,830**	100,178	**222,939**	190,317
Provision for (benefit from) income taxes	**227**	311	**359**	(195)
Net Income	**126,603**	99,867	**222,580**	190,512
Other comprehensive (loss) income				
Change in postretirement benefit plans	**3,097**	1,923	**6,194**	3,860
Change in unrealized gain on investments	**(3,225)**	12,686	**(1,700)**	5,008
Change in cash flow derivative instruments	**(364)**	(1,301)	**(723)**	(2,479)
Total other comprehensive (loss) income	**(492)**	13,308	**3,771**	6,389
Comprehensive Income	**$ 126,111**	$ 113,175	**$ 226,351**	$ 196,901

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

Combined Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 482,000	$ 61,843	$ 327,435	$ 2,121,822	$ 22,622	$ (49,391)	$ 2,966,331
Net income	-	-	-	190,512	-	-	190,512
Other comprehensive gain	-	-	-	-	-	6,389	6,389
Capital stock/participation certificates issued	-	2,859	-	-	-	-	2,859
Capital stock/participation certificates and allocated retained earnings retired	-	(3,828)	-	(696)	-	-	(4,524)
Equity related to association merger	-	-	-	(242)	242	-	-
Preferred stock dividends accrued	-	-	-	(21,881)	-	-	(21,881)
Patronage distributions							
Cash	-	-	-	(4,578)	-	-	(4,578)
Members' equity	-	-	737	(737)	-	-	-
Balance at June 30, 2011	$ 482,000	$ 60,874	$ 328,172	$ 2,284,200	$ 22,864	$ (43,002)	$ 3,135,108
Balance at December 31, 2011	$ 482,000	$ 60,024	$ 374,231	$ 2,257,527	$ 22,737	$ (92,391)	$ 3,104,128
Net income	-	-	-	222,580	-	-	222,580
Other comprehensive gain	-	-	-	-	-	3,771	3,771
Capital stock/participation certificates issued	-	4,172	-	-	-	-	4,172
Capital stock/participation certificates and allocated retained earnings retired	-	(4,295)	(76)	-	-	-	(4,371)
Preferred stock dividends accrued	-	-	-	(21,881)	-	-	(21,881)
Patronage distributions							
Cash	-	-	-	(6,211)	-	-	(6,211)
Members' equity	-	-	1,092	(1,092)	-	-	-
Balance at June 30, 2012	**$ 482,000**	**$ 59,901**	**$ 375,247**	**$ 2,450,923**	**$ 22,737**	**$ (88,620)**	**$ 3,302,188**

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

Combined Statements of Cash Flows

(unaudited)

	Six Months Ended June 30,	
(dollars in thousands)	**2012**	2011
Operating activities		
Net income	**$ 222,580**	$ 190,512
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**21,014**	25,273
Provision for losses on other property owned	**6,294**	9,100
Depreciation and amortization on premises and equipment	**3,623**	3,346
Amortization (accretion) of net premium/discount on loans	**763**	(2,248)
Amortization and accretion on debt instruments	**(2,012)**	(2,268)
Amortization of net (discount) premium on investment securities	**(42)**	4,211
Increase in fair value on loans under fair value option	**(764)**	-
Gains from sales of other property owned, net	**(2,234)**	(550)
Losses on impairment of investments available for sale	**1**	2,087
Gains from sales of premises and equipment	**(1,838)**	(1,404)
Allocated equity patronage from System bank	**(12,445)**	(12,247)
(Increase) decrease in accrued interest receivable	**(4,367)**	2,525
Decrease in other assets	**5,540**	6,291
Decrease in accrued interest payable	**(1,479)**	(3,081)
Decrease in other liabilities	**(38,646)**	(34,511)
Net cash provided by operating activities	**195,988**	187,036
Investing activities		
Net (increase) decrease in federal funds sold	**(577)**	28
Investment securities		
Purchases	**(713,096)**	(406,350)
Proceeds from maturities, calls and prepayments	**644,763**	387,552
(Increase) decrease in loans, net	**(841,110)**	6,221
Proceeds from sales of other property owned, net	**18,949**	38,931
Proceeds from sales of premises and equipment	**1,860**	1,650
Expenditures for premises and equipment	**(7,985)**	(3,119)
Net cash (used in) provided by investing activities	**(897,196)**	24,913
Financing activities		
Bonds and notes issued	**8,119,415**	5,876,740
Bonds and notes retired	**(7,203,636)**	(6,126,368)
(Decrease) increase in advanced conditional payments	**(3,770)**	7,508
Capital stock and participation certificates issued	**4,172**	2,859
Capital stock and participation certificates retired	**(4,371)**	(4,524)
Cash dividends on preferred stock	**(21,881)**	(21,881)
Cash patronage distributions paid	**(79,800)**	(69,161)
Net cash provided by (used in) financing activities	**810,129**	(334,827)
Net increase (decrease) in cash	**108,921**	(122,878)
Cash at beginning of year	**432,719**	453,322
Cash at end of quarter	**$ 541,640**	$ 330,444
Supplemental schedule of noncash investing and financing activities		
Financed sales of other property owned	**$ 2,705**	$ 10,556
Loan assets transferred to other property owned	**29,673**	30,044
Net (decrease) increase in unrealized gains on investment securities	**(1,700)**	5,008
Cash dividends or patronage distributions payable	**2,875**	1,428
Supplemental schedule of noncash changes in fair value related to hedging activities		
Increase (decrease) in bonds and notes	**$ 72**	$ (623)
Supplemental information		
Cash paid for:		
Interest	**$ 101,355**	$ 115,616
Income taxes	**52**	260

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

Notes to Combined Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies followed and the financial condition and results of operations of the combined bank and associations as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to stockholders (Annual Report). These unaudited second quarter 2012 financial statements should be read in conjunction with the Annual Report.

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

In September 2011, the FASB issued guidance entitled, “Compensation – Retirement Benefits – Multiemployer Plans.” The guidance is intended to provide more information about an employer’s financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the district combined financial condition or results of operation.

In June and December 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 main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the financial condition or results of operations of the district, but resulted 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 clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations of the district but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, 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. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations of the district, but resulted in additional disclosures.

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

NOTE 2 — INVESTMENTS

Investments Available for Sale

The district's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of corporate debt, mortgage-backed securities and asset-backed securities. The majority of the liquidity portfolio's mortgage-backed securities were federal agency collateralized mortgage-backed securities, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) securities. The other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased during the second quarter of 2010 and first quarter of 2012. A summary of the amortized cost and fair value of investment securities available for sale, at June 30, 2012, and December 31, 2011, is as follows.

Investments in the available-for-sale liquidity portfolio at June 30, 2012:

	June 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
FDIC-guaranteed corporate debt	$ -	$ -	$ -	$ -	- %
Corporate debt	93,301	181	(159)	93,323	1.06
Federal agency collateralized mortgage-backed securities					
GNMA	1,630,487	26,044	(379)	1,656,152	1.72
FNMA and FHLMC	1,384,171	11,703	(759)	1,395,115	1.54
Other collateralized mortgage-backed securities	44,480	-	(5,388)	39,092	6.22
Asset-backed securities	41,218	71	(1,121)	40,168	0.76
Total available-for-sale investments	**$3,193,657**	**$ 37,999**	**$ (7,806)**	**$3,223,850**	**1.67** %

Investments in the available-for-sale other investments portfolio at June 30, 2012:

	June 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 129,490	$ -	$ (2,317)	$ 127,173	4.55 %

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

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

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

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

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale investments at June 30, 2012:

Investments in the available-for-sale liquidity portfolio:

	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years	Total
FDIC-guaranteed corporate debt	$ -	$ -	$ -	$ -	$ -
Corporate debt	17,070	76,253	-	-	93,323
Federal agency collateralized mortgage-backed securities					
GNMA	-	-	3,158	1,652,994	1,656,152
FNMA and FHLMC	880	7,886	138,380	1,247,969	1,395,115
Other collateralized mortgage-backed securities	-	-	84	39,008	39,092
Asset-backed securities	15,924	12,000	-	12,244	40,168
Total fair value	**$ 33,874**	**$ 96,139**	**$ 141,622**	**$ 2,952,215**	**$ 3,223,850**
Total amortized cost	**$ 33,733**	**$ 95,989**	**$ 138,580**	**$ 2,925,355**	**$ 3,193,657**
Weighted average yield	**0.79%**	**1.23%**	**2.10%**	**1.67%**	**1.67%**

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

	Due after one year through five years
Fair value of agricultural mortgage-backed securities	$ 127,173
Total amortized cost	**$ 129,490**
Weighted average yield	**4.55%**

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows available-for-sale liquidity portfolio investments by gross unrealized losses and fair value, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at June 30, 2012. The continuous loss position is based on the date the impairment was first identified:

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FDIC-guaranteed corporate debt	$ -	$ -	$ -	$ -	$ -	$ -
Corporate debt	24,841	(159)	-	-	24,841	(159)
Federal agency collateralized mortgage-backed securities						
GNMA	386,211	(368)	7,486	(11)	393,697	(379)
FNMA and FHLMC	418,424	(727)	27,004	(32)	445,428	(759)
Other collateralized mortgage-backed securities	-	-	39,092	(5,388)	39,092	(5,388)
Asset-backed securities	-	-	3,211	(1,121)	3,211	(1,121)
Total	**$ 829,476**	**$ (1,254)**	**$ 76,793**	**$ (6,552)**	**$ 906,269**	**$ (7,806)**

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

For the six months ended June 30, 2012, the bank recognized other-than-temporary impairment credit losses on one asset-backed security totaling $1. The non-credit-related net increase in fair value on the bank's other-than-temporarily impaired investments for the six months ended June 30, 2012, totaling $1,665, is included as a credit to other comprehensive income. At June 30, 2012, the bank had five mortgage-backed securities and two asset-backed securities that were considered to be other-than-temporarily impaired.

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

The following are the assumptions used at:

	June 30, 2012	
Assumptions Used	Mortgage-backed securities	Asset-backed securities
Default by range	2.6% - 10.2%	8.6% - 14.7%
Prepayments rate by range	4.6% - 16.6%	1.2% - 2.3%
Loss severity by range	31.4% - 51.8%	52.9% - 61.0%

	December 31, 2011	
Assumptions Used	Mortgage-backed securities	Asset-backed securities
Default by range	2.7% - 12.0%	8.3% - 13.5%
Prepayments rate by range	3.9% - 14.4%	1.5% - 2.5%
Loss severity by range	31.2% - 52.9%	58.3% - 64.2%

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	**2012**	2011
Credit loss component, beginning of period	**$ 9,922**	$ 9,729	**$ 9,921**	$ 7,834
Additions:				
Initial credit impairment	**-**	-	**-**	241
Subsequent credit impairment	**-**	192	**1**	1,846
Credit loss component end of period	**$ 9,922**	$ 9,921	**$ 9,922**	$ 9,921

Held-to-Maturity Investments

The district's held-to-maturity investments consisted of Farmer Mac guaranteed agricultural mortgage-backed securities. A summary of the amortized cost and fair value of held-to-maturity investment securities at June 30, 2012, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 82,736	$ 317	$ (1,143)	$ 81,910	4.68 %

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

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

A summary of the district's loans follows:

	June 30, 2012	December 31, 2011
Real estate mortgage	**$ 10,181,337**	$ 10,165,704
Production and intermediate term	**1,750,929**	1,668,820
Loans to cooperatives	**186,795**	171,904
Processing and marketing	**2,030,189**	1,651,723
Farm-related business	**209,121**	235,023
Communication	**366,895**	279,696
Energy (utilities)	**1,125,445**	902,666
Water and waste disposal	**109,620**	101,698
Rural residential real estate	**199,776**	198,630
International	**206**	229
Lease receivables	**8,394**	13,334
Loans to other financing institutions	**69,330**	82,901
Mission-related	**156,124**	151,685
	$ 16,394,161	$ 15,624,013

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 regarding the balances of participations purchased and sold, excluding syndications, at June 30, 2012.

	Other Farm Credit Institutions (Outside of the Texas District)		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 78,474	$ 198,611	$ 72,646	$ 23,171	$ 151,120	$ 221,782
Production and intermediate term	206,433	34,653	65,865	-	272,298	34,653
Agribusiness	989,934	243,201	102,992	1,438	1,092,926	244,639
Communication	363,511	-	-	-	363,511	-
Energy	1,130,231	3,507	-	-	1,130,231	3,507
Water and waste disposal	109,755	-	-	-	109,755	-
Lease receivables	3,509	-	162	-	3,671	-
Mission-related	8,153	-	4,554	-	12,707	-
Direct note receivable from district associations	-	3,400,000	-	-	-	3,400,000
Total	**$ 2,890,000**	**$ 3,879,972**	**$ 246,219**	**$ 24,609**	**$ 3,136,219**	**$ 3,904,581**

During the first six months of 2012, the district elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. The fair value of loans held under the fair value option totaled $61,811 at June 30, 2012. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization are recorded as Interest Income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments are recorded as net gains (losses) in Noninterest Income on the

Statements of Comprehensive Income. The fair value of these instruments is included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis.

The following is a summary of the transactions on loans for which the fair value option has been elected for the six months ended June 30, 2012:

Balance at January 1, 2012	**$**	**-**
New transactions elected for fair value option		**91,343**
Maturities, repayments and calls by issuers		**(29,994)**
Net gains (losses)on financial instruments under fair value option		**1,560**
Change in premium		**(1,098)**
Balance at June 30, 2012	**$**	**61,811**

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

		June 30, 2012		December 31, 2011
Nonaccrual loans:				
Real estate mortgage	**$**	**253,018**	$	318,798
Production and intermediate term		**47,596**		60,511
Agribusiness		**72,336**		57,205
Communication		**4,393**		4,479
Rural residential real estate		**1,687**		1,828
Energy and water/waste disposal		**-**		9,043
Lease receivables		**72**		2,881
Mission-related		**507**		749
Total nonaccrual loans		**379,609**		455,494
Accruing restructured loans:				
Real estate mortgage		**19,251**		19,321
Production and intermediate term		**2,461**		2,439
Agribusiness		**9,020**		7,796
Rural residential real estate		**33**		32
Total accruing restructured loans		**30,765**		29,588
Accruing loans 90 days or more past due:				
Real estate mortgage		**2,415**		1,432
Production and intermediate term		**275**		2,177
Agribusiness		**-**		2,684
Mission-related		**2,690**		-
Total accruing loans 90 days or more past due		**5,380**		6,293
Total nonperforming loans		**415,754**		491,375
Other property owned		**97,325**		87,956
Total nonperforming assets	**$**	**513,079**	$	579,331

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

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2012		December 31, 2011	
Real estate mortgage:				
Acceptable	**92.8**	**%**	91.5	%
OAEM	**3.6**		4.0	
Substandard/Doubtful	**3.6**		4.5	
	100.0	**%**	100.0	%
Production and intermediate term:				
Acceptable	**91.2**	**%**	89.6	%
OAEM	**5.1**		5.2	
Substandard/Doubtful	**3.7**		5.2	
	100.0	**%**	100.0	%
Agribusiness:				
Acceptable	**91.2**	**%**	87.1	%
OAEM	**4.4**		6.6	
Substandard/Doubtful	**4.4**		6.3	
	100.0	**%**	100.0	%
Energy and water/waste disposal:				
Acceptable	**94.9**	**%**	94.8	%
OAEM	**1.8**		2.2	
Substandard/Doubtful	**3.3**		3.0	
	100.0	**%**	100.0	%
Communication:				
Acceptable	**98.2**	**%**	98.4	%
OAEM	**0.6**		-	
Substandard/Doubtful	**1.2**		1.6	
	100.0	**%**	100.0	%
Rural residential real estate:				
Acceptable	**95.9**	**%**	95.8	%
OAEM	**1.9**		1.9	
Substandard/Doubtful	**2.2**		2.3	
	100.0	**%**	100.0	%
International:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Lease receivables:				
Acceptable	**99.2**	**%**	78.6	%
OAEM	**-**		-	
Substandard/Doubtful	**0.8**		21.4	
	100.0	**%**	100.0	%
Loans to other financing institutions:				
Acceptable	**100.0**	**%**	100.0	%
OAEM	**-**		-	
Substandard/Doubtful	**-**		-	
	100.0	**%**	100.0	%
Mission-related:				
Acceptable	**95.7**	**%**	95.1	%
OAEM	**0.1**		0.4	
Substandard/Doubtful	**4.2**		4.5	
	100.0	**%**	100.0	%
Total loans:				
Acceptable	**92.8**	**%**	91.2	%
OAEM	**3.6**		4.2	
Substandard/Doubtful	**3.6**		4.6	
	100.0	**%**	100.0	%

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

June 30, 2012

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 45,478	$ 133,188	$ 178,666	$ 10,101,977	$ 10,280,643	$ 2,415
Production and intermediate term	6,882	19,098	25,980	1,743,626	1,769,606	275
Agribusiness	3,888	18,778	22,666	2,413,771	2,436,437	-
Communication	-	-	-	367,377	367,377	-
Energy and water/waste disposal	-	-	-	1,242,298	1,242,298	-
Rural residential real estate	3,820	368	4,188	196,649	200,837	-
International	-	-	-	206	206	-
Lease receivables	-	-	-	8,491	8,491	-
Loans to other financing institutions	-	-	-	69,407	69,407	-
Mission-related	551	3,151	3,702	153,662	157,364	2,690
Total	**$ 60,619**	**$ 174,583**	**$ 235,202**	**$16,297,464**	**$16,532,666**	**$ 5,380**

December 31, 2011

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 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
Communication	-	-	-	280,176	280,176	-
Energy and water/waste disposal	-	9,044	9,044	1,001,752	1,010,796	-
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 other financing institutions	-	-	-	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

Additional impaired loan information is as follows:

	At June 30, 2012			At December 31, 2011		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Real estate mortgage	**$ 81,614**	**$ 100,120**	**$ 17,822**	$ 118,349	$ 150,418	$ 24,586
Production and intermediate term	**16,157**	**27,293**	**10,176**	23,467	34,507	12,407
Processing and marketing	**41,812**	**42,428**	**15,266**	15,675	16,176	7,828
Farm-related business	**16,001**	**19,044**	**3,750**	10,953	11,449	2,655
Communication	**3,698**	**3,698**	**2,989**	3,770	3,770	2,989
Energy and water/waste disposal	**-**	**-**	**-**	9,043	9,043	850
Rural residential real estate	**444**	**444**	**101**	477	492	119
Lease receivables	**-**	**-**	**-**	2,759	2,759	27
Mission-related	**211**	**1,829**	**143**	94	664	94
Total	**$ 159,937**	**$ 194,856**	**$ 50,247**	$ 184,587	$ 229,278	$ 51,555
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 193,069**	**$ 208,304**	**$ -**	$ 221,202	$ 237,867	$ -
Production and intermediate term	**34,176**	**55,327**	**-**	41,660	64,060	-
Processing and marketing	**22,288**	**48,341**	**-**	32,299	59,019	-
Farm-related business	**1,255**	**8,400**	**-**	8,759	19,116	-
Communication	**695**	**695**	**-**	709	709	-
Energy and water/waste disposal	**-**	**22,796**	**-**	-	13,753	-
Rural residential real estate	**1,276**	**1,409**	**-**	1,382	1,515	-
Lease receivables	**72**	**72**	**-**	122	122	-
Mission-related	**2,986**	**5,007**	**-**	655	3,809	-
Total	**$ 255,817**	**$ 350,351**	**$ -**	$ 306,788	$ 399,970	$ -
Total impaired loans:						
Real estate mortgage	**$ 274,683**	**$ 308,424**	**$ 17,822**	$ 339,551	$ 388,285	$ 24,586
Production and intermediate term	**50,333**	**82,620**	**10,176**	65,127	98,567	12,407
Processing and marketing	**64,100**	**90,769**	**15,266**	47,974	75,195	7,828
Farm-related business	**17,256**	**27,444**	**3,750**	19,712	30,565	2,655
Communication	**4,393**	**4,393**	**2,989**	4,479	4,479	2,989
Energy and water/waste disposal	**-**	**22,796**	**-**	9,043	22,796	850
Rural residential real estate	**1,720**	**1,853**	**101**	1,859	2,007	119
Lease receivables	**72**	**72**	**-**	2,881	2,881	27
Mission-related	**3,197**	**6,836**	**143**	749	4,473	94
Total	**$ 415,754**	**$ 545,207**	**$ 50,247**	$ 491,375	$ 629,248	$ 51,555

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2012		June 30, 2011		**June 30, 2012**		June 30, 2011	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Real estate mortgage	**$ 82,300**	**$ 37**	$ 191,174	$ 170	**$ 90,801**	**$ 60**	$ 184,700	$ 404
Production and intermediate term	**16,856**	**4**	30,994	7	**20,643**	**16**	30,359	73
Processing and marketing	**41,984**	**-**	51,177	22	**31,818**	**538**	53,272	22
Farm-related business	**16,015**	**14**	7,906	22	**14,885**	**35**	8,069	58
Communication	**3,725**	**-**	3,139	-	**3,742**	**-**	3,152	-
Energy and water/waste disposal	**-**	**-**	-	-	**4,470**	**-**	-	1
Rural residential real estate	**386**	**1**	596	3	**344**	**2**	520	4
Lease receivables	**-**	**-**	-	-	**1,379**	**-**	-	-
Mission-related	**224**	**-**	-	-	**156**	**-**	-	-
Total	**$ 161,490**	**$ 56**	$ 284,986	$ 224	**$ 168,238**	**$ 651**	$ 280,072	$ 562
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 203,909**	**$ 1,769**	$ 353,974	$ 1,701	**$ 214,018**	**$ 2,839**	$ 329,486	$ 3,836
Production and intermediate term	**34,317**	**325**	62,660	220	**35,954**	**562**	62,959	478
Loans to cooperatives	**-**	**-**	8	9	**-**	**-**	4	9
Processing and marketing	**20,894**	**631**	23,597	148	**25,774**	**800**	23,420	221
Farm-related business	**2,872**	**363**	26,534	121	**4,382**	**368**	26,966	128
Communication	**700**	**-**	2,840	-	**704**	**-**	2,895	-
Energy and water/waste disposal	**5,723**	**-**	9,405	-	**2,862**	**-**	7,249	4
Rural residential real estate	**1,183**	**2**	1,022	2	**1,379**	**9**	903	7
Lease receivables	**73**	**-**	2,809	-	**75**	**-**	2,809	-
Mission-related	**2,902**	**37**	-	-	**2,501**	**61**	-	-
Total	**$ 272,573**	**$ 3,127**	$ 482,849	$ 2,201	**$ 287,649**	**$ 4,639**	$ 456,691	$ 4,683
Total impaired loans:								
Real estate mortgage	**$ 286,209**	**$ 1,806**	$ 545,148	$ 1,871	**$ 304,819**	**$ 2,899**	$ 514,186	$ 4,240
Production and intermediate term	**51,173**	**329**	93,654	227	**56,597**	**578**	93,318	551
Loans to cooperatives	**-**	**-**	8	9	**-**	**-**	4	9
Processing and marketing	**62,878**	**631**	74,774	170	**57,592**	**1,338**	76,692	243
Farm-related business	**18,887**	**377**	34,440	143	**19,267**	**403**	35,035	186
Communication	**4,425**	**-**	5,979	-	**4,446**	**-**	6,047	-
Energy and water/waste disposal	**5,723**	**-**	9,405	-	**7,332**	**-**	7,249	5
Rural residential real estate	**1,569**	**3**	1,618	5	**1,723**	**11**	1,423	11
Lease receivables	**73**	**-**	2,809	-	**1,454**	**-**	2,809	-
Mission-related	**3,126**	**37**	-	-	**2,657**	**61**	-	-
Total	**$ 434,063**	**$ 3,183**	$ 767,835	$ 2,425	**$ 455,887**	**$ 5,290**	$ 736,763	$ 5,245

At June 30, 2012, impaired loans of $159.9 million had a related specific allowance of $50.2 million, while the remaining $255.8 million of impaired loans had no related specific allowance as a result of adequate collateralization. District charge-offs in the first six months of 2012 were predominantly made against loans to borrowers in the land in transition, ethanol and livestock sectors.

The average recorded investment in impaired loans for the three months ended June 30, 2012, was $434.1 million. The district recognized interest income of $3.2 million on impaired loans during the three months ended June 30, 2012.

The average recorded investment in impaired loans for the six months ended June 30, 2012, was $455.9 million. The district recognized interest income of $5.3 million on impaired loans during the six months ended June 30, 2012.

The district's impaired loans included loans with evidence of credit deterioration which the bank acquired in March 2010. The loans are recorded at the present value of expected future cash flows. These loans had a balance of $9,258 and $12,949 at June 30, 2012, and December 31, 2011, respectively, net of the unaccreted discount of $329 and $439, at June 30, 2012, and December 31, 2011, respectively. During the six months ended June 30, 2012, the bank recorded provisions for loan losses related to these loans totaling $3,878. The allowance for loan losses related to these loans was $2,366 and $1,264 at June 30, 2012, and December 31, 2011, respectively.

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:											
Balance at March 31, 2012	$ 52,409	$ 21,781	$ 27,615	$ 3,579	$ 6,714	$ 359	$ -	$ 56	$ -	$ 120	$ 112,633
Charge-offs	(3,971)	(1,153)	(602)	-	(5,918)	(1)	-	-	-	(15)	(11,660)
Recoveries	263	79	97	-	-	4	-	-	-	-	443
Provision for loan losses	2,404	(911)	(840)	143	5,013	29	-	(26)	-	63	5,875
Other *	527	15	(3)	(1)	(2,759)	-	-	-	-	-	(2,221)
Balance at June 30, 2012	$ 51,632	$ 19,811	$ 26,267	$ 3,721	$ 3,050	$ 391	$ -	$ 30	$ -	$ 168	$ 105,070
Balance at December 31, 2011	$ 62,514	$ 21,748	$ 23,241	$ 3,374	$ 2,624	$ 436	$ -	$ 58	$ -	$ 122	$ 114,117
Charge-offs	(16,066)	(4,683)	(1,039)	-	(9,043)	(117)	-	-	-	(18)	(30,966)
Recoveries	2,160	718	283	-	-	4	-	-	-	-	3,165
Provision for loan losses	2,511	2,032	3,791	347	12,229	68	-	(28)	-	64	21,014
Other *	513	(4)	(9)	-	(2,760)	-	-	-	-	-	(2,260)
Balance at June 30, 2012	$ 51,632	$ 19,811	$ 26,267	$ 3,721	$ 3,050	$ 391	$ -	$ 30	$ -	$ 168	$ 105,070
Individually evaluated for impairment	16,320	9,712	19,942	2,989	-	119	-	-	-	143	49,225
Collectively evaluated for impairment	33,357	9,689	6,325	732	3,050	272	-	30	-	25	53,480
Loans acquired with deteriorated credit quality	1,955	410	-	-	-	-	-	-	-	-	2,365
Balance at June 30, 2012:	$ 51,632	$ 19,811	$ 26,267	$ 3,721	$ 3,050	$ 391	$ -	$ 30	$ -	$ 168	$ 105,070
Balance at March 31, 2011	$ 104,886	$ 29,211	$ 29,271	$ 4,053	$ 1,977	$ 470	$ -	$ 17	$ -	$ -	$ 169,885
Charge-offs	(15,796)	(1,317)	(4,385)	-	(569)	(36)	-	-	-	-	(22,103)
Recoveries	397	393	1,056	-	-	30	-	-	-	-	1,876
Provision for loan losses	(3,429)	3,721	4,126	(87)	(525)	444	-	41	-	-	4,291
Other *	72	-	-	-	-	-	-	-	-	-	72
Balance at June 30, 2011	$ 86,130	$ 32,008	$ 30,068	$ 3,966	$ 883	$ 908	$ -	$ 58	$ -	$ -	$ 154,021
Balance at December 31, 2010	$ 96,132	$ 31,290	$ 28,656	$ 3,925	$ 2,101	$ 995	$ 1	$ 45	$ -	$ -	$ 163,145
Charge-offs	(20,447)	(4,082)	(8,853)	-	(3,319)	(105)	-	-	-	-	(36,806)
Recoveries	400	745	1,318	-	435	31	-	-	-	-	2,929
Provision for loan losses	10,566	4,055	8,947	41	1,666	(13)	(1)	13	-	-	25,274
Other *	(521)	-	-	-	-	-	-	-	-	-	(521)
Balance at June 30, 2011	$ 86,130	$ 32,008	$ 30,068	$ 3,966	$ 883	$ 908	$ -	$ 58	$ -	$ -	$ 154,021
Individually evaluated for impairment	53,359	15,982	17,688	3,536	-	220	-	-	-	-	90,785
Collectively evaluated for impairment	30,331	15,811	12,380	430	883	688	-	58	-	-	60,581
Loans acquired with deteriorated credit quality	2,440	215	-	-	-	-	-	-	-	-	2,655
Balance at June 30, 2011	$ 86,130	$ 32,008	$ 30,068	$ 3,966	$ 883	$ 908	$ -	$ 58	$ -	$ -	$ 154,021
Recorded Investments in Loans Outstanding:											
Ending balance at June 30, 2012	$ 10,280,643	$ 1,769,606	$ 2,436,437	$ 367,377	$ 1,242,298	$ 200,837	$ 206	$ 8,491	$ 69,407	$ 157,364	$ 16,532,666
Individually evaluated for impairment	$ 275,743	$ 45,043	$ 85,199	$ 4,393	$ -	$ 2,271	$ -	$ 72	$ -	$ 3,112	$ 415,833
Collectively evaluated for impairment	$ 9,995,175	$ 1,719,045	$ 2,351,238	$ 362,984	$ 1,242,298	$ 198,566	$ 206	$ 8,419	$ 69,407	$ 154,252	$ 16,101,590
Loans acquired with deteriorated credit quality	$ 9,725	$ 5,518	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,243
Ending balance at June 30, 2011	$ 10,462,054	$ 1,752,506	$ 1,900,395	$ 239,793	$ 960,828	$ 201,786	$ 237	$ 13,952	$ 85,109	$ 76,054	$ 15,692,714
Individually evaluated for impairment	$ 459,740	$ 88,173	$ 108,242	$ 5,245	$ 9,400	$ 1,793	$ -	$ 2,810	$ -	$ -	$ 675,403
Collectively evaluated for impairment	$ 9,978,175	$ 1,656,464	$ 1,792,153	$ 234,548	$ 951,428	$ 199,993	$ 237	$ 11,142	$ 85,109	$ 76,054	$ 14,985,303
Loans acquired with deteriorated credit quality	$ 24,139	$ 7,869	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 32,008

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

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

As of June 30, 2012, the total recorded investment of troubled debt restructured loans was $87,849, including $57,061 classified as nonaccrual and $30,788 classified as accrual, with specific allowance for loan losses of $2,174. As of June 30, 2012, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $2,988.

	Loans Modified as TDRs	TDRs in Nonaccrual Status
Real estate mortgage	$ 54,385	$ 35,134
Production and intermediate term	20,096	17,612
Processing and marketing	13,203	4,315
Farm-related business	132	-
Rural residential real estate	33	-
Total	$ 87,849	$ 57,061

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and six months ended June 30, 2012. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter-end after the restructuring.

For the three months ended June 30, 2012:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 709	$ 698
Production and intermediate term	370	365
Total	$ 1,079	$ 1,063

For the six months ended June 30, 2012:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 21,528	$ 20,563
Production and intermediate term	4,691	3,945
Total	$ 26,219	$ 24,508

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

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

	Recorded Investment at June 30, 2012
Troubled debt restructurings that subsequently defaulted:	
Real estate mortgage	$ 131
Total	$ 131

NOTE 4 — COMMITMENTS AND CONTINGENT LIABILITIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at June 30, 2012, were approximately $190.7 billion.

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

NOTE 5 — FAIR VALUE MEASUREMENTS

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

Assets and liabilities recorded at fair value on a recurring basis at June 30, 2012, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements at June 30, 2012			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Federal funds	**$ 21,264**	$ -	$ 21,264	$ -
Investments available for sale:				
Corporate debt	**93,324**	-	78,474	14,850
Mortgage-backed securities	**3,090,358**	-	2,917,467	172,891
Asset-backed securities	**40,168**	-	24,957	15,211
Mission-related and other available-for-sale investments	**127,173**	-	-	127,173
Loans valued under the fair value option	**61,811**	-	60,173	1,638
Derivative assets	**420**	-	420	-
Assets held in nonqualified benefit trusts	**3,341**	3,341	-	-
Total assets	**$ 3,437,859**	$ 3,341	$ 3,102,755	$ 331,763
Liabilities:				
Standby letters of credit	**$ 3,029**	$ -	$ 3,029	$ -
Total liabilities	**$ 3,029**	$ -	$ 3,029	$ -

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2012, to June 30, 2012:

	Corporate Debt Securities	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Loans Under Fair Value Option	Total
Balance at January 1, 2012	$ 82,464	$ 40,872	$ 110,921	$ 3,450		$ 237,707
Net gains (losses) included in other comprehensive income	67	2,677	(640)	238		2,342
Net (losses) gains included in earnings	-	-	-	(1)	7	6
Purchases, issuances and settlements	-	161,979	16,892	11,524	1,631	192,026
Transfers out of Level 3	(67,681)	(32,637)	-	-	-	(100,318)
Balance at June 30, 2012	$ 14,850	$ 172,891	$ 127,173	$ 15,211	$ 1,638	$ 331,763
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 June 30, 2012	$ -	$ -	$ -	$ 1	$ -	$ 1

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the six months ended June 30, 2012. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The net purchases and settlements in agricultural mortgage-backed securities include the bank's purchase of additional AMBS from a district association during the quarter ended June 30, 2012. At June 30, 2012, Level 3 investments included five agency MBS, one corporate debt instrument and one asset-backed security due to the fact that their valuations were based on Level 3 criteria (broker quotes), certain non-agency MBS and non-agency ABS backed by home equity, and certain loans held under the fair value option by a district association. In the first six months of 2012, corporate debt instruments and an agency MBS which had previously been included in Level 3 were valued using independent third-party valuation services using Level 2 criteria and were, accordingly, transferred from Level 3 to Level 2.

Assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2012, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement at June 30, 2012				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Loans	**$ 376,974**	$ -	$ -	$ 376,974	**$ (30,967)**
Other property owned	**104,511**	-	-	104,511	**(5,047)**
Total assets	**$ 481,485**	$ -	$ -	$ 481,485	**$ (36,014)**

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

	Fair Value Measurements at December 31, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	**$ 20,687**	$ -	$ 20,687	$ -
Investments available for sale:				
Corporate debt	**252,463**	-	169,999	82,464
Mortgage-backed securities	**2,783,579**	-	2,742,707	40,872
Asset-backed securities	**13,721**	-	10,271	3,450
Mission-related and other available-for-sale investments	**110,921**	-	-	110,921
Derivative assets	**1,726**	-	1,726	-
Assets held in nonqualified benefit trusts	**2,691**	2,691	-	-
Total assets	**$ 3,185,788**	$ 2,691	$ 2,945,390	$ 237,707
Liabilities:				
Derivative liabilities	**$ 486**	$ -	$ 486	$ -
Standby letters of credit	**3,093**	-	3,093	-
Total liabilities	**$ 3,579**	$ -	$ 3,579	$ -

The following table represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from January 1, 2011, to June 30, 2011:

	Corporate Debt	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Asset-Backed Securities	Total
Available-for-sale investment securities:					
Balance at January 1, 2011	$ -	$ 100,385	$ 140,503	$ 6,760	$ 247,648
Net gains included in other comprehensive income	76	1,175	1,399	306	2,956
Net losses included in earnings	-	(1,934)	-	(153)	(2,087)
Purchases, issuances and settlements	31,879	39,539	(10,881)	(1,893)	58,644
Transfers out of Level 3	-	(35,468)	-	-	(35,468)
Balance at June 30, 2011	$ 31,955	$ 103,697	$ 131,021	$ 5,020	$ 271,693
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 June 30, 2011	$ -	$ 1,934	$ -	$ 153	$ 2,087

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the six months June 30, 2011. At January 1, 2011, Level 3 investments included two agency mortgage-backed securities due to the fact that their valuations were based on Level 3 criteria (broker quotes) and certain non-agency mortgage-backed and asset-backed securities. In the six months ended June 30, 2011, these two 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. There were no other transfers into or out of Level 2 during the six months ended June 30, 2011.

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

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

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

	June 30, 2012					December 31, 2011	
		Fair Value Measurements Using					
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Total Carrying Amount	Total Fair Value
Assets:							
Cash	**$ 541,633**	$ 541,633	$ -	$ -	$ 541,633	$ 432,719	$ 432,719
Mission-related and other held-to-maturity investments	**82,736**	-	-	81,910	81,910	127,245	127,039
Net loans	**15,955,376**	-	-	16,283,619	16,283,619	14,975,436	15,399,752
Total assets	**$ 16,579,745**	$ 541,633	$ -	$ 16,365,529	$ 16,907,162	$ 15,535,400	$ 15,959,510
Liabilities:							
Systemwide debt securities and other notes	**$ 16,959,380**	$ -	$ -	$ 17,184,050	$ 17,184,050	$ 16,045,541	$ 16,268,118
Subordinated debt	**50,000**	-	-	57,206	57,206	50,000	56,963
	$ 17,009,380	$ -	$ -	$ 17,241,256	$ 17,241,256	$ 16,095,541	$ 16,325,081

Valuation Techniques

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

Investments Available for Sale

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

Derivative Assets and Liabilities

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

Assets Held in Nonqualified Benefit Trusts

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

Standby Letters of Credit

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

Loans

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

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

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

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

Subordinated Debt

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

Other Property Owned

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

Sensitivity to Changes in Significant Unobservable Inputs

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

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

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

Quantitative Information About Recurring and Nonrecurring Level 3 Fair Value Measurement

	Valuation Technique(s)	**Unobservable Input**
Mortgage-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Asset-backed securities	Discounted cash flow	Prepayment rate Probability of default Loss severity
Mission-related investments	Discounted cash flow	Prepayment rates
Impaired loans and other property owned	Appraisal	Comparable sales Replacement cost

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

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

Information About Other Financial Instrument Fair Value Measurements

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

NOTE 6 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

	Receive-Fixed Swaps	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2012	$ 175	$ -	$ 645	$ 820
Maturities/Amortizations	(75)	-	-	(75)
Balance at June 30, 2012	**$ 100**	**$ -**	**$ 645**	**$ 745**

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

To minimize the risk of credit losses, the bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. The bank does not anticipate nonperformance by any of these counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. However, derivative contracts must be reflected in the financial statements on a gross basis regardless of the netting agreement. Another way the bank minimizes the risk of credit losses from derivatives is that substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other one are reached, which thresholds may vary depending on the counterparty's credit rating. At June 30, 2012, and December 31, 2011, the bank's exposure to counterparties, net of collateral, was $420 and $1.7 million, respectively. At June 30, 2012, and December 31, 2011, the bank had posted no securities as collateral, nor has any counterparty been required to post collateral.

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's oversight of the bank's asset/liability and treasury functions. The bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the bank's board of directors through the bank's analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the bank's overall interest rate risk-management strategies. The bank held no derivatives that were not designated as hedges at June 30, 2012, or December 31, 2011.

Fair Value Hedges

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

Cash Flow Hedges

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

Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value 6/30/2012**	**Fair Value 12/31/2011**	**Balance Sheet Location**	**Fair Value 6/30/2012**	**Fair Value 12/31/2011**
Receive fixed	Other assets	$ 85	$ 499	Other liabilities	$ -	$ 486
Interest rate caps	Other assets	335	1,227	Other liabilities	-	-

Derivatives designated as hedging instruments	**Amount of (Loss) Gain Recognized in OCI on Derivatives (Effective Portion)** June 30, 2012	June 30, 2011	**Location of Gain Reclassification from AOCI into Income**	**Amount of Gain Reclassified from AOCI into Income (Effective Portion)** June 30, 2012	June 30, 2011
Interest rate caps	$ (892)	$ (2,490)	Interest expense	$ 169	$ 7
Cash flow derivatives	-	5			

NOTE 7 — EMPLOYEE BENEFIT PLANS

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

The following table summarizes the components of net periodic benefit costs for the district's defined benefit pension plans and for other postretirement benefit costs for the six months ended June 30:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2012	2011	**2012**	2011
Service cost	**$ 2,723**	$ 2,813	**$ 876**	$ 713
Interest cost	**7,821**	7,586	**1,322**	1,387
Expected return on plan assets	**(8,113)**	(8,150)	**-**	-
Amortization of prior service costs	**18**	18	**(897)**	(864)
Amortization of net loss	**6,903**	3,498	**170**	142
Amortization of loss due to curtailment/termination	**-**	1,066	**-**	-
Net periodic benefit cost	**$ 9,352**	$ 6,831	**$ 1,471**	$ 1,378

As of June 30, 2012, contributions of $15.8 million have been made to the defined benefit pension plan. The district presently anticipates no additional contributions to fund its pension plan in 2012.

NOTE 8 — INCOME TAXES

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

NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME

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

The following table summarizes the changes in the balance of the components of accumulated other comprehensive loss for the six months ended June 30, 2012:

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2012	$ (92,391)	$ 29,577	$ (116,286)	$ (5,682)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	(3,366)	(3,366)		
Decrease in noncredit portion of other-than-temporary impairment (OTTI) losses	1,665	1,665		
Reclassification adjustment for OTTI credit losses included in net income	1	1		
Net change in unrealized gains (losses) on securities	(1,700)	(1,700)		
Change in retirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(879)		(879)	
Amortization of net losses	7,073		7,073	
Net change in retirement benefit plans	6,194		6,194	
Change in cash flow derivative instruments				
Losses on interest rate caps	(892)			(892)
Reclassification of loss recognized in interest expense	169			169
Net change in cash flow derivative instruments	(723)			(723)
Total other comprehensive income (loss)	**3,771**	**(1,700)**	**6,194**	**(723)**
Balance, June 30, 2012	**$ (88,620)**	**$ 27,877**	**$ (110,092)**	**$ (6,405)**

The following table summarizes the changes in the balance of the components of accumulated other comprehensive loss for the six months ended June 30, 2011:

	Total	Unrealized Gain on Securities	Retirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2011	$ (49,391)	$ 24,586	$ (71,671)	$ (2,306)
Change in unrealized gains on available-for-sale securities				
Net change in unrealized gains on investment securities	3,646	3,646		
Increase in noncredit portion of other-than-temporary impairment (OTTI) losses	(725)	(725)		
Reclassification adjustment for OTTI credit losses included in net income	2,087	2,087		
Net change in unrealized gains (losses) on securities	5,008	5,008		
Change in retirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(846)		(846)	
Amortization of net losses	3,640		3,640	
Amortization of net loss due to curtailment/termination	1,066		1,066	
Net change in retirement benefit plans	3,860		3,860	
Change in cash flow derivative instruments				
Losses on interest rate caps	(2,491)			(2,491)
Gains on cash flow interest rate swaps	5			5
Reclassification of loss recognized in interest expense	7			7
Net change in cash flow derivative instruments	(2,479)			(2,479)
Total other comprehensive income (loss)	6,389	5,008	3,860	(2,479)
Balance, June 30, 2011	$ (43,002)	$ 29,594	$ (67,811)	$ (4,785)

NOTE 10 — SUBSEQUENT EVENTS

The district has evaluated subsequent events through August 9, 2012, which is the date the financial statements were issued. There are no significant subsequent events requiring disclosure as of August 9, 2012.

NOTE 11 — BANK-ONLY FINANCIAL DATA

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

Balance sheet data	**June 30, 2012**	December 31, 2011
Cash	**$ 536,152**	$ 424,667
Federal funds sold and overnight investments	**21,264**	20,687
Investment securities	**3,351,023**	3,160,683
Loans	**10,980,874**	10,287,377
Less allowance for loan losses	**14,482**	15,659
Net loans	**10,966,392**	10,271,718
Accrued interest receivable	**40,611**	41,314
Other property owned, net	**32,652**	28,748
Premises and equipment, net	**16,795**	13,814
Other assets	**91,412**	87,603
Total assets	**$ 15,056,301**	$ 14,049,234
Bonds and notes	**$ 13,559,380**	$ 12,645,541
Subordinated debt	**50,000**	50,000
Accrued interest payable	**34,348**	35,751
Preferred stock dividends payable	**21,881**	21,881
Other liabilities	**118,525**	85,705
Total liabilities	**13,784,134**	12,838,878
Preferred stock	**482,000**	482,000
Capital stock	**216,839**	216,839
Retained earnings	**550,723**	486,371
Accumulated other comprehensive income	**22,605**	25,146
Total shareholders' equity	**1,272,167**	1,210,356
Total liabilities and shareholders' equity	**$ 15,056,301**	$ 14,049,234

	Six Months Ended June 30,	
Statement of comprehensive income data	**2012**	2011
Interest income	**$ 198,108**	$ 216,810
Interest expense	**86,926**	99,972
Net interest income	**111,182**	116,838
Provision for credit losses	**20,762**	9,932
Net interest income after provision for credit losses	**90,420**	106,906
Noninterest income	**28,780**	14,854
Noninterest expense	**30,684**	30,493
Net income	**88,516**	91,267
Other comprehensive (loss) income:		
Change in postretirement benefit plans	**(118)**	952
Change in fair value of investments	**(1,700)**	5,008
Change in cash flow derivative instruments	**(723)**	(2,479)
Total other comprehensive (loss) income	**(2,541)**	3,481
Comprehensive income	**$ 85,975**	$ 94,748